POPULAR INC
Form 10-K
March 01, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 001-34084

POPULAR, INC.

Incorporated in the Commonwealth of Puerto Rico

IRS Employer Identification No. 66-0667416

Principal Executive Offices:

209 Muñoz Rivera Avenue

Hato Rey, Puerto Rico 00918

Telephone Number: (787) 765-9800

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock ($0.01 par value)	The NASDAQ Stock Market LLC
6.70% Cumulative Monthly Income Trust Preferred Securities	The NASDAQ Stock Market LLC
6.125% Cumulative Monthly Income Trust Preferred Securities	The NASDAQ Stock Market LLC

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

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 every Interactive Data File required to be submitted 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 such files). Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

As of June 30, 2018, the aggregate market value of the Common Stock held by non-affiliates of Popular, Inc. was approximately $4,556,715,900 based upon the reported closing price of $45.21 on the NASDAQ Global Select Market on that date.

As of February 25, 2019, there were 100,073,474 shares of Popular, Inc. s Common Stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Popular, Inc. s Annual Report to Stockholders for the fiscal year ended December 31, 2018 (the Annual Report) are incorporated herein by reference in response to Item 1 of Part I, Items 5 through 8 of Part II and Item 15 (a)(1) of Part IV.

(2) Portions of Popular, Inc. s definitive proxy statement relating to the 2019 Annual Meeting of Stockholders of Popular, Inc. (the Proxy Statement) are incorporated herein by reference in response to Items 10 through 14 of Part III. The Proxy Statement will be filed with the Securities and Exchange Commission (the SEC) on or about March 20, 2019.

Forward-Looking Statements

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

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

the rate of growth or decline in the economy and employment levels, as well as general business and economic conditions in the geographic areas we serve and, in particular, in the Commonwealth of Puerto Rico (the Commonwealth or Puerto Rico), where a significant portion of our business is concentrated;

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

the impact of the pending debt restructuring proceedings under Title III of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) and of other actions taken or to be taken to address Puerto Rico s fiscal challenges on the value of our portfolio of Puerto Rico government securities and loans to governmental entities and of our commercial, mortgage and consumer loan portfolios where private

borrowers could be directly affected by governmental action;

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

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

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

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

additional Federal Deposit Insurance Corporation (FDIC) assessments;

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

- hurricanes and other weather-related events, as well as man-made disasters, which could cause a disruption in our operations or other adverse consequences for our business;

- the ability to successfully integrate the auto finance business acquired from Wells Fargo & Company, as well as unexpected costs as a result of any unrecorded liabilities or issues not identified during the due diligence investigation of the business and that may not be subject to indemnification or reimbursement under the acquisition agreement, and risks that the business may suffer as a result of the transaction, including due to adverse effects on relationships with customers, employees and service providers;

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

- the performance of the stock and bond markets;

- competition in the financial services industry;

- possible legislative, tax or regulatory changes; and

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

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

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

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

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

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

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PART I POPULAR, INC.

ITEM 1. BUSINESS

General

Popular is a diversified, publicly-owned financial holding company, registered under the Bank Holding Company Act of 1956, as amended (the BHC Act) and subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). Popular was incorporated in 1984 under the laws of the Commonwealth of Puerto Rico and is the largest financial institution based in Puerto Rico, with consolidated assets of $47.6 billion, total deposits of $39.7 billion and stockholders equity of $5.4 billion at December 31, 2018. At December 31, 2018, we ranked among the 50 largest U.S. bank holding companies based on total assets according to information gathered and disclosed by the Federal Reserve Board.

We operate in two principal markets:

Puerto Rico: We provide retail, mortgage and commercial banking services through our principal banking subsidiary, Banco Popular de Puerto Rico (Banco Popular or BPPR), as well as auto and equipment leasing and financing, investment banking, broker-dealer and insurance services through specialized subsidiaries. BPPR s deposits are insured under the Deposit Insurance Fund (DIF) of the Federal Deposit Insurance Corporation (FDIC). The banking operations of BPPR are primarily based in Puerto Rico, where BPPR has the largest retail banking franchise. BPPR also conducts banking operations in the U.S. Virgin Islands, the British Virgin Islands and New York.

Mainland United States: We provide retail, mortgage and commercial banking services through our New York-chartered banking subsidiary, Popular Bank (PB), which has branches in New York, New Jersey and Florida. PB s deposits are insured under the DIF of the FDIC.

For further information about the Corporation s results segregated by its reportable segments, see Reportable Segment Results in the Management s Discussion and Analysis section of the Annual Report and Note 39, Segment Reporting included in the Annual Report in this Form 10-K.

Unless otherwise stated, all references in this Form 10-K to total loan portfolio, total credit exposure or loan portfolios, exclude covered loans, which represent loans acquired in the Westernbank FDIC-assisted transaction that were covered under loss sharing agreements with the FDIC and non-covered loans held-for-sale. The loss sharing agreements with the FDIC were terminated on May 22, 2018, as discussed in Note 10 included in the Annual Report in this Form 10-K.

Refer to the Overview section of Management s Discussion and Analysis, in the Annual Report in this Form 10-K., for information on recent significant events that have impacted or will impact our current and future operations.

Lending Activities

We concentrate our lending activities in the following areas:

(1) Commercial. Commercial loans are comprised of (i) commercial and industrial (C&I) loans to commercial customers for use in normal business operations and to finance working capital needs, equipment purchases or

other projects, and (ii) commercial real estate (CRE) loans (excluding construction loans) for income-producing real estate properties as well as owner-occupied properties. C&I loans are underwritten individually and usually secured with the assets of the company and the personal guarantee of the business owners. CRE loans consist of loans for income-producing real estate properties and the financing of owner-occupied facilities if there is real estate as collateral. Non-owner-occupied CRE loans are generally made to finance office and industrial buildings, healthcare facilities, multifamily buildings and retail shopping centers and are repaid through cash flows related to the operation, sale or refinancing of the property.

(2) Mortgage. Mortgage loans include residential mortgage loans to consumers for the purchase or refinancing of a residence and also include residential construction loans made to individuals for the construction or refurbishment of their residence.

(3) Consumer. Consumer loans are mainly comprised of personal loans, credit cards, and automobile loans, and to a lesser extent home equity lines of credit (HELOCs) and other loans made by banks to individual borrowers.

(4) Construction. Construction loans are CRE loans to companies or developers used for the construction of a commercial or residential property for which repayment will be generated by the sale or permanent financing of the property. Our construction loan portfolio primarily consists of retail, residential (land and condominiums), office and warehouse product types.

(5) Lease Financings. Lease financings are offered by BPPR and are primarily comprised of automobile loans/leases made through automotive dealerships and equipment lease financings.

(6) Legacy. At PB, we carry a legacy portfolio 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 PB.

Covered Loans.

On April 30, 2010, BPPR acquired most of the loan portfolio of the former Westernbank Puerto Rico from the FDIC, as receiver (the Westernbank FDIC-assisted transaction). Loans acquired in the Westernbank FDIC-assisted transaction that were subject to a loss sharing agreement with the FDIC are referred to as covered loans. Covered foreclosed other real estate properties were also subject to loss sharing agreements.

The Corporation has presented the loans covered by the loss-sharing agreements with the FDIC separately as covered loans since the risk of loss was significantly different than those not covered under the loss-sharing agreements, due to the loss protection provided by the FDIC. On May 22, 2018, the Corporation entered into a Termination Agreement with the FDIC to terminate all loss-share arrangements in connection with the Westernbank FDIC-assisted transaction. As a result of the Termination Agreement, assets that were covered by the loss share agreement, including covered loans in the amount of approximately $514.6 million as of March 31, 2018, were reclassified as non-covered. The Corporation now recognizes entirely all future credit losses, expenses, gains, and recoveries related to the formerly covered assets with no offset due to or from the FDIC.

Business Concentration

Since our business activities are currently concentrated primarily in Puerto Rico, our 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 our operations in Puerto Rico exposes us to greater risk than other banking companies with a wider geographic base. Our asset and revenue composition by geographical area is presented in Financial Information about Geographic Areas below and in Note 39, Segment Reporting in the Annual Report in this Form 10-K.

Our loan portfolio is diversified by loan category. However, approximately 60% of our loan portfolio at December 31, 2018 consisted of real estate-related loans, including residential mortgage loans, construction loans and commercial loans secured by commercial real estate. The table below presents the distribution of our loan portfolio by loan category at December 31, 2018. As described above, Legacy refers to loans remaining from lines of businesses we exited as a result of the restructuring of our U.S. operations in 2008 and 2009.

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Loan category

(Dollars in millions)	BPPR	%	PB	%	POPULAR	%
C&I	$ 3,182	16	$ 1,088	17	$ 4,270	16
CRE	4,190	21	3,583	54	7,773	29
Construction	86		693	10	779	3
Legacy			26		26	
Leases	935	5			935	4
Consumer	5,057	26	433	7	5,490	21
Mortgage	6,433	32	802	12	7,235	27
Total	$ 19,883	100	$ 6,625	100	$ 26,508	100

Except for the Corporation s exposure to the Puerto Rico Government sector, no individual or single group of related accounts is considered material in relation to our total assets or deposits, or in relation to our overall business. For a discussion of our loan portfolio and our exposure to the Government of Puerto Rico, see Financial Condition Loans and Credit Risk Geographical and Government Risk in the Management s Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report in this Form 10-K.

Credit Administration and Credit Policies

Interest from our loan portfolios is our principal source of revenue. Whenever we make loans, we expose ourselves to credit risk. Credit risk is controlled and monitored through active asset quality management, including the use of lending standards, thorough review of potential borrowers and active asset quality administration.

Business activities that expose us to credit risk are managed within the Board of Director s Risk Management policy, and the Credit Risk Tolerance Limits policy, which establishes limits that consider factors such as maintaining a prudent balance of risk-taking across diversified risk types and business units, compliance with regulatory guidance, controlling the exposure to lower credit quality assets, and limiting growth in, and overall exposure to, any product or risk segment where we do not have sufficient experience and a proven ability to predict credit losses.

We maintain comprehensive credit policies for all lines of business in order to mitigate credit risk. Our credit policies are ratified by our Board of Directors and set forth, among other things, underwriting standards and procedures for monitoring and evaluating loan portfolio quality. Our credit policies also require prompt identification and quantification of asset quality deterioration or potential loss in order to ensure the adequacy of the allowance for loan losses. Included in these policies, primarily determined by the amount, type of loan and risk characteristics of the credit facility, are various approval levels and lending limit constraints, ranging from the branch or department level to those that are more centralized.

Our credit policies and procedures establish strict documentation requirements for each loan and related collateral type, when applicable, during the underwriting, closing and monitoring phases. During the initial loan underwriting process, the credit policies require, at a minimum, historical financial statements or tax returns of the borrower and any guarantor, an analysis of financial information contained in a credit approval package, a risk rating determination in the case of commercial and construction loans, reports from credit agencies and appraisals for real estate-related loans. The credit policies also set forth the required closing documentation depending on the loan and the collateral type.

Although we originate most of our loans internally in both the Puerto Rico and mainland United States markets, we occasionally purchase or participate in loans originated by other financial institutions. When we purchase or participate in loans originated by others, we conduct the same underwriting analysis of the borrowers and apply the same criteria as we do for loans originated by us. This also includes a review of the applicable legal documentation.

Refer to the Credit Risk section of Management s Discussion and Analysis, in the Annual Report in this Form 10-K for information related to management committees and divisions with responsibilities for establishing policies and monitoring the Corporation s credit risk.

Loan extensions, renewals and restructurings

Loans with satisfactory credit profiles can be extended, renewed or restructured. Many commercial loan facilities are structured as lines of credit, which are mainly one year in term and therefore are required to be renewed annually. Other facilities may be restructured or extended from time to time based upon changes in the borrower s business needs, use of funds, timing of completion of projects and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals and restructurings are done in the normal course of business and are not considered concessions, and the loans continue to be recorded as performing.

We evaluate various factors in order to determine if a borrower is experiencing financial difficulties. Indicators that the borrower is experiencing financial difficulties include, for example: (i) the borrower is currently in default on any of its debt or it is probable that the borrower would be in payment default on any of its debt in the foreseeable future without the modification; (ii) the borrower has declared or is in the process of declaring bankruptcy; (iii) there is significant doubt as to whether the borrower will continue to be a going concern; (iv) currently, the borrower has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange; and (v) based on estimates and projections that only encompass the current business capabilities, the borrower forecasts that its entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity; and absent the current modification, the borrower cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor.

We have specialized workout officers who handle substantially all commercial loans that are past due 90 days and over, borrowers experiencing financial difficulties, and those that are considered problem loans based on their risk profile. As a general policy, we do not advance additional money to borrowers that are 90 days past due or over. In commercial and construction loans, certain exceptions may be approved under certain circumstances, including (i) when past due status is administrative in nature, such as expiration of a loan facility before the new documentation is executed, and not as a result of payment or credit issues; (ii) to improve our collateral position or otherwise maximize recovery or mitigate potential future losses; and (iii) with respect to certain entities that, although related through common ownership, are not cross defaulted nor cross-collateralized and are performing satisfactorily under their respective loan facilities. Such advances are underwritten following our credit policy guidelines and approved up to prescribed policy limits, which are dependent on the borrower s financial condition, collateral and guarantee, among others.

In addition to the legal lending limit established under applicable state banking law, discussed in detail below, business activities that expose the Corporation to credit risk should be managed within guidelines described in the Credit Risk Tolerance Limits policy. Limits are defined for loss and credit performance metrics, portfolio composition and concentration, and industry and name-level, which monitors lending concentration to a single borrower or a group of related borrowers, including specific lending limits based on industry or other criteria, such as a percentage of the banks capital.

Refer to Notes 2 and 9 to the Consolidated Financial Statements, in the Annual Report in this Form 10-K, for additional information on troubled debt restructuring (TDRs).

Competition

The financial services industry in which we operate is highly competitive. In Puerto Rico, our primary market, the banking business is highly competitive with respect to originating loans, acquiring deposits and providing other banking services. Most of our direct competition for our products and services comes from commercial banks. The

principal competitors for BPPR include locally based commercial banks and a few large U.S. and foreign banks with operations in Puerto Rico. While the number of banking competitors in Puerto Rico has been reduced in recent years as a result of consolidations, these transactions have allowed some of our competitors to gain greater resources, such as a broader range of products and services.

We also compete with specialized players in the local financial industry that are not subject to the same regulatory restrictions as domestic banks and bank holding companies. Those competitors include brokerage firms, mortgage companies, insurance companies, automobile and equipment finance companies, local and federal credit unions (locally known as cooperativas), credit card companies, consumer finance companies, institutional lenders and other financial and non-financial institutions and entities. Credit unions generally provide basic consumer financial services. These competitors collectively represent a significant portion of the market and have lower cost structure and fewer regulatory constraints.

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In the United States we continue to face substantial competitive pressure as our footprint resides in two large, metropolitan markets of New York City / Northern New Jersey and the greater Miami area. There is a large number of Community and Regional banks along with national banking institutions present in both markets, many of which have a larger amount of resources than us.

In both Puerto Rico and the United States, the primary factors in competing for business include pricing, convenience of branch locations and other delivery methods, range of products offered, and the level of service delivered. We must compete effectively along all these parameters to be successful. We may experience pricing pressure as some of our competitors seek to increase market share by reducing prices. Competition is particularly acute in the market for deposits, where pricing is very aggressive. Increased competition could require that we increase the rates offered on deposits or lower the rates charged on loans, which could adversely affect our profitability.

Economic factors, along with legislative and technological changes, will have an ongoing impact on the competitive environment within the financial services industry. We work to anticipate and adapt to dynamic competitive conditions whether it may be developing and marketing innovative products and services, adopting or developing new technologies that differentiate our products and services, cross-marketing, or providing personalized banking services. We strive to distinguish ourselves from other community banks and financial services providers in our marketplace by providing a high level of service to enhance customer loyalty and to attract and retain business. However, we can provide no assurance as to the effectiveness of these efforts on our future business or results of operations, and as to our continued ability to anticipate and adapt to changing conditions, and to sufficiently improve our services and/or banking products, in order to successfully compete in our primary service areas.

Employees

At December 31, 2018, we employed 8,474 full time equivalent employees, of which 7,764 were located in Puerto Rico and the Virgin Islands and 710 in the U.S. mainland. None of our employees is represented by a collective bargaining group.

Regulation and Supervision

Described below are the material elements of selected laws and regulations applicable to Popular, PNA and their respective subsidiaries. Such laws and regulations are continually under review by Congress and state legislatures and federal and state regulatory agencies. Any change in the laws and regulations applicable to Popular and its subsidiaries could have a material effect on the business of Popular and its subsidiaries. We will continue to assess our businesses and risk management and compliance practices to conform to developments in the regulatory environment.

General

Popular and PNA are bank holding companies subject to consolidated supervision and regulation by the Federal Reserve Board under the BHC Act. BPPR and PB are subject to supervision and examination by applicable federal and state banking agencies including, in the case of BPPR, the Federal Reserve Board and the Office of the Commissioner of Financial Institutions of Puerto Rico (the Office of the Commissioner), and, in the case of PB, the Federal Reserve Board and the New York State Department of Financial Services (the NYSDFS).

The Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in May 2018, and related statements and proposed rulemakings by the federal banking agencies revise certain aspects of the U.S. financial regulatory regime for banking organizations with less than $100 billion in total consolidated assets, such as Popular, BPPR, PNA and PB. For example, institutions with total consolidated assets greater than $10 billion but less than $100 billion are no longer required to conduct an annual company-run stress test of capital, consolidated earnings and losses, and institutions with total consolidated assets of $50 billion or more but less than $100 billion are no longer subject to enhanced prudential standards, including risk-based capital and leverage requirements, liquidity standards, risk management and risk committee requirements, stress test requirements and a debt-to-equity limit for companies that the Financial Stability Oversight Council has determined would pose a grave threat to financial stability were they to fail such limits. In addition, publicly traded U.S. bank holding companies with total consolidated assets of $10 billion or more but less than $50 billion are no longer required to establish enterprise-wide risk committees. As of December 31, 2018, Popular had total consolidated assets of $47.6 billion.

Transactions with Affiliates

BPPR and PB are subject to restrictions that limit the amount of extensions of credit and certain other covered transactions (as defined in Section 23A of the Federal Reserve Act) between BPPR or PB, on the one hand, and Popular, PNA or any of our other non-banking subsidiaries, on the other, and that impose collateralization requirements on such credit extensions. A bank may not engage in any covered transaction if the aggregate amount of the bank s covered transactions with that affiliate would exceed 10% of the bank s capital stock and surplus or the aggregate amount of the bank s covered transactions with all affiliates would exceed 20% of the bank s capital stock and surplus. In addition, any transaction between BPPR or PB, on the one hand, and Popular, PNA or any of our other non-banking subsidiaries, on the other, is required to be carried out on an arm s length basis.

Source of Financial Strength

The Dodd-Frank Act requires bank holding companies, such as Popular and PNA, to act as a source of financial and managerial strength to their subsidiary banks and to commit resources to support each subsidiary bank. Popular and PNA are expected to commit resources to support their subsidiary banks, including at times when Popular and PNA may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary depository institutions are subordinated in right of payment to depositors and to certain other indebtedness of such subsidiary depository institution. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal banking agency to maintain the capital of a subsidiary depository institution will be assumed by the bankruptcy trustee and entitled to a priority of payment. BPPR and PB are currently the only insured depository institution subsidiaries of Popular and PNA.

Resolution Planning

Bank holding companies with consolidated assets of $100 billion or more are required to report periodically to the FDIC and the Federal Reserve Board such company s plan for its rapid and orderly resolution in the event of material financial distress or failure. In addition, insured depository institutions with total assets of $50 billion or more are required to submit to the FDIC periodic contingency plans for resolution in the event of the institution s failure.

As of December 31, 2018, Popular, PNA, BPPR and PB s total assets were below the thresholds for applicability of these rules.

Dividend Restrictions

The principal sources of funding for Popular and PNA have included dividends received from their banking and non-banking subsidiaries, asset sales and proceeds from the issuance of debt and equity. Various statutory provisions limit the amount of dividends an insured depository institution may pay to its holding company without regulatory approval. A member bank must obtain the approval of the Federal Reserve Board for any dividend, if the total of all dividends declared by the member bank during the calendar year would exceed the total of its net income for that year, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. In addition, a member bank may not declare or pay a dividend in an amount greater than its undivided profits as reported in its Report of Condition and Income, unless the member bank has received the approval of the Federal Reserve Board. A member bank also may not permit any portion of its permanent capital to be withdrawn unless the withdrawal has been approved by the Federal Reserve Board. Pursuant to these requirements, PB may not declare or pay a dividend without the prior approval of the Federal Reserve Board or the NYSDFS. During the year ended December 31, 2018, BPPR declared cash dividends of $446 million, a portion of which was used by Popular for the payments of the cash dividends on its outstanding common stock, $125 million accelerated stock repurchase, to partially fund the redemption of $450 million, 7% senior notes and the redemption of $53 million in trust preferred securities. Subject to the Federal Reserve s ability to establish more stringent specific requirements under its supervisory or enforcement authority, at December 31, 2018, BPPR could have declared a dividend of approximately $218 million. It is Federal Reserve Board policy that bank holding companies generally should pay dividends on common stock only out of net income available to common shareholders over the past year and only if the prospective rate of earnings retention appears consistent with the organization s current and expected future capital needs, asset quality and overall financial condition. Moreover, under Federal Reserve Board policy, a bank holding company should not maintain dividend levels that place undue pressure on the capital of depository institution subsidiaries or that may undermine the bank holding company s ability to be a source of strength to its banking subsidiaries. For further information please refer to Part II, Item 5, Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Subject to compliance with certain conditions, distributions of U.S. sourced dividends to a corporation organized under the laws of the Commonwealth of Puerto Rico are subject to a withholding tax of 10% instead of the 30% applied to other foreign corporations.

See Puerto Rico Regulation below for a description of certain restrictions on BPPR s ability to pay dividends under Puerto Rico law.

FDIC Insurance

Substantially all the deposits of BPPR and PB are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC, and BPPR and PB are subject to FDIC deposit insurance assessments to maintain the DIF. Deposit insurance assessments are based on the average consolidated total assets of the insured depository institution minus the average tangible equity of the institution during the assessment period. For smaller depository institutions with less than $10 billion in assets, such as PB, FDIC assigns an individual rate based on a formula using financial data and CAMELS ratings. For larger depository institutions with over $10 billion in assets, such as BPPR, the FDIC uses a scorecard methodology, which also considers CAMELS ratings, among other measures, that seeks to capture both the probability that an individual large institution will fail and the magnitude of the impact on the deposit insurance fund if such a failure occurs. The FDIC has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. Beginning in the third quarter of 2016, the initial base deposit insurance assessment rate for depositary institutions with $10 billion or more in assets, including BPPR, ranges from 3 to 30 basis points on an annualized basis. After the effect of potential base-rate adjustments, the total base assessment rate could range from 1.5 to 40 basis points on an annualized basis. As of July 1, 2016, the FDIC imposes a surcharge on the assessments of depository institutions with $10 billion or more in assets, including BPPR. The surcharge would last through the quarter the reserve ratio reaches or exceeds 1.35% but no later than December 31, 2018 when a shortfall assessment will be applied to March 2019 invoice. On September 30, 2018, the Deposit Insurance Fund Reserve Ratio reached 1.36 percent. Upon reaching the minimum DIF, small banks, such as PB will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from between 1.15 percent and 1.35 percent, to be applied when the reserve ratio is at or above 1.38 percent.

The Deposit Insurance Funds Act of 1996 separated the Financing Corporation (FICO) assessment to service the interest on its bond obligations from the DIF assessment. The amount assessed on individual institutions by the FICO is in addition to the amount paid for deposit insurance according to the FDIC s risk-related assessment rate schedules. The FICO assessment rate for the first quarter of 2019 was 0.140 basis points of the assessment base.

As of December 31, 2018, we had a DIF average total asset less average tangible equity assessment base of approximately $43 billion.

Brokered Deposits

The FDIA and regulations adopted thereunder restrict the use of brokered deposits and the rate of interest payable on deposits for institutions that are less than well capitalized. There are no such restrictions on a bank that is well capitalized. Popular does not believe the brokered deposits regulations have had or will have a material effect on the funding or liquidity of BPPR and PB.

Capital Adequacy

Popular, BPPR and PB are each required to comply with applicable capital adequacy standards established by the Federal Reserve Board. In July 2013, the federal bank regulators approved final rules (the Basel III Capital Rules)

implementing the December 2010 final capital framework for strengthening international capital standards, known as Basel III, as well as certain provisions of the Dodd-Frank Act.

Among other matters, the Basel III Capital Rules: (i) introduce a new capital measure called Common Equity Tier 1 (CET1) and the related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to prior regulations. Under the Basel III Capital Rules, for most banking organizations, including Popular, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the Basel III Capital Rules specific requirements.

Pursuant to the Basel III Capital Rules, the minimum capital ratios are:

4.5% CET1 to risk-weighted assets;

6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;

8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and

4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the leverage ratio).

The Basel III Capital Rules also introduce a new capital conservation buffer, composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, Popular, BPPR and PB are required to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under prior risk-based capital rules, the effects of accumulated other comprehensive income or loss (AOCI) items included in shareholders equity (for example, marks-to-market of securities held in the available for sale portfolio) under U.S. GAAP were reversed for the purposes of determining regulatory capital ratios. Pursuant to the Basel III Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including Popular, BPPR and PB, may make a one-time permanent election to continue to exclude these items. Popular, BPPR and PB have made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolios.

The Basel III Capital Rules preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies Tier 1 capital. Trust preferred securities no longer included in Popular s Tier 1 capital may nonetheless be included as a component of Tier 2 capital. Popular has not issued any trust preferred securities since May 19, 2010. At December 31, 2018, Popular has $374 million of trust preferred securities outstanding which no longer qualify for Tier 1 capital treatment, but instead qualify for Tier 2 capital treatment.

Failure to meet capital guidelines could subject Popular and its depository institution subsidiaries to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC and to certain restrictions on our business. See Prompt Corrective Action.

In November 2017, the federal bank regulators adopted a final rule to extend the transitional regulatory capital treatment applicable during 2017 for certain items, including certain deferred tax assets, mortgage servicing assets, investments in non-consolidated financial entities and minority interests, for non-advanced approaches banking organizations, such as Popular, BPPR and PB. Had the transitional provisions been fully phased-in on December 31, 2018, the Corporation would have continued to exceed well capitalized requirements.

In December 2017, the Basel Committee on Banking Supervision published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as Basel IV). Among other things, these standards revise the Basel Committee s standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain unconditionally cancellable commitments, such as unused credit card lines of credit) and provide a new standardized approach for operational risk capital. These standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to Popular, BPPR and PB. The impact of Basel IV on us will

depend on the manner in which it is implemented by the federal bank regulators.

In December 2018, the federal banking agencies approved a final rule modifying their regulatory capital rules and providing an option to phase in over a period of three years the day-one regulatory capital effects of the Current Expected Credit Loss (CECL) model of ASU 2016-13. The final rule also revises the agencies other rules to reflect the update to the accounting standards.

Refer to the Consolidated Financial Statements in the Annual Report in this Form 10-K., Note 22 Regulatory Capital Requirements and Table 9 of Management s Discussion and Analysis for the capital ratios of Popular, BPPR and PB under Basel III.

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Prompt Corrective Action

The Federal Deposit Insurance Act (the FDIA) requires, among other things, the federal banking agencies to take prompt corrective action in respect of insured depository institutions that do not meet minimum capital requirements. The FDIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized . A depository institution s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors.

An insured depository institution will be deemed to be (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 4.0% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a CET1 capital ratio less than 3%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. An insured depository institution s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the institution s overall financial condition or prospects for other purposes.

The FDIC generally prohibits an insured depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company, if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. A depository institution s holding company must guarantee the capital restoration plan, up to an amount equal to the lesser of 5% of the depository institution s assets at the time it becomes undercapitalized or the amount of the capital deficiency, when the institution fails to comply with the plan. The federal banking agencies may not accept a capital restoration plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator.

The capital-based prompt corrective action provisions of the FDIA apply to the FDIC-insured depository institutions such as BPPR and PB, but they are not directly applicable to holding companies such as Popular and PNA, which control such institutions. As of December 31, 2018, both BPPR and PB were well capitalized.

Interstate Branching

The Dodd-Frank Act amended the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Banking Act) to authorize national banks and state banks to branch interstate through *de novo* branches. For purposes of the Interstate Banking Act, BPPR is treated as a state bank and is subject to the same restrictions on interstate branching as are other state banks.

Activities and Acquisitions

In general, the BHC Act limits the activities permissible for bank holding companies to the business of banking, managing or controlling banks and such other activities as the Federal Reserve Board has determined to be so closely related to banking as to be properly incidental thereto. Bank holding companies whose subsidiary depository institutions meet management, capital and Community Reinvestment Act standards may elect to be treated as a financial holding company and engage in a substantially broader range of nonbanking financial activities, including securities underwriting and dealing, insurance underwriting and making merchant banking investments in nonfinancial companies.

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In order for a bank holding company to elect to be treated as a financial holding company, (i) all of its depository institution subsidiaries must be well capitalized (as described above) and well managed and (ii) it must file a declaration with the Federal Reserve Board that it elects to be a financial holding company. A bank holding company electing to be a financial holding company must also be and remain well capitalized and well managed. Popular and PNA have elected to be treated as financial holding companies. A depository institution is deemed to be well managed if, at its most recent inspection, examination or subsequent review by the appropriate federal banking agency (or the appropriate state banking agency), the depository institution received at least a satisfactory composite rating and at least a satisfactory rating for the management component of the composite rating. If, after becoming a financial holding company, the company fails to continue to meet any of the capital or management requirements for financial holding company status, the company must enter into a confidential agreement with the Federal Reserve Board to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve Board may extend the agreement or may order the company to divest its subsidiary banks or the company may discontinue, or divest investments in companies engaged in, activities permissible only for a bank holding company that has elected to be treated as a financial holding company.

The Federal Reserve Board may in certain circumstances limit our ability to conduct activities and make acquisitions that would otherwise be permissible for a financial holding company. In addition, we are required to obtain prior Federal Reserve Board approval before engaging in certain banking and other financial activities both in the United States and abroad.

Bank holding companies with total consolidated assets greater than $250 billion (regardless of whether such bank holding companies have elected to be treated as financial holding companies) must provide prior written notice to the Federal Reserve Board before acquiring shares of certain financial companies with assets in excess of $10 billion, unless an exception applies. In addition, a financial holding company (regardless of its size) must obtain prior written approval from the Federal Reserve Board before acquiring a nonbank company with $10 billion or more in total consolidated assets. As of December 31, 2018, Popular had total consolidated assets of $47.6 billion.

The so-called Volcker Rule issued under the Dodd-Frank Act restricts the ability of Popular and its subsidiaries, including BPPR and PB, to sponsor or invest in private funds or to engage in certain types of proprietary trading. Popular and its subsidiaries generally do not engage in the businesses prohibited by the Volcker Rule; therefore, the Volcker Rule does not have a material effect on our operations. Development and monitoring of the required compliance program, however, may require the expenditure of significant resources and management attention. In July 2018, the Federal Reserve Board, OCC, FDIC, Commodity Futures Trading Commission and SEC issued a notice of proposed rulemaking intended to amend the application of the Volcker Rule based on the size and scope of a banking entity s trading activities and to clarify and amend certain definitions, requirements and exemptions. The ultimate impact of any amendments to the Volcker Rule will depend on, among other things, further rulemaking and implementation guidance from the relevant federal regulatory agencies and the development of market practices and standards.

Anti-Money Laundering Initiative and the USA PATRIOT Act

A major focus of governmental policy relating to financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA PATRIOT Act) strengthened the ability of the U.S. government to help prevent, detect and prosecute international money laundering and the financing of terrorism. Title III of the USA PATRIOT Act imposed significant compliance and due diligence obligations, created new crimes and penalties and expanded the extra-territorial jurisdiction of the United States. Failure of a financial institution to comply with the USA PATRIOT Act s requirements could have serious legal and reputational consequences for the institution.

Community Reinvestment Act

The Community Reinvestment Act requires banks to help serve the credit needs of their communities, including extending credit to low- and moderate-income individuals and geographies. Should Popular or our bank subsidiaries fail to serve adequately the community, potential penalties may include regulatory denials of applications to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions.

Interchange Fees Regulation

The Federal Reserve Board has established standards for debit card interchange fees and prohibited network exclusivity arrangements and routing restrictions. The maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. Additionally, the Federal Reserve Board allows for an upward adjustment of no more than 1 cent to an issuer s debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve certain fraud-prevention standards.

Consumer Financial Protection Act of 2010

The Dodd-Frank Act created a new consumer financial services regulator, the Consumer Financial Protection Bureau (the CFPB), which assumed most of the consumer financial services regulatory responsibilities previously exercised by federal banking regulators and other agencies. The CFPB s primary functions include the supervision of covered persons (broadly defined to include

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any person offering or providing a consumer financial product or service and any affiliated service provider) for compliance with federal consumer financial laws. The CFPB also has the broad power to prescribe rules applicable to a covered person or service provider identifying as unlawful, unfair, deceptive, or abusive acts or practices in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. We are subject to examination and regulation by the CFPB.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department Office of Foreign Assets Control (OFAC) administers economic sanctions that affect transactions with designated foreign countries, nationals and others. The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country; and (ii) a blocking of assets in which the government of the sanctioned country or other specially designated nationals have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the United States or the possession or control of U.S. persons outside of the United States). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Protection of Customer Personal Information and Cybersecurity

The privacy provisions of Gramm-Leach-Bliley Act of 1999 generally prohibit financial institutions, including us, from disclosing nonpublic personal financial information of consumer customers to third parties for certain purposes (primarily marketing) unless customers have the opportunity to opt out of the disclosure. The Fair Credit Reporting Act restricts information sharing among affiliates for marketing purposes and governs the use and provision of information to consumer reporting agencies.

The federal banking regulators have also issued guidance and proposed rules regarding cybersecurity that are intended to enhance cyber risk management standards among financial institutions. A financial institution is expected to establish lines of defense and to ensure that its risk management processes address the risk posed by compromised customer credentials. A financial institution s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution s operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

Puerto Rico and state regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. For instance, Puerto Rico law requires business to implement information security controls to protect consumers personal information from breaches, as well as to provide notice of any breach to affected customers. Several states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. For instance, the California Consumer Privacy Act was enacted in June 2018 and will impose privacy compliance obligations with regard to the personal information of California residents. We expect this trend to continue, and are continually monitoring developments in Puerto Rico and the states in which we operate.

Incentive Compensation

The Federal Reserve Board reviews, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Popular, that are not large, complex banking organizations. Deficiencies will be incorporated into the organization s supervisory ratings, which can affect the organization s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The Federal Reserve Board, OCC and FDIC have issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors.

The Federal Reserve Board, other federal banking agencies and the SEC have jointly published proposed rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets (including Popular, PNA, BPPR and PB). The proposed revised rules would establish general qualitative requirements applicable to all covered entities, and additional requirements for entities with total consolidated assets of at least $50 billion. These additional requirements would not be applicable to Popular, PNA, BPPR and PB, each of which currently has less than $50 billion in total consolidated assets. Although the proposed revised rules include more stringent requirements, it cannot be determined at this time whether or when a final rule will be adopted.

Puerto Rico Regulation

As a commercial bank organized under the laws of Puerto Rico, BPPR is subject to supervision, examination and regulation by the Office of the Commissioner of Financial Institutions, pursuant to the Puerto Rico Banking Act of 1933, as amended (the Banking Law).

Section 27 of the Banking Law requires that at least ten percent (10%) of the yearly net income of BPPR be credited annually to a reserve fund. The apportionment must be done every year until the reserve fund is equal to the total of paid-in capital on common and preferred stock. During 2018, $ 58.3 million was transferred to the statutory reserve account. During 2018, BPPR was in compliance with the statutory reserve requirement.

Section 27 of the Banking Law also provides that when the expenditures of a bank are greater than its receipts, the excess of the former over the latter must be charged against the undistributed profits of the bank, and the balance, if any, must be charged against the reserve fund. If the reserve fund is not sufficient to cover such balance in whole or in part, the outstanding amount must be charged against the capital account and no dividend may be declared until capital has been restored to its original amount and the reserve fund to 20% of the original capital.

Section 16 of the Banking Law requires every bank to maintain a legal reserve that, except as otherwise provided by the Office of the Commissioner, may not be less than 20% of its demand liabilities, excluding government deposits (federal, state and municipal) which are secured by collateral. If a bank is authorized to establish one or more bank branches in a state of the United States or in a foreign country, where such branches are subject to the reserve requirements of that state or country, the Office of the Commissioner may exempt said branch or branches from the reserve requirements of Section 16. Pursuant to an order of the Federal Reserve Board dated November 24, 1982, BPPR has been exempted from the reserve requirements of the Federal Reserve System with respect to deposits payable in Puerto Rico. Accordingly, BPPR is subject to the reserve requirements prescribed by the Banking Law.

Section 17 of the Banking Law permits a bank to make loans to any one person, firm, partnership or corporation, up to an aggregate amount of fifteen percent (15%) of the paid-in capital and reserve fund of the bank. As of December 31, 2018, the legal lending limit for BPPR under this provision was approximately $286 million. In the case of loans which are secured by collateral worth at least 25% more than the amount of the loan, the maximum aggregate amount is increased to one third of the paid-in capital of the bank, plus its reserve fund. If the institution is well capitalized and had been rated 1 in the last examination performed by the Office of the Commissioner or any regulatory agency, its legal lending limit shall also include 15% of 50% of its undivided profits and for loans secured by collateral worth at least 25% more than the amount of the loan, the capital of the bank shall also include 33 1/3% of 50% of its undivided profits. Institutions rated 2 in their last regulatory examination may include this additional component in their legal lending limit only with the previous authorization of the Office of the Commissioner. There are no restrictions under Section 17 on the amount of loans that are wholly secured by bonds, securities and other evidence of indebtedness of the Government of the United States or Puerto Rico, or by current debt bonds, not in default, of municipalities or instrumentalities of Puerto Rico.

Section 14 of the Banking Law authorizes a bank to conduct certain financial and related activities directly or through subsidiaries, including finance leasing of personal property and originating and servicing mortgage loans. BPPR engages in finance leasing through its wholly-owned subsidiary, Popular Auto, LLC, which is organized and operates in Puerto Rico. The origination and servicing of mortgage loans is conducted by Popular Mortgage, a division of BPPR.

Available Information

We maintain an Internet website at www.popular.com. Via the Investor Relations link at our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) Securities Exchange Act of 1934, as amended (the Exchange Act), are available, free of charge, as soon

as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The SEC also maintains an internet website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You may obtain copies of our filings on the SEC site.

We have adopted a written code of ethics that applies to all directors, officers and employees of Popular, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder. Our Code of Ethics is available on our corporate website, www.popular.com, in the section entitled Corporate Governance. In the event that we make changes in, or provide waivers from, the provisions of this Code of Ethics that the SEC requires us to disclose, we intend to disclose these events on our corporate website in such section. In the Corporate Governance section of our corporate website, we have also posted the charters for our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, as well as our Corporate Governance Guidelines. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our website.

All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.

ITEM 1A. RISK FACTORS

We, like other financial institutions, face a number of risks inherent to our business, financial condition, liquidity, results of operations and capital position. These risks 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.

The risks described in this report are not the only risks we face. Additional risks and uncertainties not currently known by us or that we currently deem to be immaterial, or that are generally applicable to all financial institutions, also may materially adversely affect our business, financial condition, liquidity, results of operations or capital position.

RISKS RELATING TO THE BUSINESS AND ECONOMIC ENVIRONMENT AND OUR INDUSTRY

A significant portion of our business is concentrated in Puerto Rico, where economic and fiscal challenges, as well as the impact of two major hurricanes during 2017, have adversely impacted and may continue to adversely impact us.

Our credit exposure is concentrated in Puerto Rico, which accounted as of December 31, 2018 for approximately 82% of our year-to-date revenues, 77% of our total assets and 79% of our deposits. As such, our financial condition and results of operations are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets and asset values in Puerto Rico.

Puerto Rico entered recession in the fourth quarter of fiscal year 2006 and its gross national product (GNP) thereafter contracted in real terms every year between fiscal years 2007 and 2017 (inclusive), except fiscal year 2012. Real GNP is projected to have further contracted by approximately 5.6% in fiscal year 2018 according to the latest Puerto Rico Planning Board (the Planning Board) estimates, exacerbated by the impact of Hurricanes Irma and María in September 2017. The Planning Board estimates a 3.5% increase in GNP in fiscal year 2019, in part due to the influx of federal funds and private insurance payments following the impact of the hurricanes. Hurricane Irma and María caused extensive destruction in Puerto Rico, the U.S. Virgin Islands (USVI) and the British Virgin Islands (BVI), disrupting the primary markets in which BPPR does business. The damage caused by the hurricanes was substantial and had a material adverse impact on economic activity in Puerto Rico.

The Commonwealth s government has also been facing significant fiscal challenges. The structural imbalance between revenues and expenditures, on the one hand, and unfunded legacy pension obligations, on the other hand, coupled with the Commonwealth s inability to access financing in the capital markets or from private lenders, resulted in the Commonwealth and various public corporations defaulting on and eventually seeking to restructure their debts.

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The Commonwealth s fiscal and economic crisis prompted the U.S. Congress to enact the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) in June 2016. PROMESA, among other things, established a seven-member federally-appointed oversight board (the Oversight Board) with broad powers over the finances of the Commonwealth and its instrumentalities and provided to the Commonwealth, its public corporations and municipalities, broad-based restructuring authority, including through a bankruptcy-type process similar to that of Chapter 9 of the U.S. Bankruptcy Code. In August 2016, President Obama appointed the seven voting members of the Oversight Board through the process established in PROMESA, which authorized the President to select the members from several lists required to be submitted by congressional leaders. On February 15, 2019, however, the First Circuit of the U.S. Court of Appeals (the First Circuit) declared such appointments unconstitutional on the grounds that they did not comply with the Appointments Clause of the U.S. Constitution, which requires that principal federal officers be appointed by the President, with the advice and consent of the U.S. Senate. The First Circuit s decision provides that its mandate will not issue for 90 days, so as to allow the President and the U.S. Senate to validate the currently defective appointments or reconstitute the Oversight Board in accordance with the Appointments Clause. Such process may delay the Commonwealth s efforts to restructure its debts and create additional uncertainty regarding the Commonwealth s prospects for fiscal and economic recovery.

The credit quality of BPPR s loan portfolio necessarily reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions affecting Puerto Rico consumers and businesses. The effects of the prolonged recession are reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on loans granted in Puerto Rico. The measures taken to address the fiscal crisis and those that may have to be taken in the future could affect many of our individual customers and customers businesses, which could cause credit losses that adversely affect us. Fiscal adjustments may also result in significant resistance from local politicians and other stakeholders, which may lead to social and political instability. Any reduction in consumer spending because of these issues may also adversely impact our interest and non-interest revenues.

If global or local economic conditions worsen or the Government of Puerto Rico is unable to manage its fiscal crisis, including completing an orderly restructuring of its debt obligations while continuing to provide essential services, those adverse effects could continue or worsen in ways that we are not able to predict and that are outside of our control. Under such circumstances, we could experience an increase in the level of provision for loan losses, nonperforming assets, net charge-offs and reserve for credit losses. These factors could have a material adverse impact on our earnings and financial condition.

Our assets and revenue composition by geographical area and by business segment reporting are presented in Note 39 to the consolidated financial statements in the Annual Report in this Form 10-K**.**

Further deterioration in collateral values of properties securing our commercial, mortgage loan and construction portfolios would result in increased credit losses and continue to harm our results of operations.

The value of properties in some of the markets we serve, in particular in Puerto Rico, has declined in recent years as a result of adverse economic conditions. Further deterioration of the value of real estate collateral securing our commercial, mortgage loan and construction loan portfolios would result in increased credit losses. As of December 31, 2018, approximately 29%, 27% and 3%, of our loan portfolio consisted of commercial loans secured by real estate, mortgage loans and construction loans, respectively.

Substantially our entire loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is in Puerto Rico, the USVI, the BVI or the U.S. mainland, the performance of our loan portfolio and the collateral value backing the transactions are dependent upon the performance of and conditions within each specific real estate market. General economic conditions in Puerto Rico and fiscal reforms aimed at addressing the current fiscal crisis (such as

the local property tax reform, which is contemplated by the Commonwealth s fiscal plan approved pursuant to PROMESA) could cause a further deterioration of the value of the real estate collateral securing our loan portfolios.

We measure loan impairment based on the fair value of the collateral, if the loan is collateral dependent, which is derived from estimated collateral values, principally obtained from appraisal reports that take into consideration prices in observed transactions involving similar assets in similar locations, size and supply and demand. An appraisal report is only an estimate of the value of the property at the time the appraisal is made. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property. In addition, the properties securing these loans may be difficult to dispose of, if foreclosed.

Continued deterioration of the fair value of real estate properties for collateral dependent impaired loans would require increases in our provision for loan losses and allowance for loan losses. Any such increase would have an adverse effect on our future financial condition and results of operations. For more information on the credit quality of our construction, commercial and mortgage portfolio, see the Credit Risk section of the Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Annual Report.

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Our results of operations and financial condition could be adversely affected by difficult conditions in the U.S. and global financial industries.

During the financial crisis that commenced in 2008, market instability and lack of investor confidence led many lenders and institutional investors to reduce or cease providing funding to borrowers, including other financial institutions. This led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity in general. The resulting economic pressures on consumers and uncertainty about the financial markets adversely affected our industry and our business, results of operations and financial condition. A re-occurrence of these or other difficult conditions would exacerbate the economic challenges facing us and others in the financial industry.

Legislative and regulatory reforms may have a significant impact on our business and results of operations.

Popular is subject to extensive regulation, supervision and examination by federal, New York and Puerto Rico banking authorities. Any change in applicable federal, New York or Puerto Rico laws or regulations could have a substantial impact on our operations. Additional laws and regulations may be enacted or adopted in the future that could significantly affect our powers, authority and operations, which could have a material adverse effect on our financial condition and results of operations. Further, regulators in the performance of their supervisory and enforcement duties, have significant discretion and power to prevent or remedy unsafe and unsound practices or violations of laws by banks and bank holding companies. The exercise of this regulatory discretion and power could have a negative impact on Popular. Furthermore, the Commonwealth has enacted various reforms in response to its fiscal and economic problems and is likely to implement additional reforms as part of its obligations under PROMESA.

RISKS RELATING TO OUR BUSINESS

We are subject to default risk in our loan portfolio.

We are subject to the risk of loss from loan defaults and foreclosures with respect to the loans we originate or acquire. We establish provisions for loan losses, which lead to reductions in the income from operations, in order to maintain the allowance for loan losses at a level which is deemed appropriate by management based upon an assessment of the quality of the loan portfolio in accordance with established procedures and guidelines. This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgments about the future, including forecasts of economic and market conditions that might impair the ability of our borrowers to repay the loans. There can be no assurance that management has accurately estimated the level of future loan losses or that Popular will not have to increase the provision for loan losses in the future as a result of future increases in non-performing loans or for other reasons beyond our control. Any such increases in our provisions for loan losses or any loan losses in excess of our provisions for loan losses would have an adverse effect on our future financial condition and result of operations. We will continue to evaluate our provision for loan losses and allowance for loan losses and may be required to increase such amounts.

The fiscal and economic challenges of some of the jurisdictions in which we operate could materially adversely affect the value and performance of our portfolio of government securities and our loans to government entities in such jurisdictions, as well as the value and performance of commercial, mortgage and consumer loans to private borrowers who have significant relationships with the government or could be directly affected by government action in such jurisdictions. A reduction in Puerto Rico government deposits could adversely affect our net interest income.

We have direct and indirect lending and investment exposure to the Puerto Rico government, its public corporations and municipalities. A deterioration of the Commonwealth s fiscal and economic condition, including as a result of actions taken by the Commonwealth government or the Oversight Board to address the ongoing fiscal and economic crisis in Puerto Rico, could materially adversely affect the value and performance of our Puerto Rico government obligations, as well as the value and performance of commercial, mortgage and consumer loans to private borrowers who have significant relationships with the government or could be directly affected by government action, resulting in losses to us.

At December 31, 2018, our direct exposure to Puerto Rico government obligations was limited to obligations from various municipalities and amounted to $458 million. Of the amount outstanding at December 31, 2018, $413 million consisted of loans and $45 million consisted of securities. These municipal obligations are mostly general obligations backed by property tax revenues and to which the applicable municipality has pledged its good faith, credit and unlimited taxing power, or special obligations , to which the

applicable municipality has pledged other revenues. At December 31, 2018, 75% of our exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón. Although the Oversight Board has not designated any of the Commonwealth s 78 municipalities as covered entities under PROMESA, it may decide to do so in the future. For a discussion of the implications of being designated a covered entity under PROMESA, refer to the Geographic and Government Risk section in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of the Annual Report.

The Commonwealth s certified fiscal plan does not contemplate a restructuring of the debts of Puerto Rico s municipalities. The plan, however, provides for the gradual phase out of Commonwealth appropriations to municipalities, which constitute a material portion of the operating revenues of certain municipalities. Aggregate appropriations from the Commonwealth to municipalities were decreased from approximately $370 million in fiscal year 2017 to approximately $220 million and $175 million in fiscal years 2018 and 2019, respectively. The fiscal plan provides for additional reductions every fiscal year, holding appropriations constant at approximately 45-50% of current levels starting in fiscal year 2022 before ultimately phasing out all appropriations in fiscal year 2024. Although the certified fiscal plan contemplates that the reduction in subsidies may be offset by other measures, such as the implementation of a modernized property tax regime, the reduction in subsidies could have a material negative impact on the financial condition of various municipalities. Furthermore, municipalities may also be affected by the negative effects resulting from other expense, revenue or cash management measures taken to address the Commonwealth s fiscal and liquidity shortfalls.

In addition, at December 31, 2018, the Corporation had $368 million in loans insured or securities issued by Puerto Rico governmental entities but for which the principal source of repayment is non-governmental. These included $293 million in residential mortgage loans insured by the Puerto Rico Housing Finance Authority (HFA), a governmental instrumentality that has been designated as a covered entity under PROMESA. These mortgage loans are secured by first mortgages on Puerto Rico residential properties and the HFA insurance covers losses in the event of a borrower default and subsequent foreclosure of the underlying property. The Corporation also had at December 31, 2018, $45 million in bonds issued by HFA which are secured by second mortgage loans on Puerto Rico residential properties, and for which HFA also provides insurance to cover losses in the event of a borrower default and subsequent foreclosure of the underlying property. In the event that the mortgage loans insured by HFA and held by the Corporation directly or those serving as collateral for the HFA bonds default and the collateral is insufficient to satisfy the outstanding balance of these loans, HFA s ability to honor its insurance will depend, among other factors, on the financial condition of HFA at the time such obligations become due and payable. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of the HFA, he has not exercised this power as of the date hereof. In addition, at December 31, 2018, the Corporation had $7 million in securities issued by HFA that have been economically defeased and refunded and for which securities consisting of U.S. agencies and Treasury obligations have been escrowed, and $23 million of commercial real estate notes issued by government entities but that are payable from rent paid by non-governmental parties.

BPPR s commercial loan portfolio also includes loans to private borrowers who are service providers, lessors, suppliers or have other relationships with the Puerto Rico government. These borrowers could be negatively affected by the fiscal measures to be implemented to address the Commonwealth s fiscal crisis and the ongoing debt restructuring proceedings under PROMESA. Similarly, BPPR s mortgage and consumer loan portfolios include loans to government employees which could also be negatively affected by fiscal measures such as employee layoffs or furloughs.

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

these deposits should not materially affect our liquidity since such deposits are collateralized, a significant decrease in the amount of such deposits could adversely affect our net interest income.

BPPR also has operations in the USVI and has credit exposure to USVI government entities. At December 31, 2018, BPPR s direct exposure to USVI instrumentalities and public corporations amounted to approximately $76 million, of which $68 million is outstanding. The USVI has been experiencing a number of fiscal and economic challenges that could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations, and was also severely impacted by Hurricanes Irma and María. PROMESA does not apply to the USVI and, as such, there is currently no federal legislation permitting the restructuring of the debts of the USVI and its public corporations and instrumentalities. To the extent that the fiscal condition of the USVI continues to deteriorate, the U.S. Congress or the Government of the USVI may enact legislation allowing for the restructuring of the financial obligations of USVI government entities or imposing a stay on creditor remedies, including by making PROMESA applicable to the USVI.

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The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including broker-dealers, commercial banks, investment banks, mutual funds, hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. There can be no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

We have procedures in place to mitigate the impact of a default among our counterparties. We request collateral for most credit exposures with other financial institutions and monitor these on a regular basis. Nonetheless, market volatility could impact the valuation of collateral held by us and result in losses.

Our ability to raise financing is dependent in part on market confidence. In times when market confidence is affected by events related to well-known financial institutions, risk aversion among participants may increase substantially and make it more difficult for us to borrow in the credit or capital markets.

We are exposed to credit risk from mortgage loans that have been sold or are being serviced subject to recourse arrangements.

Popular is generally at risk for mortgage loan defaults from the time it funds a loan until the time the loan is sold or securitized into a mortgage-backed security. We have furthermore retained, through recourse arrangements, part of the credit risk on sales of mortgage loans, and we also service certain mortgage loan portfolios with recourse. At December 31, 2018, we serviced $1.3 billion in residential mortgage loans subject to credit recourse provisions, principally loans associated with Fannie Mae and Freddie Mac programs. In the event of any customer default, pursuant to the credit recourse provided, we are required to repurchase the loan or reimburse the third-party investor for the incurred loss. The maximum potential amount of future payments that we 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 2018, we repurchased approximately $ 27 million in mortgage loans subject to the credit recourse provisions. In the event of nonperformance by the borrower, we have rights to the underlying collateral securing the mortgage loan. As of December 31, 2018, our liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $ 56 million. We may suffer 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 of the related property.

Defective and repurchased loans may harm our business and financial condition.

In connection with the sale and securitization of loans, we are required to make a variety of customary representations and warranties regarding Popular and the loans being sold or securitized. Our obligations with respect to these representations and warranties are generally outstanding for the life of the loan, and they relate to, among other things:

- compliance with laws and regulations;

- underwriting standards;
- the accuracy of information in the loan documents and loan file; and
- the characteristics and enforceability of the loan.

A loan that does not comply with these representations and warranties may take longer to sell, may impact our ability to obtain third party financing for the loan, and be unsalable or salable only at a significant discount. If such a loan is sold before we detect non-compliance, we may be obligated to repurchase the loan and bear any associated loss directly, or we may be obligated to indemnify the purchaser against any loss, either of which could reduce our cash available for operations and liquidity. Management believes that it has established controls to ensure that loans are originated in accordance with the secondary market s requirements, but mistakes may be made, or certain employees may deliberately violate our lending policies. We seek to minimize repurchases and losses from defective loans by correcting flaws, if possible, and selling or re-selling such loans. We have established specific reserves for probable losses related to repurchases resulting from representations and warranty violations on specific portfolios. At December 31, 2018, our reserve for estimated losses from representation and warranty arrangements amounted to $11 million, which was included as part of other liabilities in the consolidated statement of financial condition. Nonetheless, we do not expect any such losses to be significant, although if they were to occur, they would adversely impact our results of operations and financial condition.

Increases in FDIC insurance premiums may have a material adverse effect on our earnings.

Substantially all the deposits of BPPR and PB are insured up to applicable limits by the FDIC s DIF, and as a result, BPPR and PB are subject to FDIC deposit insurance assessments. For 2018, the FDIC deposit insurance expense of Popular totaled $ 28 million. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, our level of non-performing assets increase, or our risk profile changes or our capital position is impaired, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future increases or special assessments may materially adversely affect our results of operations. See the Supervision and Regulation FDIC Insurance discussion within Item 1. Business of the Annual Report for additional information related to the FDIC s deposit insurance assessments applicable to BPPR and PB.

Our business is susceptible to interest rate risk because a significant portion of our business involves borrowing and lending money, and investing in financial instruments. Reforms to and uncertainty regarding the London InterBank Offered Rate (LIBOR) may adversely affect our business, financial condition and results of operations.

Our business and financial performance are impacted by market interest rates and movements in those rates. Since a high percentage of our assets and liabilities are interest bearing or otherwise sensitive in value to changes in interest rates, changes in rates, in the shape of the yield curve or in spreads between different types of rates can have a material impact on our results of operations and the values of our assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Interest rates are also highly sensitive to many factors over which we have no control and which we may not be able to anticipate adequately, including general economic conditions and the monetary and tax policies of various governmental bodies, particularly the Federal Reserve. For a discussion of the Corporation s interest rate sensitivity, please refer to the Risk Management section of the Management Discussion and Analysis of this Annual Report on Form 10-K.

On July 27, 2017, the United Kingdom s Financial Conduct Authority, which regulates the London Interbank Offered Rate (LIBOR), publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. As a result of this transition, interest rates on our floating rate obligations, loans, deposits, derivatives and other financial instruments tied to LIBOR rates, as well as the revenue and expenses associated with those financial instruments, may be adversely affected. Any failure by market participants and regulators to successfully introduce benchmark rates to replace LIBOR and implement effective transitional arrangements to address the discontinuation of LIBOR could result in disruption in the financial markets. Further, any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of our floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates.

If our goodwill or amortizable intangible assets become impaired, it may adversely affect our financial condition and future results of operations.

As of December 31, 2018, we had approximately $ 671 million and $21 million of goodwill and amortizable intangible assets recorded on our balance sheet related to our Puerto Rico and United States operations, respectively. If our goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings. Under GAAP, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually.

Factors that may be considered a change in circumstances, indicating that the carrying value of the goodwill or amortizable intangible assets may not be recoverable, include a decline in Popular s stock price related to macroeconomic conditions in the global market as well as the weakness in the Puerto Rico economy and fiscal situation, reduced future cash flow estimates and slower growth rates in the industry.

The goodwill impairment evaluation process requires us to make estimates and assumptions with regards to the fair value of our reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact our results of operations and the reporting unit where the goodwill is recorded. Declines in our market capitalization could also increase the risk of goodwill impairment in the future.

If we are required to record a charge to earnings in our consolidated financial statements because an impairment of the goodwill or amortizable intangible assets is determined, our results of operations would be adversely affected.

Our compensation practices are subject to oversight by applicable regulators.

Our success depends, in large part, on our ability to retain key senior leaders, and competition for such senior leaders can be intense in most areas of our business. Our compensation practices are subject to review and oversight by the Federal Reserve Board. We also may be subject to limitations on compensation practices by the FDIC or other regulators, which may or may not affect our competitors.

The Federal Reserve Board, other federal banking agencies and the SEC have jointly published proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets, such as Popular, PNA, BPPR and PB. The proposed revised rules would establish general qualitative requirements applicable to all covered entities. Although the proposed revised rules include more stringent requirements than in the originally proposed rules, it cannot be determined at this time whether or when a final rule will be adopted. Compliance with such a final rule may substantially affect the manner in which we structure compensation for our executives and other employees. For a more detailed discussion of these proposed rules, see the Supervision and Regulation Incentive Compensation section within Item 1. Business of the Annual Report.

The scope and content of the U.S. banking regulators policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of Popular and our subsidiaries to hire, retain and motivate key employees. Limitations on our compensation practices could have a negative impact on our ability to attract and retain talented senior leaders in support of our long-term strategy.

As a holding company, we depend on dividends and distributions from our subsidiaries for liquidity.

We are a bank holding company and depend primarily on dividends from our banking and other operating subsidiaries to fund our cash needs. These obligations and needs include capitalizing subsidiaries, repaying maturing debt and paying debt service on outstanding debt. Our banking subsidiaries, BPPR and PB, are limited by law in their ability to make dividend payments and other distributions to us based on their earnings and capital position. In addition, based on its current financial condition, PB may not declare or pay a dividend without the prior approval of the Federal Reserve Board and the NYSDFS. A failure by our banking subsidiaries to generate sufficient cash flow to make dividend payments to us may have a negative impact on our results of operation and financial position. Also, a failure by the bank holding company to access sufficient liquidity resources to meet all projected cash needs in the ordinary course of business may have a detrimental impact on our financial condition and ability to compete in the market.

We are subject to risk related to our own credit rating; actions by the rating agencies or having capital levels below well-capitalized could raise the cost of our obligations, which could affect our ability to borrow or to enter into hedging agreements in the future and may have other adverse effects on our business.

Actions by the rating agencies could raise the cost of our borrowings since lower rated securities are usually required by the market to pay higher rates than obligations of higher credit quality. Our credit ratings were reduced substantially in 2009, and our senior unsecured ratings are now non-investment grade with the three major rating agencies. The market for non-investment grade securities is much smaller and less liquid than for investment grade securities. Therefore, if we were to attempt to issue preferred stock or debt securities into the capital markets, it is possible that there would not be sufficient demand to complete a transaction and the cost could be substantially higher than for more highly rated securities.

Our 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. At December 31, 2018, the banking subsidiaries had $10 million in deposits that were subject to rating triggers.

In addition, changes in our ratings and capital levels below well-capitalized could affect our relationships with some creditors and business counterparties. For example, a portion of our hedging transactions include ratings triggers or well-capitalized language that permit counterparties to either request additional collateral or terminate our agreements with them based on our below investment grade ratings. Although we have been able to meet any additional collateral requirements thus far and expect that we would be able to enter into agreements with substitute counterparties if any of our existing agreements were terminated, changes in our ratings or capital levels below well capitalized could create additional costs for our businesses.

Our banking subsidiaries have servicing, licensing and custodial agreements with third parties that include ratings covenants. Servicing rights represent a contractual right and not a beneficial ownership interest in the underlying mortgage loans. Upon failure to maintain the required credit ratings, the third parties could have the right to require us to engage a substitute fund custodian and/or increase collateral levels securing the recourse obligations. Popular services residential mortgage loans subject to credit recourse provisions. Certain contractual agreements require us to post collateral to secure such recourse obligations if our required credit ratings are not maintained. Collateral pledged by us to secure recourse obligations approximated $62 million at December 31, 2018. We could be required to post additional collateral under the agreements. Management expects that we would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of custodian funds could reduce our liquidity resources and impact its operating results. The termination of those agreements or the inability to realize servicing income for our businesses could have an adverse effect on those businesses. Other counterparties are also sensitive to the risk of a ratings downgrade and the implications for our businesses and may be

less likely to engage in transactions with us, or may only engage in them at a substantially higher cost, if our ratings remain below investment grade.

We are subject to regulatory capital adequacy guidelines, and if we fail to meet these guidelines our business and financial condition will be adversely affected.

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Under regulatory capital adequacy guidelines, and other regulatory requirements, Popular and our banking subsidiaries must meet guidelines that include quantitative measures of assets, liabilities and certain off-balance sheet items, subject to qualitative judgments by regulators regarding components, risk weightings and other factors. If we fail to meet these minimum capital guidelines and other regulatory requirements, our business and financial condition will be materially and adversely affected. If a financial holding company fails to maintain well-capitalized status under the regulatory framework, or is deemed not well managed under regulatory exam procedures, or if it experiences certain regulatory violations, its status as a financial holding company and its related eligibility for a streamlined review process for acquisition proposals, and its ability to offer certain financial products, may be compromised and its financial condition and results of operations could be adversely affected.

The Basel III Capital Rules, which were fully phased-in on January 1, 2019, substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institutions. The need to maintain more capital than has been historically required and calculated under revised standards could limit our business activities, including lending, and our ability to expand, either organically or through acquisitions. It could also depress our return on equity, thereby making it more difficult to earn our cost of capital.

Due to the importance and complexity of the capital rules calculations under Basel III, we have dedicated additional resources to comply with these requirements. No assurance can be provided, however, that these resources will be deemed sufficient, which would affect our ability to take certain capital actions in the future. In addition, the Basel Committee on Banking Supervision published Basel IV in December 2017. Basel IV significantly revises the Basel capital framework, and the impact on us will depend on the manner in which the revisions are implemented in the U.S. See the Supervision and Regulation Capital Adequacy discussion within Item 1. Business of the Annual Report for additional information related to the Basel III Capital Rules and Basel IV.

The resolution of pending litigation and regulatory proceedings, if unfavorable, could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects.

We face legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. For further information relating to our legal risk, see Note 25 - Commitments & Contingencies , to the Consolidated Financial Statements in the Annual Report in this Form 10-K.

We and our subsidiaries and affiliates, as well as EVERTEC, conduct business with financial institutions and/or card payment networks operating in countries whose nationals, including some of our customers customers, engage in transactions in countries that are the targets of U.S. economic sanctions and embargoes. If we or our subsidiaries or affiliates or EVERTEC are found to have failed to comply with applicable U.S. sanctions laws and regulations in these instances, we could be exposed to fines, sanctions and other penalties or other governmental investigations.

We and our subsidiaries and affiliates, as well as EVERTEC, conduct business with financial institutions and/or card payment networks operating in countries whose nationals, including some of our customers customers, engage in transactions in countries that are the target of U.S. economic sanctions and embargoes. As U.S. - based entities, we and our subsidiaries and affiliates, as well as EVERTEC, are obligated to comply with the economic sanctions regulations administered by OFAC. These regulations prohibit U.S.-based entities from entering into or facilitating unlicensed transactions with, for the benefit of, or in some cases involving the property and property interests of,

persons, governments or countries designated by the U.S.

government under one or more sanctions regimes and also prohibit transactions that provide a benefit that is received in a country designated under one or more sanctions regimes. Failure to comply with U.S. sanctions and embargoes may result in material fines, sanctions or other penalties being imposed on us. In addition, various state and municipal governments, universities and other investors maintain prohibitions or restrictions on investments in companies that do business involving sanctioned countries or entities, and this could adversely affect the market for our securities. For these reasons, we have established risk-based policies and procedures designed to assist us and our personnel in complying with applicable U.S. laws and regulations. EVERTEC has also done this. These policies and procedures employ software to screen transactions for evidence of sanctioned-country and person s involvement. Consistent with a risk-based approach and the difficulties in identifying all transactions of our customers customers that may involve a sanctioned country, there can be no assurance that our policies and procedures will prevent us from violating applicable U.S. laws and regulations in transactions in which we engage, and such violations could adversely affect our reputation, business, financial condition and results of operations.

From time to time we have identified and voluntarily self-disclosed to OFAC transactions that were not timely identified and blocked by our policies and procedures for screening transactions that might violate the economic sanctions regulations administered by OFAC. Although OFAC s response to our voluntary self-disclosures of these apparent violations has been to issue cautionary letters to us, there can be no assurances that our failures to comply with U.S. sanctions and embargoes will not result in material fines, sanctions or other penalties being imposed on us.

We have agreed to indemnify EVERTEC for certain claims or damages related to the economic sanctions regulations administered by OFAC. We cannot predict the timing, total costs or ultimate outcome of any OFAC review, or to what extent, if at all, we could be subject to indemnification claims, fines, sanctions or other penalties.

RISKS RELATING TO OUR OPERATIONS

We are subject to a variety of cybersecurity risks that, if realized, could adversely affect how we conduct our business.

Information security risks for large financial institutions such as Popular have increased significantly in recent years in part because of the proliferation of new technologies, such as Internet and mobile banking to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, nation-states, hacktivists and other parties. In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ a defensive approach that employs people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to identify suspected advanced persistent threats. Notwithstanding our defensive measures and the significant resources we devote to protect the security of our systems, there is no assurance that all of our security measures will be effective, especially as the threat from cyber-attacks is continuous and severe, attacks are becoming more sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. We have been the target of phishing scams in the past targeting our customers as a result of compromised email accounts of several Popular employees. We have addressed the vulnerabilities that permitted the compromise and implemented enhanced security measures, and will continue to take appropriate steps in the future to improve the security of our systems. There can be no assurances, however, that there will not be further breaches of sensitive customer information in the future.

The most significant cyber-attack risks that we may face are e-fraud, denial-of-service, ransomware and computer intrusion that might result in loss of customer or proprietary data. Loss from e-fraud occurs when cybercriminals breach and extract funds from customer or bank accounts. Denial-of-service disrupts services available to our

customers through our on-line banking system. Computer intrusion attempts might result in the breach of sensitive customer data, such as account numbers and social security numbers, and could present significant reputational, legal and/or regulatory costs to Popular if successful. Risks and exposures related to cyber security attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. Although we are regularly targeted by unauthorized parties, we have not, to date, experienced any material losses as a result of cyber-attacks.

A successful penetration or circumvention of the security of our systems could cause serious negative consequences for us, including significant disruption of our operations and those of our clients, customers and counterparties, misappropriation of confidential information of us or that of our clients, customers, counterparties or employees, or damage to computers or systems of us and those of our clients, customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure and harm to our reputation, all of which could have a material adverse effect on us. In particular, if personal, non-public, confidential or proprietary information in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. For a discussion of the guidance that federal banking regulators have released regarding cybersecurity and cyber risk management standards, see Regulation and Supervision in Part I, Item 1 Business, included in this Annual Report. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

We rely on third parties for the performance of a significant portion of our information technology functions and the provision of information technology and business process services. The most important of these third-party service providers for us is EVERTEC, and certain risks particular to EVERTEC are discussed below under Risks Relating to Our Relationship with EVERTEC. The success of our business depends in part on the continuing ability of these (and other) third parties to perform these functions and services in a timely and satisfactory manner, which performance could be disrupted or otherwise adversely affected due to failures or other information security events originating at the third parties or at the third parties suppliers or vendors (so-called fourth party risk). We may not be able to effectively monitor or mitigate fourth-party risk, in particular as it relates to the use of common suppliers or vendors by the third parties that perform functions and services for us.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our layers of defense or to investigate and remediate any information security vulnerabilities. System enhancements and updates may also create risks associated with implementing new systems and integrating them with existing ones. Due to the complexity and interconnectedness of information technology systems, the process of enhancing our layers of defense can itself create a risk of systems disruptions and security issues. In addition, addressing certain information security vulnerabilities, such as hardware-based vulnerabilities, may affect the performance of our information technology systems. The ability of our hardware and software providers to deliver patches and updates to mitigate vulnerabilities in a timely manner can introduce additional risks, particularly when a vulnerability is being actively exploited by threat actors.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business operations such as data processing, information security, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. The most important of these third-party service providers for us is EVERTEC, and certain risks particular to EVERTEC are discussed below under Risks Relating to Our Relationship with EVERTEC. While we select third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in services provided by a vendor, breaches of a vendor s systems, failure of a vendor to handle current or higher volumes, failure of a vendor to provide services for any reason or poor performance of services, or failure of a vendor to notify us of a reportable event, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor s ability to serve us. Replacing these third-party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an

unavoidable inherent risk to our business operations.

In addition, the assessment and management by financial institutions of the risks associated with third party vendors have been subject to greater regulatory scrutiny. We expect to incur additional costs and expenses in connection with our oversight of third party relationships, especially those involving significant banking functions, shared services or other critical activities. Our failure to properly manage risks associated to our third party relationships could result in potential liability to clients and customers, fines, penalties or judgments imposed by our regulators, increased operating expenses and harm to our reputation, any of which could materially and adversely affect us.

Hurricanes and other weather-related events, as well as man-made disasters, could cause a disruption in our operations or other consequences that could have an adverse impact on our results of operations.

A significant portion of our operations are located in Puerto Rico and the USVI and BVI, a region susceptible to hurricanes and other weather-related events. In 2017, our operations in Puerto Rico, and the USVI and BVI were significantly disrupted by the impact of Hurricanes Irma and María. Future weather events can again cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance, including coverage for lost profits and extra expense; however, there is no insurance against the disruption that a catastrophic hurricane could produce to the markets that we serve and the potential negative impact to economic activity. Further, future hurricane in any of our market areas could again adversely impact the ability of borrowers to timely repay their loans and may further adversely impact the value of any collateral held by us. Man-made disasters and other events connected with the regions in which we operate could have similar effects. The severity and impact of future hurricanes and other weather-related events are difficult to predict and may be exacerbated by global climate change. The effects of future hurricanes and other weather-related events could have an adverse effect on our business, financial condition or results of operations.

RISKS RELATED TO ACQUISITION TRANSACTIONS

Potential acquisitions of businesses or loan portfolios could increase some of the risks that we face, and may be delayed or prohibited due to regulatory constraints.

To the extent permitted by our applicable regulators, we will pursue strategic acquisition opportunities. Acquiring other banks or businesses, however, involves various risks commonly associated with acquisitions, including, among other things, potential exposure to unknown or contingent liabilities of the target company, exposure to potential asset quality issues of the target company, potential disruption to our business, the possible loss of key employees and customers of the target company, and difficulty in estimating the value of the target company. If in connection with an acquisition we pay a premium over book or market value, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition and results of operations.

Similarly, acquiring loan portfolios involves various risks. When acquiring loan portfolios, management makes various assumptions and judgments about the collectability of the loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In estimating the extent of the losses, we analyze the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information. If our assumptions are incorrect, however, our actual losses could be higher than estimated and increased loss reserves may be needed to respond to different economic conditions or adverse developments in the acquired loan portfolios, which would negatively affect our operating results.

Finally, certain acquisitions by financial institutions, including us, are subject to approval by a variety of federal and state regulatory agencies. The process for obtaining these required regulatory approvals has become substantially more difficult in recent years. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues we have. We may fail to pursue, evaluate or complete strategic and competitively significant acquisition opportunities as a result of our inability, or perceived or anticipated inability, to obtain regulatory approvals in a timely manner, under reasonable conditions or at all. Difficulties associated with potential acquisitions that may result from these factors could have a material adverse effect on our business, financial condition and results of operations.

The failure to successfully integrate Reliable s business and operations may adversely affect our ability to realize the anticipated acquisition benefits and could adversely affect our results of operations. Incorrect

assumptions and judgements regarding the fair value of the assets acquired could negatively affect our operating results.

On August 1, 2018, Popular Auto, LLC, Banco Popular de Puerto Rico s auto finance subsidiary, completed the acquisition of certain assets and the assumption of certain liabilities related to Wells Fargo & Company s (Wells Fargo) auto finance business in Puerto Rico (Reliable). Our ability to realize the anticipated benefits from such acquisition, including synergies and operational efficiencies, in the amounts and within the timeframes we expect, will depend on the effective and timely transition and integration of Reliable s business and operations. Problems may arise in successfully integrating Reliable s business and operations, including, without limitation, unexpected costs as a result of any unrecorded liabilities or issues not identified during the due diligence investigation of the business and that may not be subject to indemnification or reimbursement under the acquisition agreement, any failure to comply with banking and consumer protection laws and regulations, and any adverse effects on our ability to maintain relationships with customers, employees and service providers. The failure to successfully transfer and integrate Reliable s business and operations may adversely affect our ability to realize the anticipated acquisition benefits and could adversely affect our results of operations. Furthermore, as part of the transition and integration, we may find that our assumptions and judgements regarding the fair value of the assets acquired, including the collectability of the loans and value of the collateral, could be inaccurate causing our actual losses to be higher than estimated, negatively affecting our operating results.

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RISKS RELATING TO OUR RELATIONSHIP WITH EVERTEC

We are dependent on EVERTEC for certain of our core financial transaction processing and information technology services, which exposes us to a number of operational risks that could have a material adverse effect on us.

In connection with the sale of a 51% ownership interest in EVERTEC in the third quarter of 2010, we entered into a long-term Amended and Restated Master Services Agreement (the MSA) with EVERTEC, pursuant to which we agreed to receive from EVERTEC, on an exclusive basis, certain core financial transaction processing and information technology services, including future modifications and enhancements to such services. The term of the MSA extends until September 30, 2025. Under the MSA, we also granted EVERTEC a right of first refusal over certain services or products. We also entered into several other agreements, generally coterminous with the MSA, pursuant to which BPPR agreed to sponsor EVERTEC as an independent sales organization with respect to certain credit card associations, agreed to certain exclusivity and non-solicitation restrictions with respect to merchant services, and agreed to support the ATH brand and network, among other matters. As a result, we are now dependent on EVERTEC for the provision of essential services to our business, including our core banking business, and there can be no assurances that the quality of the services will be appropriate or that EVERTEC will be able to continue to provide us with the necessary financial transaction processing and technology services. As a result, our relationship with EVERTEC exposes us to a number of operational and business risks that could have a material adverse effect on us.

Moreover, as a result of our agreements with EVERTEC, we are particularly exposed to the operational risks of EVERTEC, including those relating to a breakdown or failure of EVERTEC s systems, as a result of security breaches or attacks, employee error or malfeasance, system breakdowns, or otherwise. Over the term of the MSA, we have experienced various interruptions and delays in key services provided by EVERTEC. Future interruptions in the operation of EVERTEC s information systems, or breaches to the confidentiality of the information that resides in such systems, could harm our business by disrupting our delivery of services and damage our reputation, which could have a material adverse impact on our financial condition and results of operations. Our ability to recover from EVERTEC for breach of the MSA may not fully compensate us for the damages we may suffer as a result of such breach.

If EVERTEC is unable to meet constant technological changes and evolving industry standards, we may be unable to enhance our current services and introduce new products and services in a timely and cost-effective manner, placing us at a competitive disadvantage and significantly affecting our business, financial condition and results of operations.

The banking and financial services industry is rapidly evolving and it is highly competitive on the basis of the quality and variety of products and services offered, innovation, price and other factors. In order to compete effectively, we need to constantly develop enhancements to our product and service offerings and introduce new products and services that keep pace with developments in the financial services industry and satisfy shifting customer needs and preferences. These enhancements and new products and services require the delivery of technology services by EVERTEC pursuant to the MSA, making our success dependent on EVERTEC s ability to timely complete and introduce these enhancements and new products and services in a cost-effective manner.

Some of our competitors rely on financial services technology and outsourcing companies that are much larger than EVERTEC and that may have better technological capabilities and product offerings. Furthermore, EVERTEC is highly leveraged, which, besides exposing it to a number of financial and business risks, requires it to dedicate a substantial portion of its cash flow to meeting debt service requirements, reducing its operational flexibility and ability to invest resources in capital and other expenditures to improve and develop its business services in a constantly changing environment. In addition, financial services technology companies typically make capital investments to

develop and modify their product and service offerings to facilitate their customers compliance with the extensive and evolving regulatory and industry requirements, and in most cases such costs are borne by the technology provider. Because of our relationship with EVERTEC, however, we bear the full cost of such developments and modifications pursuant to the MSA.

If EVERTEC s technology services are not competitive in terms of price, speed and scalability versus comparable offerings from larger companies, our future success may be adversely affected. Furthermore, if our relationship with EVERTEC hinders our ability to compete successfully, including by satisfying shifting customer needs and preferences through enhancements to our existing products and services and the introduction of new products and services that keep pace with developments in the financial services industry, our ability to attract and retain customers and to match products and services offered by competitors could be impaired and our business, financial condition and results of operations could be harmed.

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Our ability to transition to a new financial services technology provider, and to replace the other services that are provided to us by EVERTEC, may be lengthy and complex.

Switching from one vendor of core bank processing and related technology services to a new vendor is a complex process that carries business and financial risks, even where such a switch can be accomplished without violating our contractual obligations to EVERTEC. The implementation cycle for such a transition can be lengthy and require significant financial and management resources from us. Such a transition can also expose us, and our clients, to increased costs (including conversion costs) and business disruption. If we decided to transition to a new financial services technology provider, either at the end of the term of the MSA and related agreements or earlier upon the occurrence of a termination event, these potential transition risks could result in an adverse effect on our business, financial condition and results of operations. Although EVERTEC has agreed to provide certain transition assistance to us in connection with the termination of the MSA, we are ultimately dependent on their ability to provide those services in a responsive and competent manner. Furthermore, we may require transition assistance from EVERTEC beyond the term of the MSA, delaying and lengthening any transition process away from EVERTEC while increasing related costs.

Under the MSA, we are required to provide written notice of non-renewal no less than one year prior to the relevant termination date in order to avoid an automatic three-year renewal. In practice, however, if we decided to switch to a new provider, we would have to commence procuring and working on a transition process much earlier and such process may extend beyond the current term of the MSA. Furthermore, if we were unsuccessful or decided not to complete the transition after expending significant funds and management resources, it could also result in an adverse effect on our business, financial condition and results of operations.

The value of our remaining ownership interest in EVERTEC, and the revenues we derive from EVERTEC, could be materially reduced if we decided not to renew our agreements with EVERTEC or were to terminate them before the expiration of their term.

We continue to have a 16.10% ownership interest in EVERTEC and account for this investment under the equity method. As such, we include our investment in EVERTEC in other assets and our proportionate share of income or loss is included in other operating income in our consolidated statements of operations. For 2018, our share of EVERTEC s changes in equity recognized in income was $15.6 million. The carrying value of our investment in EVERTEC was, as of December 31, 2018, approximately $61 million. Meanwhile, the services EVERTEC delivers to us represent a significant portion of EVERTEC s revenues (approximately 42% for 2018). As a result, if we were not to renew the MSA and our other agreements with EVERTEC, or otherwise terminate them before the end of their term, EVERTEC s financial position and results of operations could be materially adversely affected and the value of our remaining ownership interest in EVERTEC, and the income we report from this investment, may be materially reduced. Furthermore, revenue from EVERTEC s merchant acquiring business, which constitutes approximately 22% of EVERTEC s revenues, depends, in part, on EVERTEC s alliance with BPPR. If such relationship were to suffer, EVERTEC s business may be adversely affected.

Furthermore, future sales of our EVERTEC common stock, or the perception that these sales could occur, could adversely affect the market price of EVERTEC common stock and thus the value we may be able to realize on the sale of our remaining holdings.

RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES

The issuance of additional shares of equity securities could further dilute existing holders of our Common Stock.

We have not issued equity securities since 2010, other than in connection with compensation plans or our dividend reinvestment plan. In the future, however, we may raise capital through public or private equity financings to fund our operations or expansions, to pursue acquisitions or to increase our capital to comply with regulatory capital measures. If we raise funds by issuing equity securities, or instruments that are convertible into equity securities, the ownership interest of our existing common stockholders would be reduced, the new equity securities may have rights and preferences superior to those of our Common Stock or outstanding Preferred Stock, and the issuance could be at a price which is dilutive to current stockholders.

Dividends on our Common Stock and Preferred Stock may be suspended and stockholders may not receive funds in connection with their investment in our Common Stock or Preferred Stock without selling their shares.

Holders of our Common Stock and Preferred Stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. During 2009, we suspended dividend payments on our Common Stock and Preferred Stock. We resumed payment of dividends on our Preferred Stock in December 2010 and on our Common Stock in October 2015. There can be no assurance that any dividends will be declared on the Preferred Stock or Common Stock in any future periods.

This could adversely affect the market price of our Common Stock and Preferred Stock. Also, we are a bank holding company and our ability to declare and pay dividends is dependent on certain Federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends. It is Federal Reserve Board policy that bank holding companies should pay dividends on common stock only out of the net income available to common shareholders over the past year and only if the prospective rate of earnings retention appears consistent with the organization s current and expected future capital needs, asset quality and overall financial condition.

In addition, the terms of our outstanding junior subordinated debt securities held by each trust that has issued trust preferred securities, prohibit us from declaring or paying any dividends or distributions on our capital stock, including our Common Stock and Preferred Stock, or from purchasing, acquiring, or making a liquidation payment on such stock, if we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing.

Accordingly, shareholders may have to sell some or all of their shares of our Common Stock or Preferred Stock in order to generate cash flow from their investment. Shareholders may not realize a gain on their investment when they sell the Common Stock or Preferred Stock and may lose the entire amount of their investment.

Certain of the provisions contained in our Certificate of Incorporation have the effect of making it more difficult to change the Board of Directors, and may make the Board of Directors less responsive to stockholder control.

Our certificate of incorporation provides that the members of the Board of Directors are divided into three classes as nearly equal as possible. At each annual meeting of stockholders, one-third of the members of the Board of Directors will be elected for a three-year term, and the other directors will remain in office until their three-year terms expire. Therefore, control of the Board of Directors cannot be changed in one year, and at least two annual meetings must be held before a majority of the members of the Board of Directors can be changed. Our certificate of incorporation also provides that a director, or the entire Board of Directors, may be removed by the stockholders only for cause by a vote of at least two -thirds of the combined voting power of the outstanding capital stock entitled to vote for the election of directors. These provisions have the effect of making it more difficult to change the Board of Directors, and may make the Board of Directors less responsive to stockholder control. These provisions also may tend to discourage attempts by third parties to acquire Popular because of the additional time and expense involved and a greater possibility of failure, and, as a result, may adversely affect the price that a potential purchaser would be willing to pay for the capital stock, thereby reducing the amount a stockholder might realize in, for example, a tender offer for our capital stock.

For further information of other risks faced by Popular please refer to the Management s Discussion & Analysis section of the Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2018, BPPR operated 172 branches, of which 67 were owned and 105 were leased premises, and PB operated 51 branches of which 5 were owned and 46 were on leased premises. Also, the Corporation had 619 ATMs operating in Puerto Rico, 22 in Virgin Islands and 115 in the U.S. Mainland. Our management believes that each of our facilities is well maintained and suitable for its purpose. The principal properties owned by Popular for

banking operations and other services are described below:

Puerto Rico

Popular Center, the twenty-story Popular and BPPR headquarters building, located at 209 Muñoz Rivera Avenue, Hato Rey, Puerto Rico.

Popular Center North Building, a three-story building, on the same block as Popular Center.

Popular Street Building, a parking and office building located at Ponce de León Avenue and Popular Street, Hato Rey, Puerto Rico.

Cupey Center Complex, one building, three-stories high, two buildings, two-stories high each, and two buildings three-stories high each located in Cupey, Río Piedras, Puerto Rico.

Stop 22 Building, a twelve story structure located in Santurce, Puerto Rico.

Centro Europa Building, a seven-story office and retail building in Santurce, Puerto Rico.

Old San Juan Building, a twelve-story structure located in Old San Juan, Puerto Rico.

Guaynabo Corporate Office Park Building, a two-story building located in Guaynabo, Puerto Rico.

Altamira Building, a nine-story office building located in Guaynabo, Puerto Rico.

El Señorial Center, a four-story office building and a two-story branch building located in Río Piedras, Puerto Rico.

Caparra Center Building, a ten-story office building located at 1451 FD Roosevelt Avenue, San Juan, Puerto Rico.

Ponce de León 167 Building, a five-story office building located in Hato Rey, Puerto Rico.

U.S. & British Virgin Islands

BPPR Virgin Islands Center, a three-story building located in St. Thomas, U.S. Virgin Islands.

Popular Center -Tortola, a four-story building located in Tortola, British Virgin Islands.

ITEM 3. LEGAL PROCEEDINGS

For a discussion of Legal proceedings, see Note 25, Commitments and Contingencies , to the Consolidated Financial Statements in the Annual Report in this Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Popular s Common Stock is traded on the NASDAQ Global Select Market under the symbol BPOP .

During 2018, the Corporation declared quarterly cash dividends of $0.25 (2017 - $0.25). On February 15, 2019, the Corporation s Board of Directors approved a quarterly cash dividend of $0.30 per share on its outstanding common stock, payable on April 1, 2019 to shareholders of record at the close of business on March 8, 2019. The Common Stock ranks junior to all series of Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of Popular. Our ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, the

Common Stock is subject to certain restrictions in the event that Popular fails to pay or set aside full dividends on the Preferred Stock for the latest dividend period.

On February 28, 2019, the Corporation entered into an accelerated share repurchase transaction of $250 million with respect to its common stock, which was accounted for as a treasury stock transaction. Accordingly, as a result of the receipt of the initial shares, the Corporation recognized in shareholders equity approximately $200 million in treasury stock and $50 million as a reduction of capital surplus. The Corporation expects to further adjust its treasury stock and capital surplus accounts to reflect the delivery or receipt of cash or shares upon the termination of the ASR agreement, which will depend on the average price of the Corporation s shares during the term of the ASR.

Additional information concerning legal or regulatory restrictions on the payment of dividends by Popular, BPPR and PB is contained under the caption Regulation and Supervision in Item 1 herein.

As of February 25, 2019, Popular had 7,091 stockholders of record of the Common Stock, not including beneficial owners whose shares are held in record names of brokers or other nominees. The last sales price for the Common Stock on that date was $56.62 per share.

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Preferred Stock

Popular has 30,000,000 shares of authorized Preferred Stock that may be issued in one or more series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. Popular s Preferred Stock issued and outstanding at December 31, 2018 consisted of:

885,726 shares of 6.375% non-cumulative monthly income Preferred Stock, Series A, no par value, liquidation preference value of $25 per share.

1,120,665 shares of 8.25% non-cumulative monthly income Preferred Stock, Series B, no par value, liquidation preference value of $25 per share.

All series of Preferred Stock are pari passu. Dividends on each series of Preferred Stock are payable if declared by our Board of Directors. Our ability to declare and pay dividends on the Preferred Stock is dependent on certain Federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends. The Board of Directors is not obligated to declare dividends and dividends do not accumulate in the event they are not paid.

Monthly dividends on the Preferred Stock amounted to a total of $3.7 million for 2018. There can be no assurance that any dividends will be declared on the Preferred Stock in any future periods.

Dividend Reinvestment and Stock Purchase Plan

Popular offers a dividend reinvestment and stock purchase plan for our stockholders that allows them to reinvest their dividends in shares of the Common Stock at a 5% discount from the average market price at the time of the issuance, as well as purchase shares of Common Stock directly from Popular by making optional cash payments at prevailing market prices.

Equity Based Plans

In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan. As of December 31, 2018, the maximum number of shares of common stock remaining available for future issuance under this plan was 1,064,254. For information about the securities remaining available for issuance under our equity based plans, refer to Part III, Item 12.

Purchases of Equity Securities

On July 23, 2018, the Corporation s Board of Directors approved a common stock repurchase plan of up to $125 million. In August 2018, the Corporation entered into a $125 million accelerated share repurchase transaction. As part of this transaction, the Corporation received an initial delivery of 2,000,000 shares of common stock in August 2018 and 438,180 additional shares of common stock in December 2018. Such shares are held as treasury stock.

The following table sets forth the details of purchases of Common Stock during the quarter ended December 31, 2018:

Issuer Purchases of Equity Securities

Not in thousands

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 October 31				
November 1 November 30				
December 1 December 31	438,180	$ 52.34	438,180	
Total December 31, 2018	438,180	$ 52.34	438,180	

Equity Compensation Plans

For information about our equity compensation plans, refer to Part III, Item 12.

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Stock Performance Graph (1)

The graph below compares the cumulative total stockholder return during the measurement period with the cumulative total return, assuming reinvestment of dividends, of the Nasdaq Bank Index and the Nasdaq Composite Index.

The cumulative total stockholder return was obtained by dividing (i) the cumulative amount of dividends per share, assuming dividend reinvestment since the measurement point, December 31, 2013, plus (ii) the change in the per share price since the measurement date, by the share price at the measurement date.

COMPARISON OF FIVE YEAR CUMULATIVE RETURN

Total Return as of December 31

December 31, 2013 = 100

(1) Unless Popular specifically states otherwise, this Stock Performance Graph shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item appears in Table 1, Selected Financial Data , and the text under the caption Statement of Operations Analysis in the Management Discussion and Analysis of Financial Condition and Results of Operations, and is incorporated herein by reference.

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Our long-term senior debt and Preferred Stock on a consolidated basis as of December 31 of each of the last five years is:

	At December 31,				
(in thousands)	2018	2017	2016	2015	2014
Long-term obligations	$ 1,256,102	$ 1,536,356	$ 1,574,852	$ 1,662,508	$ 1,701,904
Non-cumulative Preferred Stock	50,160	50,160	50,160	50,160	50,160

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item appears in the Annual Report under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations, and is incorporated herein by reference.

Table 16, Maturity Distribution of Earning Assets , in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of the Annual Report, takes into consideration prepayment assumptions as determined by management based on the expected interest rate scenario.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information regarding the market risk of our investments appears under the caption Risk Management in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of the Annual Report, and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item appears in the Annual Report under the caption Statistical Summaries ,and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our 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, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by Popular in the reports that we file or submit under the Exchange Act and such information is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

Assessment on Internal Control Over Financial Reporting

The information under the captions Report of Management on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm are located in our Annual Report and are incorporated by reference herein.

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Changes in Internal Control over Financial Reporting

There have been no changes in our 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 on December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information contained under the captions Security Ownership of Certain Beneficial Owners and Management , Section 16 (a) Beneficial Ownership Reporting Compliance , Corporate Governance , Nominees for Election as Directors and Other Directors and Executive Officers in the Proxy Statement are incorporated herein by reference. The Board has adopted a Code of Ethics to be followed by our employees, officers (including the Chief Executive Officer, Chief Financial Officer and Corporate Comptroller) and directors to achieve conduct that reflects our ethical principles. The Code of Ethics is available on our website at www.popular.com. We will post on our website any amendments to the Code of Ethics or any waivers from a provision of Code of Ethics granted to the Chief Executive Officer, Chief Financial Officer, or Principal Accounting Officer.

ITEM 11. EXECUTIVE COMPENSATION

The information in the Proxy Statement under the caption Executive and Director Compensation, including the Compensation Discussion and Analysis, the 2018 Executive Compensation Tables and Compensation Information and the Compensation of Non-Employee Directors, and under the caption Committees of the Board Compensation Committee Compensation Committee Interlocks and Insider Participation is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The information under the captions Principal Shareholders and Shares Beneficially Owned by Directors and Executive Officers of Popular in the Proxy Statement is incorporated herein by reference.

The following tables sets forth information as of December 31, 2018 regarding securities remaining available for issuance to directors and eligible employees under our equity based compensation plans.

Plan Category	Plan	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan

Equity compensation plan approved by security holders	2004 Omnibus Incentive Plan	1,064,254
Total		1,064,254

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under the caption Board of Directors Independence and Certain Relationships and Transactions in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services is set forth under Proposal 3 Ratification of Appointment of Independent Registered Public Accounting Firm in the Proxy Statement, which is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a). The following financial statements and reports included on pages 71 through 230 of the Financial Review and Supplementary Information of Popular s Annual Report to Shareholders are incorporated herein by reference:

(1) Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition as of December 31, 2018 and 2017

Consolidated Statements of Operations for each of the years in the three-year period ended December 31, 2018

Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2018

Consolidated Statements of Changes in Stockholders Equity for each of the years in the three-year period ended December 31, 2018

Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2018

Notes to Consolidated Financial Statements
(2) Financial Statement Schedules: No schedules are presented because the information is not applicable or is included in the Consolidated Financial Statements described in (a) (1) above or in the notes thereto.

(3) Exhibits

ITEM 16. FORM 10-K SUMMARY

None.

The exhibits listed on the Exhibits Index below are filed herewith or are incorporated herein by reference.

Exhibit Index

2.1 Purchase and Assumption Agreement; Whole Bank; All Deposits, among the Federal Deposit Insurance Corporation, receiver of Westernbank, Mayaguez Puerto Rico, the Federal Deposit Insurance Corporation and Banco Popular de Puerto Rico, dated as of April 30, 2010. The Purchase and Assumption Agreement includes as Exhibit 4.15A the Single Family Shared Loss Agreement and as Exhibit 4.15B the Commercial Shared-Loss Agreement (incorporated by reference to Exhibit 2.1 of Popular, Inc. s Current Report on Form 8-K dated April 30, 2010 and filed on May 6, 2010).

2.2 Agreement and Plan of Merger dated as of June 30, 2010, among Popular, Inc., AP Carib Holdings Ltd., Carib Acquisition, Inc. and EVERTEC, Inc. (incorporated by reference to Exhibit 2.1 of Popular, Inc. s Current Report on Form 8-K dated July 1, 2010 and filed on July 8, 2010).

2.3 Second Amendment to the Agreement and Plan of Merger, dated as of August 8, 2010, among Popular, Inc., EVERTEC, Inc., AP Carib Holdings, Ltd. and Carib Acquisition, Inc. (incorporated by reference to Exhibit 2.1 of Popular, Inc. s Current Report on Form 8-K dated August 8, 2010 and filed on August 12, 2010).

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2.4	Third Amendment to the Agreement and Plan of Merger, dated as of September 15, 2010, among Popular, Inc., EVERTEC, Inc., AP Carib Holdings, Ltd. And Carib Acquisition, Inc. (incorporated by reference to Exhibit 2.1 of Popular, Inc. s Current Report on Form 8- K dated September 15, 2010 and filed on September 21, 2010).
2.5	Fourth Amendment to the Agreement and Plan of Merger, dated as of September 30, 2010, among Popular, Inc., EVERTEC, Inc., AP Carib Holdings, Ltd. and Carib Acquisition, Inc. (incorporated by reference to Exhibit 2.1 of Popular, Inc. s Current Report on Form 8- K dated September 30, 2010 and filed on October 6, 2010).
3.1	Restated Certificate of Incorporation of Popular, Inc. (incorporated by reference to Exhibit 3.1 of the Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018).
3.2	Restated Bylaws of Popular, Inc. (incorporated by reference to Exhibit 3.1 of Popular, Inc. s Current Report on Form 8-K dated and filed on October 20, 2017).
4.1	Specimen of Physical Common Stock Certificate of Popular, Inc. (incorporated by reference to Exhibit 4.1 of Popular, Inc. s Current Report on Form 8-K dated May 29, 2012 and filed on May 30, 2012).
4.2	Certificate of Designation of Popular, Inc. s 6.375% Non-Cumulative Monthly Income Preferred Stock, 2003 Series A (incorporated by reference to Exhibit 3.3 of Popular, Inc. s Form 8-A filed on February 25, 2003).
4.3	Form of certificate representing Popular, Inc. s 6.375% Non-Cumulative Monthly Income Preferred Stock, 2003 Series A (incorporated by reference to Exhibit 4.1 of Popular, Inc. s Form 8-A filed on February 25, 2003).
4.4	Certificate of Designation of Popular, Inc. s 8.25% Non-Cumulative Monthly Income Preferred Stock, Series B (incorporated by reference to Exhibit 3 of Popular, Inc. s Form 8-A filed on May 28, 2008).
4.5	Form of certificate representing the Popular, Inc. s 8.25% Non-Cumulative Monthly Income Preferred Stock, Series B (incorporated by reference to Exhibit 4 of Popular, Inc. s Form 8-A filed on May 28, 2008).
4.6	Senior Indenture of Popular, Inc., dated as of February 15, 1995, as supplemented by the First Supplemental Indenture thereto, dated as of May 8, 1997, each between Popular, Inc. and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4(d) to the Registration Statement on Form S-3, File No. 333-26941, of Popular, Inc., Popular International Bank, Inc., and Popular North America, Inc., filed on May 12, 1997).
4.7	Second Supplemental Indenture of Popular, Inc., dated as of August 5, 1999, between Popular, Inc. and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4(e) to Popular, Inc. s Current Report on Form 8-K dated August 5, 1999 and filed on August 17, 1999).
4.8	Subordinated Indenture of Popular, Inc., dated as of November 30, 1995, between Popular, Inc. and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4(e) to the Registration Statement on Form S-3, File No. 333- 26941, of Popular, Inc., Popular International Bank, Inc. and Popular North America, Inc., filed on May 12, 1997).
4.9	Senior Indenture of Popular North America, Inc., dated as of October 1, 1991, as supplemented by the First Supplemental Indenture thereto, dated as of February 28, 1995, and by the Second Supplemental Indenture thereto, dated as of May 8, 1997, each among Popular North America, Inc., Popular, Inc., as guarantor, and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4(f) to the Registration Statement on Form S-3, File No. 333-26941, of Popular, Inc., Popular International Bank, Inc. and Popular North America, Inc., filed on May 12, 1997).

4.10 Third Supplemental Indenture of Popular North America, Inc., dated as of August 5, 1999, among Popular North America, Inc., Popular, Inc., as guarantor, and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4(h) to Popular, Inc. s Current Report on Form 8-K, dated August 5, 1999, as filed on August 17, 1999).

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4.11	Junior Subordinated Indenture of Popular, Inc., dated as of October 31, 2003, between Popular, Inc. and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4.2 of Popular, Inc. s Current Report on Form 8-K, dated October 31,2003 and filed on November 4, 2003).
10.1	Amended and Restated Master Services Agreement, dated as of September 30, 2010, among Popular, Banco Popular de Puerto Rico and EVERTEC, Inc. (incorporated by reference to Exhibit 99.1 of Popular, Inc. s Current Report on Form 8-K dated and filed on October 14, 2011).
10.2	Technology Agreement, dated as of September 30, 2010, between Popular, Inc. and EVERTEC, Inc. (incorporated by reference to Exhibit 99.4 of Popular, Inc. s Current Report on Form 8-K dated September 30, 2010 and filed on October 6, 2010).
10.3	Stockholder Agreement, dated as of April 17, 2012, among Carib Latam Holdings, Inc., and each of the holders of Carib Latam Holdings, Inc. (incorporated by reference to Exhibit 99.1 of Popular, Inc. s Current Report on Form 8-K dated April 17, 2012 and filed on April 23, 2012).
10.4	Purchase and Assumption Agreement all Deposits among Federal Deposit Insurance Corporation, Receiver of Doral Bank, San Juan Puerto Rico, Puerto Rico, Federal Deposit Insurance Corporation and Banco Popular de Puerto Rico, dated as of February 27, 2015 (incorporated by reference to Exhibit 10.25 of Popular, Inc. s Annual Report on Form 10-K for the year ended December 31, 2014).
10.5	Popular, Inc. Senior Executive Long-Term Incentive Plan, dated April 23, 1998 (incorporated by reference to Exhibit 10.8.2 of Popular, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 1998).*
10.6	Popular, Inc. 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.21 of Popular, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2004).*
10.7	Amendment to the Popular, Inc. 2004 Omnibus Incentive Plan (incorporated by reference to Annex A of Popular s Proxy Statement filed with the SEC on March 15, 2013).*
10.8	Form of Compensation Agreement for Directors Elected Chairman of a Committee (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
10.9	Form of Compensation Agreement for Directors not Elected Chairman of a Committee (incorporated by reference to Exhibit 10.2 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
10.10	Compensation Agreement for William J. Teuber as director of Popular, Inc., dated November 1, 2004 (incorporated by reference to Exhibit 10.4 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
10.11	Compensation agreement for Alejandro M. Ballester as director of Popular, Inc., dated January 28, 2010 (incorporated by reference to Exhibit 10.9 of Popular, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009).*
10.12	Compensation agreement for Carlos A. Unanue as director of Popular, Inc., dated January 28, 2010 (incorporated by reference to Exhibit 10.10 of Popular, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009).*
10.13	Compensation agreement for C. Kim Goodwin as director of Popular, Inc., dated May 10, 2011 (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).*

10.14	Compensation Agreement for Joaquin E. Bacardi, III as director of Popular, Inc., dated April 30, 2013 (incorporated by reference to Exhibit 10.2 of Popular, Inc s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).*
10.15	Compensation Agreement for John. W. Diercksen as director of Popular, Inc., dated October 18, 2013 (incorporated by reference to Exhibit 10.13 of Popular, Inc. s Annual Report on 10-K for the year ended December 31, 2013).*

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10.16	2005 Incentive Award and Agreement, dated as of February 22, 2005, between Popular and Richard L. Carrión (incorporated by reference to Exhibit 10.24 of Popular, Inc. s Annual Report on Form 10-K for the year ended December 31, 2005).*
10.17	Form of 2015 Long-Term Equity Incentive Award and Agreement (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).*
10.18	Form of 2016 Long-Term Equity Incentive Award and Agreement (incorporated by reference to Exhibit 10.27 of Popular, Inc s Annual Report on Form 10-K for the year ended December 31, 2015).*
10.19	Form of Director Compensation Letter, Election Form and Restricted Stock Agreement, effective April 26, 2016 (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).*
10.20	Form of 2017 Long-Term Equity Incentive Award and Agreement (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).*
10.21	Long-Term Equity Incentive Award and Agreement for Ignacio Alvarez, dated as of June 22, 2017 (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Quarterly report on Form 10-Q for the quarter ended June 30, 2017).*
10.22	Form of Popular, Inc. 2018 Long-Term Equity Incentive Award and Agreement (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018).*
10.23	Termination Agreement, dated May 22, 2018, by and among the Federal Deposit Insurance Corporation, as receiver of Westernbank Puerto Rico, the Federal Deposit Insurance Corporation, in its corporate capacity, and Banco Popular de Puerto Rico (incorporated by reference to Exhibit 99.1 of Popular, Inc. s Current Report on Form 8-K dated and filed on May 23, 2018).
10.24	Director Compensation Letter, Election Form and Restricted Stock Agreement for Myrna M. Soto, dated June 22, 2018 (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018).*
10.25	Director Compensation Letter, Election Form and Restricted Stock Agreement for Robert Carrady, dated December 29, 2018. (1)
10.26	Form of Director Compensation Letter, Election Form and Restricted Stock Unit Award Agreement, effective May 7, 2019.(1)
13.1	Popular, Inc. s Annual Report to Shareholders for the year ended December 31, 2018.(1)
21.1	Schedule of Subsidiaries of Popular, Inc. (1)
23.1	Consent of Independent Registered Public Accounting Firm. (1)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)

101.INS	XBRL Instance Document[1]
101.SCH	XBRL Taxonomy Extension Schema Document[1]
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document[1]
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document[1]
101.LAB	XBRL Taxonomy Extension Label Linkbase Document[1]
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document[1]

(1) Included herewith
* This exhibit is a management contract or compensatory plan or arrangement.

Popular, Inc. has not filed as exhibits certain instruments defining the rights of holders of debt of Popular, Inc. not exceeding 10% of the total assets of Popular, Inc. and its consolidated subsidiaries. Popular, Inc. hereby agrees to furnish upon request to the Commission a copy of each instrument defining the rights of holders of senior and subordinated debt of Popular, Inc., or of any of its consolidated subsidiaries.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 1, 2019.

POPULAR, INC.
(Registrant)

By: /S/ IGNACIO ALVAREZ
Ignacio Alvarez
President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ RICHARD L. CARRIÓN Richard L. Carrión Executive Chairman	Chairman of the Board	03-01-19
/S/ IGNACIO ALVAREZ Ignacio Alvarez President and Chief Executive Officer	President, Chief Executive Officer and Director	03-01-19
/S/ CARLOS J. VÁZQUEZ Carlos J. Vázquez Executive Vice President	Principal Financial Officer	03-01-19
/S/ JORGE J. GARCÍA Jorge J. García Senior Vice President and Comptroller	Principal Accounting Officer	03-01-19
/S/ ALEJANDRO M.BALLESTER Alejandro M. Ballester	Director	03-01-19
S/ MARÍA LUISA FERRÉ María Luisa Ferré	Director	03-01-19
/S/ C. KIM GOODWIN C. Kim Goodwin	Director	03-01-18
/S/ JOAQUÍN E. BACARDÍ, III Joaquín E. Bacardi, III	Director	03-01-19
/S/ WILLIAM J. TEUBER JR		

William J. Teuber Jr.	Director	03-01-19
/S/ CARLOS A. UNANUE Carlos A. Unanue	Director	03-01-19
/S/ JOHN W. DIERCKSEN John W. Diercksen	Director	03-01-19
/S/ MYRNA M. SOTO Myrna M. Soto	Director	03-01-19
/S/ ROBERT CARRADY Robert Carrady	Director	03-01-19