

POPULAR INC  
Form 10-K  
February 28, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-K**

X           **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**  
                  **EXCHANGE ACT OF 1934**  
                  **For the Fiscal Year Ended December 31, 2013**

**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:**

**Name of Each Exchange**

**Title of Each Class**

**on which Registered**

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

Indicate by check mark 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.

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

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

(Do not check if a smaller reporting company)

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 29, 2013, the aggregate market value of the Common Stock held by non-affiliates of Popular, Inc. was approximately \$3,016,348,400 based upon the reported closing price of \$30.37 on the NASDAQ Global Select Market on that date.

As of February 21, 2014, there were 103,424,407 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, 2013 (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 2014 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 24, 2014.

**Forward-Looking Statements**

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

These statements are not guarantees of future performance, they are based on management's current expectations and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which by their nature are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

the rate of growth in the economy and employment levels, as well as general business and economic conditions, our two principal markets Puerto Rico and the mainland US;

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

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

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

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

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

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

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation ( FDIC ) assessments;

the resolution of our dispute with the FDIC under our loss share agreement entered into in connection with the Westernbank-FDIC assisted transaction; and

possible legislative, tax or regulatory changes.

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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 the general economy, 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 interest rates and market liquidity which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; 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; increased competition; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management's ability to identify and manage these and other risks. Moreover, the outcome of legal proceedings, as discussed in Part I, Item 3. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries.

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 \$35.7 billion, total deposits of \$26.7 billion and stockholders equity of \$4.6 billion at December 31, 2013. At December 31, 2013, we ranked among the 40 largest U.S. banks 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, including residential mortgage loans originations, 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.

**Mainland United States:** We operate Banco Popular North America ( BPNA ), including its wholly-owned subsidiary E-LOAN, Inc. ( E-LOAN ). BPNA is a community bank providing a broad range of financial services and products to the communities it serves. BPNA operates branches in New York, California, Illinois, New Jersey and Florida, under the name of Popular Community Bank. E-LOAN markets deposit accounts under its name for the benefit of BPNA.

Our two reportable business segments for accounting purposes, BPPR and BPNA, correspond to our Puerto Rico and mainland United States businesses, respectively. Following the sale in the third quarter of 2010 of a 51% ownership interest and subsequent sales of shares, as discussed below, of EVERTEC, Inc. ( EVERTEC ), our financial transaction processing and technology services business, we report our remaining 14.9% ownership interest in this business in our Corporate group, which also includes the holding company operations and certain other equity investments.

The sections that follow provide a description of significant transactions that have impacted or will impact our current and future operations.

**Significant Transactions During 2013**

*Participated as a selling stockholder in EVERTEC 's public offerings*

In 2013 the Corporation participated as a selling stockholder in the Initial Public Offering ( IPO ) of EVERTEC, completed on April 12, 2013, and in subsequent offerings executed by EVERTEC during the third and fourth quarters. In connection with its IPO, EVERTEC refinanced its outstanding debt and Popular received payment in full for its portion of the EVERTEC debt held by it. As part of the offering completed during the fourth quarter, EVERTEC repurchased from the underwriters 3,690,036 shares of its common stock being sold by the selling stockholders in the offering, resulting in a reduction in its capital of approximately \$75.0 million.

As a result of these transactions Popular recognized an after-tax gain of \$413 million and retained a stake of 14.9% in EVERTEC, which has a book value of \$19.9 million as of December 31, 2013.

*Completed sales of non performing assets*

On March 25, 2013, BPPR completed a sale of assets with a book value of \$509 million (of which \$501 million were non-performing) comprised of commercial and construction loans, and commercial and single-family real estate owned, with a combined unpaid principal balance on loans and appraised value of other real estate owned of approximately \$987 million to a

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newly created joint venture. BPPR retained a 24.9% equity interest in the joint venture. BPPR provided seller financing for approximately \$182.4 million to fund a portion of the purchase price and certain closing costs. In addition, BPPR provided financing of \$65.0 million to cover cost-to-complete amounts and expenses of certain assets, as well as certain expenses of the purchasing entity. This transaction resulted in an after-tax loss of \$174.4 million.

On June 28, 2013, Banco Popular completed the sale of a portfolio of non-performing residential mortgage loans with a book value and unpaid principal balance of approximately \$434.6 million and \$510.7 million, respectively. Banco Popular did not retain any beneficial interest in the pool of mortgage loans sold and no seller financing was provided in connection with the transaction. The purchase price for the loans was approximately \$244 million, or 47.75% of the unpaid principal balance. As a result of the all cash transaction, Popular recognized an after-tax loss of approximately \$107.2 million during the second quarter of 2013.

*Impact of the amendment to the Internal Revenue Code approved by the Puerto Rico Government*

During the second quarter of 2013, the Puerto Rico Government approved an amendment to the Internal Revenue Code which, among other things, increased the corporate income tax rate from 30% to 39%. This resulted in a benefit of approximately \$197.5 million from the increase in the net deferred tax asset.

**Puerto Rico Business**

***General.***

We offer in Puerto Rico a variety of retail and commercial banking services through our principal bank subsidiary, BPPR. BPPR was organized in 1893 and is Puerto Rico's largest bank with consolidated total assets of \$26.6 billion, deposits of \$20.8 billion and stockholder's equity of \$3.1 billion at December 31, 2013. BPPR accounted for 74% of our total consolidated assets at December 31, 2013. BPPR has the largest retail franchise in Puerto Rico, with 171 branches and 599 ATMs as of December 31, 2013. BPPR also operates eight branches in the U.S. Virgin Islands, one branch in the British Virgin Islands and one branch in New York. In the Virgin Islands, BPPR had 22 ATMs at the end of 2013. BPPR's deposits are insured under the Deposit Insurance Fund (DIF) of the FDIC.

Our Puerto Rico operations include those of Popular Auto, LLC, a wholly owned subsidiary of BPPR, a vehicle and equipment financing, leasing and daily rental company. The residential mortgages originations business is conducted by Popular Mortgage, a division of BPPR. In Puerto Rico, we also offer financial advisory, investment and securities brokerage services for institutional and retail customers through Popular Securities, LLC, a wholly-owned subsidiary of Popular. Popular Securities, LLC, is a securities broker-dealer with operations in Puerto Rico. As of December 31, 2013, Popular Securities had \$245.2 million in total assets and \$4.0 billion in assets under management. In addition, BPPR has various special purpose vehicles holding specific assets acquired in satisfaction of loans for real estate development projects and commercial loans.

We offer insurance and reinsurance services through Popular Insurance, LLC, a general insurance agency, and Popular Life RE, a reinsurance company, with total revenues of \$27.0 million and \$17.9 million, respectively, for the year ended December 31, 2013. We also own Popular Risk Services, LLC, an insurance broker, and Popular Insurance V.I., Inc., an insurance agency operating in the Virgin Islands.

***Lending Activities.***

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

are covered under loss sharing agreements with the FDIC and non-covered loans held-for-sale. Loans held-for-sale in Puerto Rico amounted to \$108 million at December 31, 2013.

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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, 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 real estate developers and the financing of owner-occupied facilities if there is real estate as collateral. We mitigate our risk on these loans by requiring collateral values that exceed the loan amount and underwriting the loan with cash flow sustainability that exceeds debt service requirements. Non-owner-occupied CRE loans are generally made to finance office and industrial buildings and retail shopping centers and are repaid through cash flows related to the operation, sale or refinancing of the property.

Total commercial loans in Puerto Rico were \$6.5 billion as of December 31, 2013, and represented 41% of our total loan portfolio in Puerto Rico. For greater detail of the breakdown of our Commercial portfolio refer to the Table under the caption **Business Concentration** in this section.

- (2) **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. These loans are generally underwritten and managed by a specialized real estate group that actively monitors the construction phase and manages the loan disbursements according to the predetermined construction schedule.

Total construction loans in Puerto Rico were \$161.2 million as of December 31, 2013, and represented 1% of our total loan portfolio in Puerto Rico. BPPR is currently originating a limited amount of new construction loans.

- (3) **Lease Financings.** Lease financings are primarily comprised of automobile loans/leases made through automotive dealerships and equipment lease financings.

Total lease financings in Puerto Rico were \$543.8 million as of December 31, 2013, and represented 3% of our total loan portfolio in Puerto Rico.

- (4) **Residential 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. The majority of these loans are financed over a 15 to 30 year term, and in most cases, the loans are extended to borrowers to finance their primary residence. In some cases, government agencies or private mortgage insurers guarantee the loan. Our general practice is to sell a significant majority of our fixed-rate originations in the secondary mortgage market.

Total mortgage loans in Puerto Rico were \$5.4 billion as of December 31, 2013, and represented 34% of our total loan portfolio in Puerto Rico.

- (5) Consumer. Consumer loans include personal loans, credit cards, home equity lines of credit ( HELOCs ) and other loans made by banks to individual borrowers. In this area, BPPR offers four unsecured products: personal loans, credit cards, personal credit lines and overdraft protection. All other consumer loans are secured. HELOCs include both home equity loans and lines of credit secured by a first or second mortgage on the borrower s residence, which allows customers to borrow against the equity in their homes. Real estate market values as of the time HELOCs are granted directly affect the amount of credit extended and, in addition, changes in these values impact our exposure to losses in this type of loan.

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Total consumer loans in Puerto Rico were \$3.3 billion as of December 31, 2013, and represented 21% of our total loan portfolio in Puerto Rico.

*Covered Loans.*

We refer to the loans acquired in the Westernbank FDIC-assisted transaction, except credit cards, as *covered loans*, as BPPR is entitled to be reimbursed by the FDIC for a substantial portion of any future losses on such loans under the terms of the loss sharing agreements. Foreclosed other real estate properties are also covered under the loss sharing agreements. Pursuant to the terms of the loss sharing agreements, the FDIC's obligation to reimburse BPPR for losses with respect to assets covered by such agreements (the *covered assets*) begins with the first dollar of loss incurred. On a combined basis, the FDIC will reimburse BPPR for 80% of all qualifying losses with respect to the covered assets during the covered period. BPPR will reimburse the FDIC for 80% of qualifying recoveries with respect to losses for which the FDIC reimbursed BPPR. The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss sharing and BPPR reimbursement to the FDIC for ten years, and the loss sharing agreement applicable to commercial and other assets provides for FDIC loss sharing and BPPR reimbursement to the FDIC for five years, with additional recovery sharing for three years thereafter.

Because of the loss protection provided by the FDIC, the risks of the covered loans are significantly different from other loans in our portfolio, thus we have determined to segregate them in our financial statements and in the Management's Discussion and Analysis of Financial Condition and Results of Operations. Covered loans are reported in loans exclusive of the estimated FDIC loss share indemnification asset. During the quarter ended December 31, 2010, retrospective adjustments were made to the estimated fair values of the covered loans to reflect new information obtained during the measurement period (as defined by ASC Topic 805), about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements. The retrospective adjustments were mostly driven by revisions in credit loss assumptions because of new information that became available. The revisions principally resulted in a decrease in the estimated credit losses, thus increasing the fair value of acquired loans and reducing the FDIC loss share indemnification asset.

Covered loans are, and will continue to be, reviewed for collectability, based on the expectations of cash flows on these loans. If there is a decrease in expected cash flows on the covered loans accounted for under ASC Subtopic 310-30 (consisting of all covered loans except for revolving lines of credit) due to an increase in estimated credit losses compared to the estimate made at the April 30, 2010 acquisition date, we will record a charge to the provision for loan losses and an allowance for loan losses will be established. If there is an increase in inherent losses on the covered loans accounted for under ASC Subtopic 310-20 (consisting of revolving lines of credit), an allowance for loan losses will also be established to record the loans at their net realizable value. In both cases, a related credit to income and an increase in the FDIC loss share indemnification asset will be recognized at the same time, measured based on the loss share percentages described above.

At December 31, 2013, covered loans totaled \$3.0 billion or 8% of total consolidated assets of Popular.

*True-up payment obligation to the FDIC*

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

\$4.6 billion (or \$925 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (\$1.1 billion); plus (B) 25% of the cumulative shared loss payments (defined as the aggregate of all of the payments made or payable to BPPR minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve month period prior to and ending on the true-up measurement date in



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respect of each of the loss sharing agreements during which the loss sharing provisions of the applicable loss sharing agreement is in effect (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets at the beginning and end of such period times 1%). At December 31, 2013, the carrying amount of the true-up payment obligation amounted to \$128 million.

**Mainland United States Business*****General.***

Popular North America, Inc. ( PNA ) functions as the holding company for our operations in the mainland United States. PNA, a wholly-owned subsidiary of Popular, was organized in 1991 under the laws of the State of Delaware and is a registered bank holding company under the BHC Act. As of December 31, 2013, PNA had one principal subsidiary which was BPNA, a full service commercial bank incorporated in the state of New York.

The banking operations of BPNA in the United States mainland are based in five states and are conducted under the name of Popular Community Bank. The following table contains information of BPNA's operations:

<b>State</b>	<b>Branches</b>	<b>ATMs</b>	<b>Aggregate Assets (\$ in billions)</b>	<b>Total Deposits (\$ in billions)</b>
New York	31	61	\$1.83	\$2.03
Illinois	12	16	1.37	0.92
California	20	24	3.07	1.36
Florida	20	23	1.95	1.40
New Jersey	7	9	0.16	0.31

In addition, BPNA owns all of the outstanding stock of E-LOAN, Popular Equipment Finance, Inc., and Popular Insurance Agency USA, Inc. E-LOAN's business currently consists solely of providing an online platform to raise deposits for BPNA. E-LOAN also holds a portfolio of loans from its discontinued lending activities. At December 31, 2013, E-LOAN's total assets amounted to \$315.7 million. Popular Equipment Finance, Inc. sold a substantial portion of its lease financing portfolio during the quarter ended March 31, 2009 and also ceased originations as part of the BPNA restructuring plan implemented in late 2008. As a result of these initiatives, the total assets of Popular Equipment Finance, Inc. were reduced to \$13.0 million at December 31, 2013. Popular Insurance Agency USA, Inc. acts as an insurance agent or broker offering insurance and investment products across the BPNA branch network. Total revenues of Popular Insurance Agency USA, Inc. for the year ended December 31, 2013 were \$6.4 million.

***Lending Activities.***

We concentrate our lending activities in the mainland US 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 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 real

estate developers and the financing of owner-occupied facilities if there is real estate as collateral. We mitigate our risk on these loans by requiring collateral values that exceed the loan amount and underwriting the loan with cash flow sustainability that exceeds debt service requirements. Non owner-occupied CRE loans are generally made to finance office and industrial buildings and retail shopping centers and are repaid through cash flows related to the operation, sale or refinancing of the property.

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Total commercial loans at BPNA were \$3.6 billion as of December 31, 2013, and represented 62% of our total loan portfolio in the U.S.

- (2) **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. These loans are generally underwritten and managed by a specialized real estate group that actively monitors the construction phase and manages the loan disbursements according to the predetermined construction schedule.

Total construction loans at BPNA were \$44.9 million as of December 31, 2013, and represented 1% of our total loan portfolio in the U.S.

- (3) **Legacy.** The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at BPNA.

Total legacy portfolio at BPNA was \$211.1 million as of December 31, 2013, and represented 4% of our total loan portfolio in the U.S.

- (4) **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. The majority of these loans are financed over a 15 to 30 year term, and in most cases, the loans are extended to borrowers to finance their primary residence. In some cases, government agencies or private mortgage insurers guarantee the loan. Our general practice is to sell a significant majority of our fixed-rate originations in the secondary market.

In response to current economic conditions, we exited the origination of non-conventional mortgage market in the U.S. mainland.

Total mortgage loans at BPNA were \$1.3 billion as of December 31, 2013, and represented 22% of our total loan portfolio in the U.S.

- (5) **Consumer.** Consumer loans include personal loans, credit cards, auto loans, HELOCs and other loans made by banks to individual borrowers. In this area, BPNA offers four unsecured products: personal loans, credit cards, personal credit lines and overdraft protection. All other consumer loans are secured.

As a result of our restructuring of the E-LOAN operations in prior years, consumer loans continue to decrease as the remaining closed-end second mortgages and HELOCs originated through the E-LOAN platform continue to amortize, in addition to a reduction in the loan origination activity since E-LOAN no longer operates as a direct lender.

Total consumer loans at BPNA were \$615.6 million as of December 31, 2013, and represented 11% of our total loan portfolio in the U.S.

**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. At December 31, 2013, our credit exposure was centered in our \$21.6 billion non-covered loan portfolio which represented 69% of our earning assets excluding covered loans. 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.

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Business activities that expose us to credit risk are managed within the Board's established 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.

Our Credit Strategy Committee ( CRESCO ) is management's top policy-making body with respect to credit-related matters and credit strategies. CRESCO reviews the activities of each subsidiary to ensure a proactive and coordinated management of credit granting, credit exposures and credit procedures. CRESCO's principal functions include reviewing the adequacy of the allowance for loan losses and periodically approving appropriate provisions, monitoring compliance with charge-off policy, establishing portfolio diversification, yield and quality standards, establishing credit exposure reporting standards, monitoring asset quality, and approving credit policies and amendments thereto for the subsidiaries and/or business lines, including special lending approval authorities when and if appropriate. The analysis of the allowance adequacy is presented to the Risk Management Committee of the Board of Directors for review, consideration and ratification on a quarterly basis.

We also have a Corporate Credit Risk Management Division ( CCRMD ). The CCRMD is a centralized unit, independent of the lending function. The CCRMD's functions include identifying, measuring and controlling credit risk independently from the business units, evaluating the credit risk rating system and reviewing the adequacy of the allowance for loan losses in accordance with Generally Accepted Accounting Principles ( GAAP ) and regulatory standards. The CCRMD also ensures that the subsidiaries comply with the credit policies and applicable regulations, and monitors credit underwriting standards. Also, the CCRMD performs ongoing monitoring of the portfolio, including potential areas of concern for specific borrowers and/or geographic regions.

We have a Credit Process Review Group within the CCRMD, which performs annual comprehensive credit process reviews of several commercial, construction, consumer and mortgage lending groups in BPPR. This group evaluates the credit risk profile of each originating unit along with each unit's credit administration effectiveness, including the assessment of the risk rating representative of the current credit quality of commercial and construction loans and the evaluation of collateral documentation. The monitoring performed by this group contributes to assess compliance with credit policies and underwriting standards, determine the current level of credit risk, evaluate the effectiveness of the credit management process and identify control deficiencies that may arise in the credit-granting process. Based on its findings, the Credit Process Review Group recommends corrective actions, if necessary, that help in maintaining a sound credit process. In the U.S. mainland, the Credit Process Review Group evaluates the consumer and mortgage lending groups. CCRMD has contracted an outside loan review firm to perform the credit process reviews for the commercial and construction loan portfolios in the U.S. mainland operations. The CCRMD participates in defining the review plan with the outside loan review firm and actively participates in the discussions of the results of the loan reviews with the business units. The CCRMD may periodically review the work performed by the outside loan review firm. The CCRMD reports the results of the credit process reviews to the Credit Strategy Committee and the Risk Management Committee of our Board of Directors.

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. We currently do not make no doc or stated income loans where there is no income or asset verification by the lender. The credit policies also set forth the required closing documentation depending on the loan and the collateral type.

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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.

Set forth below are the general parameters under which we analyze our major loan categories:

**Commercial and Construction:** Commercial and construction loans are underwritten using a comprehensive analysis of the borrower's operations, including the borrower's business model, management, financial statements, pro-forma financial condition including financial projections, use of funds, debt service capacity, leverage and the financial strength of any guarantor. Most of our commercial and construction loans are secured by real estate and other collateral. A review of the quality and value of collateral, including independent third-party appraisals of machinery and equipment and commercial real estate, as appropriate, is also conducted. Physical inspection of the collateral and audits of receivables is conducted when appropriate. Our credit policies provide maximum loan-to-value ratios that limit the size of a loan to a maximum percentage of the value of the real estate collateral securing the loan. The loan-to-value percentage varies by the type of collateral. Our loan-to-value limitations are, in certain cases, determined by other risk factors such as the financial strength of the borrower or guarantor, the equity provided to the project and the viability of the project itself. Most CRE loans are originated with full recourse or limited recourse to all principals and owners. Non-recourse lending is limited to borrowers with very solid financial capacity.

As of December 31, 2013, \$3.7 billion, or 56%, of our commercial and construction loans in Puerto Rico were secured by real estate, while in the mainland United States these figures totaled \$2.8 billion, or 78%, respectively.

**Consumer, Mortgage and Lease Financings:** Our consumer, mortgage and lease financings are originated consistent with the underwriting approach described above, but also include an assessment of each borrower's personal financial condition, including verification of income, assets and FICO score. Credit reports are obtained and reconciled with the financial statements provided to us. Although, a standard industry definition for subprime loans does not exist, for risk assessment purposes, subprime consumer and mortgage loans in the BPPR segment are determined based on the final rule definition of higher risk consumer loans issued by the FDIC which was made effective during 2013. A higher-risk consumer loan is defined as a loan where, as of origination, or as of refinance, the probability of default (PD) within two years is greater than 20%. In Puerto Rico, as of December 31, 2013, consumer and mortgage loans with subprime characteristics consisted of \$245 million (7% of the Puerto Rico consumer loan portfolio) and \$752.1 million (14% of the Puerto Rico mortgage loan portfolio), respectively. Since the final rule definition is not applicable to our US operation, subprime loans in the BPNA segment are defined as borrowers with one or a combination of certain credit risk factors, such as FICO scores (generally less than 620 for secured products and 660 for unsecured products), high debt to income ratios (higher than 50%) and inferior payment history, including factors such as defaults and limited credit history. As of December 31, 2013, our mainland United States consumer and mortgage loans with subprime characteristics consisted of \$75.5 million (or 12% of the U.S. mainland consumer loan portfolio) and \$479.4 million (or 37% of U.S. mainland mortgage loans portfolio). As part of the restructuring of our U.S. mainland operations, we discontinued originating loans with subprime characteristics in those operations, including the U.S. non-conventional mortgage loan portfolio and E-LOAN. Popular does not target subprime borrowers and does not offer products specifically designed for subprime borrowers.

As of December 31, 2013, there was a nominal amount of interest-only loans in our consumer loans portfolio and \$129.6 million of interest-only loans in our mortgage loan portfolio, all of which were at BPPR. Also, we did not have any adjustable rate mortgage loans in our Puerto Rico portfolio. In Puerto Rico, we offer a special step loan mortgage product to purchasers of units within construction projects financed by BPPR. This product, with a term of up to 40 years, provides for 100% financing at a 2.99% interest rate for the first five years of the term of the loan and 5.88%

fixed-rate for the remaining term. Consistent with our credit policies, the underwriting and loan approval process for our step loan mortgage product is based on a number of factors, including an assessment of each borrower's personal financial condition (including verification of income, assets and FICO score), as well as debt-to-equity ratio, reserves, loan-to-value and prior mortgage experience. While Popular has not established specific limits for FICO scores, debt-to-income ratios and loan-to-values applicable to this product, the underwriting parameters applied to this product are generally similar to the standards used for the underwriting of our non-conforming loans, except for higher loan-to-value ratios (90% or



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higher). As of December 31, 2013, Popular had \$429.0 million of these step loans.

As of December 31, 2013, \$5.4 billion, or 62%, of our total consumer loans in Puerto Rico were secured by real estate, including mortgage loans. In the United States mainland, these figures totaled \$1.7 billion, or 92%, respectively. Lease financings are also secured.

*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 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.

While we monitor lending concentration to a single borrower or a group of related borrowers, we do not have specific lending limits based on industry or other criteria, such as a percentage of the bank's capital, except for the legal lending limit established under applicable state banking law, discussed in detail below.

Loans to borrowers with financial difficulties can be modified as a loss mitigation alternative. New terms and conditions of these loans are individually evaluated to determine a feasible loan restructuring. In many consumer and mortgage loans, a trial period is established where the borrower has to comply with three consecutive monthly payments under the new terms before implementing the new structure. Loans that are restructured, renewed or extended due to financial difficulties and the terms reflect concessions that would not otherwise be granted are

considered as Troubled Debt Restructurings ( TDRs ). These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. These concessions stem from an agreement between the creditor and the debtor or are imposed by law or a court. TDRs also include loans for which the Corporation has entered into liquidation proceedings with borrowers in which neither principal or interest is forgiven, but the Corporation accepts payments which are different than the contractual payment schedule. Refer to additional information on TDRs on Note 10 to the consolidated financial statements included in the Annual Report for the year ended December 31,

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2013.

Loans classified as TDRs are reported in non-accrual status if the loan was in non-accruing status at the time of the modification. The TDR loan will continue in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (at least six months of sustained performance after classified as TDR and management has concluded whether it is probable that the borrower would not be in payment default in a foreseeable future). If the loan was appropriately on accrual status prior to the restructuring, the borrower has demonstrated performance under the previous terms (for a period of at least six months, as defined), and the bank's credit evaluation shows the borrower's capacity to continue to perform under the restructured terms (both principal and interest payments), it is likely that the appropriate conclusion is for the loan to remain on accrual at the time of the restructuring. Loans classified as TDRs are excluded from TDR status if performance under the restructured terms exists for a reasonable period (at least twelve months of sustained performance after being classified) and the loan yields a market rate.

**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 42, Segment Reporting, to the consolidated financial statements included in the Annual Report.

Our loan portfolio is diversified by loan category. However, approximately 64% of our non-covered loan portfolio at December 31, 2013 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 non-covered loan portfolio by loan category at December 31, 2013. 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.

**Loan category (non-covered)**

(dollars in millions)

	<b>BPPR</b>	<b>%</b>	<b>BPNA</b>	<b>%</b>	<b>POPULAR</b>	<b>%</b>
C&I	\$ 2,912	18	\$812	14	\$ 3,724	17
CRE	3,553	22	2,760	48	6,313	29
Construction	161	1	45	1	206	1
Legacy	-	-	211	4	211	1
Leases	544	4	-	-	544	3
Consumer	3,317	21	615	11	3,932	18
Mortgage	5,401	34	1,281	22	6,682	31
Total	\$15,888	100	\$5,724	100	\$21,612	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. At December 31, 2013, the Corporation's direct exposure to the Puerto Rico government, instrumentalities and municipalities amounted to \$1.2 billion, of which approximately \$950 million was outstanding. Of the amount outstanding, \$789 million consists of loans and \$161 million are securities. From this amount, \$527 million represents

obligations from the Government of Puerto Rico and public corporations that are either collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as water and electric power utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The remaining \$423 million represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes

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in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality.

In addition, at December 31, 2013, the Corporation had \$360 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default. These included \$274 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2012 - \$294 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had \$52 million in Puerto Rico pass-through housing bonds backed by Federal National Mortgage Association ( FNMA ), Government National Mortgage Association ( GNMA ) or residential loans CMO s, and \$34 million of industrial development notes.

For further discussion of our loan portfolio and geographical concentration, see Financial Condition Loans and Credit Risk Management and Loan Quality-Geographical and Government Risk in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of the Annual Report.

### **Evolution of Business during the Financial Crisis**

We have taken significant steps during the past years to counter the effect of the broad economic slowdown in the United States and the prolonged economic recession in Puerto Rico, our principal market, where the economy entered into recession in the second quarter of 2006. In 2008, we considered it prudent to participate in the TARP Capital Purchase Program in order to strengthen our capital and liquidity position. In December 2008, we received \$935 million from the U.S. Department of the Treasury ( U.S. Treasury ) as part of the TARP Capital Purchase Program in exchange for senior Perpetual Preferred Stock and a warrant to purchase 2,093,283 shares of our Common Stock at an exercise price of \$67 per share (adjusted to reflect the 1-for-10 reverse stock split effective on May 29, 2012). The shares of Preferred Stock qualified as Tier 1 regulatory capital and paid cumulative dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter.

The TARP Capital Purchase Program gave us the opportunity to raise capital quickly and improve our liquidity position, at a low cost, with limited shareholder dilution, at a time when the unprecedented market instability made it difficult, if not impossible, for us to raise capital. We have used proceeds from the TARP, together with other available moneys, to make capital contributions and loans to our banking subsidiaries to ensure they remain well-capitalized, and strengthen their ability to continue creditworthy lending in our home markets.

In August 2009, we completed an exchange offer in order to increase our common equity capital to accommodate the more adverse economic and credit scenarios assumed under the Supervisory Capital Assessment Program (the SCAP ), as applied to regional banking institutions. With the exchange offer we issued 35.7 million new shares of Common Stock and increased our Tier 1 common equity by \$1.4 billion.

In connection with the public exchange offer, we agreed with the U.S. Treasury to exchange the \$935 million senior perpetual preferred stock issued to it pursuant to the TARP Capital Purchase Program for \$935 million of newly issued perpetual trust preferred securities, with the same distribution rate as that of the Preferred Stock. This exchange was completed in August 2009. The trust preferred securities had a distribution rate of 5% until December 5, 2013 and 9% thereafter. The warrant initially issued to the U.S Treasury in connection with the issuance of the Preferred Stock in December 2008 remains outstanding and currently represents 2% of our Common Stock outstanding.

In addition to our participation in the TARP Capital Purchase Program and the completion of the exchange offer, during 2008 and 2009, we carried out various restructurings plans for our operations in the U.S. mainland to improve

our U.S. operations, address credit quality, contain controllable costs, maintain well capitalized ratios and improve capital and liquidity positions. Most of these plans were successfully completed at the end of 2009.

During 2010 the Corporation enhanced its capital position with an equity offering in which it raised \$1.15 billion of new common equity capital. This capital raise, along with the after-tax gain of \$531.0 million, net of transaction costs, on the sale of a 51% interest in EVERTEC, substantially strengthened the Corporation's capital ratios, placing it in a position to participate in

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the consolidation of the Puerto Rico banking market and to pursue strategies to improve the credit quality of its loan portfolio. We entered into an FDIC-assisted transaction involving Westernbank, which could present additional risks to our business. On April 30, 2010, BPPR acquired certain assets and assumed certain liabilities of Westernbank from the FDIC in an assisted transaction.

We have also carried out a series of actions to improve our Puerto Rico operations, credit quality and profitability. During 2009, we implemented cost-cutting measures such as the reduction in hiring and pension plan freezes and the suspension of matching contributions to retirement plans. During 2011, further steps were taken to improve our profitability, including the implementation of a voluntary employee retirement window at the end of 2011. As a result of this initiative in December 2011, we recorded \$15.6 million in pension costs related to 369 employees that were eligible and elected to participate in the retirement program. The retirement was effective on January 31, 2012. Also, during 2011 the Corporation executed sales of \$457 million (unpaid principal balance) non-performing mortgage loans at BPNA and \$358 million in unpaid principal balance of construction and commercial real estate loans at BPPR as part of its de-risking strategy.

We have continued to look for synergies and efficiencies within our operations. On December 2012, Popular Mortgage, Inc. was merged into Banco Popular. This consolidation, among other things, resulted in cost savings for the Corporation. For the year 2013, FDIC deposit insurance expense was \$25.2 million lower than for 2012, including a credit of \$11.3 million received during the first quarter. This reduction was also attributed to a lower volume of higher risk assets, after completion of the non-performing assets sales during the year.

During 2013, the Corporation continued to look for opportunities to strengthen its capital structure and de-risk its balance sheet. The Corporation monetized part of its investment in EVERTEC by participating as a selling stockholder in EVERTEC's public offerings. The Corporation recorded an after tax gain of \$413 million as a result of these transactions, as discussed above. BPPR completed sales of assets with a book value of \$944 million, most of which were in non-performing status. Coupled with loss mitigation strategies and aggressive resolution of non-performing loans, the Corporation was able to reduce its non-performing assets, excluding covered assets, by \$1.1 billion from December 31, 2012.

On October 18, 2013, the Corporation submitted a formal application to the Federal Reserve of New York to redeem the \$935 million in trust preferred securities due under the TARP. While there can be no assurance that the Corporation will be approved to repay TARP, nor on the timing of this event, if the Corporation is approved and repays TARP in full, a non-cash charge to earnings would be recorded for the unamortized portion of the discount associated with this debt, which at December 31, 2013 had a balance of \$404 million.

## **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 assets between \$2 billion and \$13 billion as of December 31, 2013. On April 30, 2010, the FDIC closed three commercial banks and entered into loss-share purchase and assumption agreements with three other commercial banks with operations in Puerto Rico, including us with respect to Westernbank Puerto Rico. Those transactions involved the acquisition of most of the assets and liabilities of the closed banks, including the assumption of all of the non-brokered deposits. While these transactions have reduced the number of banking competitors in Puerto Rico, they have allowed some of our competitors to gain greater resources, such as a broader range of products and services. On December 18, 2012, there was another banking consolidation in Puerto Rico when Oriental Financial Group, a locally based

financial institution, acquired the Puerto Rico operations of Banco Bilbao Vizcaya Argentaria S.A. (BBVA), a foreign bank. As of December 31, 2013, there were 9 commercial banks operating in Puerto Rico.

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 houses, mortgage companies, insurance companies, credit unions (locally known as cooperativas), credit card companies, consumer



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finance companies, institutional lenders and other financial and non-financial institutions and entities. Credit unions generally provide basic consumer financial services. Some of those competitors are significantly larger than us, have lower cost structures and many have fewer regulatory constraints.

In the United States, our competition is primarily from community banks operating in our footprint and national banking institutions. Those include institutions with much more resources than we have that can exert substantial competitive pressure.

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 market place 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, as to our continued ability to anticipate and adapt to changing conditions, and as to sufficiently improving our services and/or banking products in order to successfully compete in our primary service areas.

## **Employees**

At December 31, 2013, we employed 8,059 full time equivalent employees of which 6,681 were located in Puerto Rico and the Virgin Islands and 1,378 in the U.S. mainland. None of our employees is represented by a collective bargaining group.

## **Financial Information About Segments**

Our corporate structure consists of two reportable segments BPPR and BPNA. A Corporate group has been defined to support the reportable segments. On September 30, 2010, the Corporation completed the sale of a 51% ownership interest in EVERTEC, which included the merchant acquiring business of BPPR. During the year 2013, the Corporation sold additional shares in connection with EVERTEC's public offerings. Revenue from the remaining 14.9% ownership interest in EVERTEC is reported as non-interest income in the Corporate group.

Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. The segments were determined based on the organizational structure, which focuses primarily on the markets the segments serve, as well as on the products and services offered by the segments.

For further information about our segments, see Reportable Segment Results in the Management Discussion and Analysis section of the Annual Report and Note 42, Segment Reporting to the consolidated financial statements included in the Annual Report.

## **About Financial Information About Geographic Areas**

Our revenue composition by geographical area is presented in Note 42, Segment Reporting to the consolidated financial statements included in the Annual Report.

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The following table presents our long-lived assets by geographical area, other than financial instruments, long-term customer relationships, mortgage and other servicing rights and deferred tax assets. Long-lived assets located in foreign countries represent the investments under the equity method in the Dominican Republic.

Long-lived assets	2013	2012	2011
	(Dollars in thousands)		
<b>Puerto Rico</b>			
Premises and equipment	\$ 458,915	\$ 471,821	\$ 475,356
Goodwill	245,680	245,680	246,273
Other intangible assets	24,646	30,070	35,560
Investments under the equity method	98,323	156,305	236,426
	\$ 827,564	\$ 903,876	\$ 993,615
<b>United States</b>			
Premises and equipment	60,601	63,972	63,130
Goodwill	402,077	402,077	402,077
Other intangible assets	7,643	10,364	13,084
Investments under the equity method	14,850	11,395	11,689
	\$ 485,171	\$ 487,808	\$ 489,980
<b>Foreign Countries</b>			
Investments under the equity method	\$ 83,833	\$ 79,076	\$ 65,037
	\$ 83,833	\$ 79,076	\$ 65,037

**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.

*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 BPNA 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 BPNA, the Federal Reserve Board and the New York State Department of Financial Services.

On December 20, 2011, the Federal Reserve Board issued for public comment a notice of proposed rulemaking under Title I of the Dodd-Frank Act, which we refer to as the Proposed SIFI Rules , establishing enhanced prudential standards for

Risk-based capital requirements and leverage limits;

Stress testing of capital;

Liquidity requirements;

Overall risk management requirements;

Resolution plan (so-called living wills ) and credit exposure reporting; and

Concentration/credit exposure limits.

The Proposed SIFI Rules address a wide, diverse array of regulatory areas, each of which is highly complex. In some cases they would implement financial regulatory requirements being proposed for the first time (for example, an enterprise-wide limit on exposures to any one counterparty and certain of its affiliates established at 25% of the capital and surplus of the covered company) and others overlap with other regulatory reforms (for example, the Basel III capital and liquidity reforms discussed below in this section). The Proposed SIFI Rules also address the Dodd-Frank Act's early remediation requirements applicable to bank

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holding companies that have total consolidated assets of \$50 billion or more. The proposed remediation rules are modeled after the prompt corrective action regime, described below, but are designed to require action beginning in the earlier stages of a company's financial distress by mandating action on the basis of arranged triggers, including capital and leverage, stress test results, liquidity and risk management. The Proposed SIFI Rules' requirements generally will become effective on the first day of the fifth calendar quarter after the effective date of the final rule, although certain requirements have different transition periods. Although by their terms most of the Proposed SIFI Rules' requirements apply only to bank holding companies with at least \$50 billion in total consolidated assets, the Proposed SIFI Rules require bank holding companies and member banks with more than \$10 billion in total consolidated assets to conduct their own annual stress tests and publish a summary of the results of the stress tests. In addition, it is possible that the Federal Reserve may determine in the future to apply some or all of the Proposed SIFI Rules to smaller bank holding companies.

In October 2012, the Federal Reserve Board issued final rules implementing the requirements of Section 165(i)(1) of the Dodd-Frank Act concerning supervisory stress tests to be conducted by the Federal Reserve Board (the Annual Supervisory Stress Test Rule) and Section 165(i)(2) of the Dodd-Frank Act regarding semi-annual company-run stress tests (the Semi-Annual Company-Run Stress Test Rule, and, together with the Annual Supervisory Stress Test Rule, the Stress Test Rules). The Stress Test Rules, effective on November 15, 2012, apply to bank holding companies with average total consolidated assets of \$50 billion or more and nonbank financial companies designated by the Financial Stability Oversight Council. Concurrent with the Stress Test Rules, the Federal Reserve Board issued final rules implementing other requirements of Section 165(i)(2) of the Dodd-Frank Act regarding annual company-run stress tests (the Annual Company-Run Stress Test Rules). The Annual Company-Run Stress Test Rules, effective on November 15, 2012, apply to, bank holding companies with average total consolidated assets of greater than \$10 billion but less than \$50 billion and any state member bank that has average total consolidated assets of more than \$10 billion. The Stress Test Rules and the Annual Company-Run Stress Test Rules set forth, among other things, the requirements on the methodology and scenarios for the stress tests and related publication requirements. On November 1, 2013, the Federal Reserve Board released the supervisory scenarios that will be used in the next round of stress tests. On November 7, 2013, the Federal Reserve Board issued a final policy statement describing the processes it will use to develop scenarios for future capital planning and stress testing exercises. This policy statement became effective on January 1, 2014.

In addition, in May 2012, the Federal Reserve Board, the Office of the Comptroller of the Currency (the OCC), and the FDIC issued a supervisory guidance regarding stress-testing practices at banking organizations with total consolidated assets of more than \$10 billion. The guidance outlined general principles for a satisfactory stress testing framework and described how stress testing should be used at various levels within an organization. The guidance also discussed the importance of stress testing in capital and liquidity planning, and the importance of strong internal governance and controls in an effective stress-testing framework.

On February 18, 2014, the Federal Reserve Board issued final rules (Final SIFI Rules) strengthening supervision and regulation of large U.S. bank holding companies and foreign banking organizations. The Final SIFI Rules established a number of enhanced prudential standards for large U.S. bank holding companies to help increase the resiliency of their operations. These standards include liquidity, risk management, and capital. For U.S. bank holding companies with total consolidated assets of \$50 billion or more, the Final SIFI Rules incorporate the previously issued capital planning and stress testing requirements as an enhanced prudential standard. The Final SIFI Rules also require such a U.S. bank holding company to comply with enhanced risk-management and liquidity risk-management standards, conduct liquidity stress tests, and hold a buffer of highly liquid assets based on projected funding needs during a 30-day stress event. In addition, the Final SIFI Rules require publicly traded U.S. bank holding companies with total consolidated assets of \$10 billion or more to establish enterprise-wide risk committees.

As of December 31, 2013, Popular had total consolidated assets of \$35.7 billion. As of the same date, BPPR and BPNA had total consolidated assets of \$26.6 billion and \$8.7 billion, respectively.

*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 , significant undercapitalized , and critically undercapitalized . The relevant capital measures are the total risk-based capital ratio, the Tier 1 risk- based capital ratio and the leverage ratio.

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Rules adopted by the federal banking agencies provide that an insured depository institution will be deemed to be (1) well capitalized if it maintains a leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10% and is not subject to any written agreement or directive to meet a specific capital level; (2) adequately capitalized, if it is not well capitalized, but maintains a leverage ratio of at least 4% (or at least 3% if given the highest regulatory rating in its most recent report of examination and not experiencing or anticipating significant growth), a Tier 1 risk-based capital ratio of at least 4% and a total risk-based capital ratio of at least 8%; (3) undercapitalized if it fails to meet the standards for adequately capitalized institutions (unless it is deemed significantly or critically undercapitalized); (4) significantly undercapitalized if it has a leverage ratio of less than 3%, a Tier 1 risk-based capital ratio of less than 3% or a total risk-based capital ratio of less than 6%; and (5) critically undercapitalized if it has tangible equity equal to 2% or less of total assets.

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 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 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 BPNA, but they are not directly applicable to holding companies such as Popular and PNA, which control such institutions. As noted above, the Proposed SIFI Rules address the Dodd-Frank Act's early remediation requirements applicable to bank holding companies that have total consolidated assets of \$50 billion or more.

Section 202(g) of the Dodd-Frank Act required the Government Accountability Office (GAO) to conduct a study of the implementation of the prompt corrective action provisions by the federal banking agencies and make recommendations to make them a more effective tool. The GAO Study, released on June 23, 2011, noted that capital can lag behind other indicators of bank health and, therefore, recommended that alternative Prompt Corrective Action triggers be considered, including indicators based on earnings, asset quality, liquidity, reliance on unstable funding, and sector loan concentration.

In July 2013, the Federal banking regulators approved final rules (New Capital Rules) to establish a new comprehensive regulatory capital framework for all U.S. banking organizations. The New Capital Rules augmented the prompt corrective action capital categories by introducing a common equity tier 1 capital measure for four of the five PCA categories (excluding the critically undercapitalized prompt corrective action category). In addition, the New Capital Rules revised the three current risk-based capital measures for four of the five prompt corrective action categories to reflect the New Capital Rules' changes to the minimum risk-based capital ratios. All insured depository institutions must comply with the revised prompt corrective action thresholds beginning on January 1, 2015.

*Transactions with Affiliates*

BPPR and BPNA are subject to restrictions under Section 23A of the Federal Reserve Act that limit the amount of extensions of credit and certain other covered transactions (as defined in Section 23A) between BPPR or BPNA, 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, Section 23B of the Federal Reserve Act requires that any transaction between BPPR or BPNA, on the one hand, and Popular, PNA or any of our other non-banking subsidiaries, on the other, be carried out on an arm's length basis.



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*Source of Financial Strength*

Under the Federal Reserve Board's Regulation Y, a bank holding company such as Popular or PNA is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each subsidiary bank. In addition, any capital loans by a bank holding company to any of its subsidiary depository institutions are subordinated in right of payment to deposits 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 BPNA are currently the only insured depository institution subsidiaries of Popular and PNA.

Section 616 of the Dodd-Frank Act obligates the Federal Reserve Board to require bank holding companies to serve as a source of financial strength for any subsidiary depository institution. The term "source of financial strength" is defined as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress at such subsidiaries. The source-of-strength amendments in Section 616 took effect on July 21, 2011, and the appropriate federal banking agencies were required to jointly adopt implementing regulations not later than one year after that date. To date, however, the federal banking agencies have not proposed any regulations to implement Section 616. Prior to the Dodd-Frank Act, there was no explicit authority in the BHC Act for the source of strength provision in the Federal Reserve Board's Regulation Y.

*Living Will*

As required by Section 165(d) of the Dodd-Frank Act, the Federal Reserve Board and the FDIC have jointly issued a final rule, which became effective on November 1, 2011, that requires certain organizations, including each bank holding company with consolidated assets of \$50 billion or more, to report periodically to the FDIC and the Federal Reserve Board the company's plan for its rapid and orderly resolution in the event of material financial distress or failure. The final rule sets specific standards for the resolution plans, including requiring a strategic analysis of the plan's components, a description of the range of specific actions the company proposes to take in resolution and a description of the company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements.

In addition, the FDIC has issued a final rule, which became effective on April 1, 2012, that requires insured depository institutions with total assets of \$50 billion or more to submit to the FDIC periodic contingency plans for resolution in the event of the institution's failure. The rule requires these institutions to submit a resolution plan that will enable the FDIC, as receiver, to resolve the institution in a manner that ensures that depositors receive access to their insured deposits within one business day of the institution's failure (two business days if the failure occurs on a day other than a Friday), maximizes the net-present-value return from the sale or disposition of its assets, and minimizes the amount of any loss to be realized by the institution's creditors.

As of December 31, 2013, BPPR and BPNA had total consolidated assets of \$26.6 billion and \$8.7 billion, respectively.

*Dividend Restrictions*

The principal sources of funding for the holding companies have included dividends received from their banking and non-banking subsidiaries, asset sales and proceeds from the issuance of medium-term notes, junior subordinated debentures 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 (as reportable in its Report of Condition and Income) for that year, combined with its retained net income (as defined by regulation) 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. Subject to the Federal Reserve's ability to establish more stringent specific requirements under its supervisory or enforcement authority, at December 31, 2013, BPPR could have declared a dividend of approximately \$504 million. However, on July 25, 2011, PIHC and BPPR entered into a Memorandum of Understanding with the Federal Reserve Bank of New York and the Office of the Commissioner of Financial Institutions of Puerto Rico that requires the approval of these entities prior to the payment of any dividends by BPPR to PIHC. BPNA could not declare any dividends without the approval of the Federal Reserve Board.

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

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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. The Federal Reserve Board has indicated that in the capital plans submitted by bank holding companies with total consolidated assets of \$50 billion or more, requests that imply common dividend payout ratios above 30% of projected after-tax net income will receive particularly close scrutiny. Popular is also subject to dividend restrictions because of our participation in the TARP Capital Purchase Program. 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".

Under the American Jobs Creation Act of 2004, 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 - General" below for a description of certain restrictions on BPPR's ability to pay dividends under Puerto Rico law.

*FDIC Insurance*

BPPR and BPNA are subject to FDIC deposit insurance assessments. The Federal Deposit Insurance Reform Act of 2005 (the "Reform Act") created a single DIF, increased the maximum amount of FDIC insurance coverage for certain retirement accounts, and provided for possible inflation adjustments in the maximum amount of coverage available with respect to other insured accounts. Under the Reform Act, the FDIC made significant changes to its risk-based assessment system so that effective January 1, 2007, the FDIC imposed insurance premiums based upon a matrix that is designed to more closely tie what banks pay for deposit insurance to the risks they pose.

The Emergency Economic Stabilization Act of 2008 ("EESA") temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. Section 335 of the Dodd-Frank Act made permanent the \$250,000 standard maximum limit for federal deposit insurance. In addition, from December 31, 2010 until January 1, 2013, Section 335 provided temporary unlimited federal deposit insurance protection for non-interest bearing transaction accounts that are payable on demand at insured depository institutions. The temporary unlimited federal deposit insurance protection for non-interest bearing transaction accounts expired on January 1, 2013.

Section 334 of the Dodd-Frank Act eliminated the ceiling on the size of the DIF (1.5 percent of estimated insured deposits prior to the enactment of the Dodd-Frank Act). Section 334 also raised the statutorily required floor for the DIF from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits, or a comparable percentage of the revised assessment base required by the Dodd-Frank Act, which is based on average total assets less average tangible equity. Section 334 required the FDIC to take the steps necessary for the DIF to meet this revised reserve ratio by September 30, 2020.

On October 19, 2010, the FDIC adopted a new Federal Deposit Insurance Corporation Restoration Plan (the "Restoration Plan") for the DIF to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by Section 334 of the Dodd-Frank Act. Under the Restoration Plan, the FDIC has foregone the uniform three-basis point increase in initial assessment rates previously scheduled to take place on January 1, 2011. On December 14, 2010, the FDIC adopted a final rule, which became effective on January 1, 2011, to set the DIF's designated reserve ratio at 2% of estimated insured deposits.

As required by Sections 331 and 332 of the Dodd-Frank Act, on February 7, 2011, the FDIC adopted a final rule relating to deposit insurance assessment base, assessment rate adjustments, deposit insurance assessment rates, dividends, and large bank pricing methodology, which became effective on April 1, 2011. Under the final rule, the

assessment base for an insured depository institution is the average consolidated total assets of the insured depository institution minus the average tangible equity of the institution during the assessment period. Prior to April 1, 2011, only deposits payable in the United States were included in determining the premium paid by an institution.

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 2014 was 0.00155 cents per \$100 of deposits.

As of December 31, 2013, we had a DIF average total asset less average tangible equity assessment base of approximately \$32 billion.

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**Table of Contents***Brokered Deposits*

The FDIA governs the receipt of brokered deposits. Section 29 of the FDIA and the 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 regulation has had or will have a material effect on the funding or liquidity of BPPR and BPNA.

*Capital Adequacy*

Under the Federal Reserve Board's risk-based capital guidelines for bank holding companies and member banks, the minimum ratio of qualifying total capital to risk-weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies and member banks. These guidelines provide for a minimum ratio of Tier 1 capital to total assets, less goodwill and certain other intangible assets (the leverage ratio) of 3% for bank holding companies and member banks that have the highest regulatory rating or have implemented the Federal Reserve Board's market risk capital measure. All other bank holding companies and member banks are required to maintain a minimum leverage ratio of 4%. See Consolidated Financial Statements, Note 25 Regulatory Capital Requirements for the capital ratios of Popular, BPPR and BPNA. Failure to meet capital guidelines could subject Popular and our 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 .

Section 171 of the Dodd-Frank Act (the Collins Amendment) required the federal banking agencies to establish minimum leverage and risk-based capital requirements that apply on a consolidated basis for insured depository institutions and their holding companies. In effect, the Collins Amendment applied to bank holding companies the same leverage and risk-based capital requirements that apply to insured depository institutions. Because the capital requirements must be the same for insured depository institutions and their holding companies, the Collins Amendment excludes trust preferred securities from Tier 1 capital, subject to phase-out from Tier 1 qualification for trust preferred securities issued before May 19, 2010, with the phase-out commencing on January 1, 2013 and to be implemented incrementally over a three-year period commencing on that date. Debt or equity instruments issued to the United States or any agency or instrumentality thereof prior to October 10, 2010, pursuant to the EESA, are exempted from the requirements of the Collins Amendment. Under the rules in place prior to the Collins Amendment, trust preferred securities (in addition to, among others, common equity, retained earnings, minority interests in equity accounts of consolidated subsidiaries) could be included in Tier 1 capital for bank holding companies, provided that not more than 25% of qualifying Tier 1 capital could consist of noncumulative perpetual preferred stock, trust preferred securities or other so-called restricted core capital elements.

As required by the Collins Amendment, the OCC, the Federal Reserve Board and the FDIC jointly issued a final rule related to risk-based capital standards. Pursuant to the final rule, which became effective on July 28, 2011, a banking organization operating under the agencies' advanced approaches risk-based capital rules is required to meet the higher of the minimum requirements under the general risk-based capital rules and the minimum requirements under the advanced approaches risk-based capital rules.

In addition, the Federal Reserve Board issued a final rule, which became effective on December 30, 2011, requiring top-tier U.S. bank holding companies with total consolidated assets of \$50 billion or more to submit annual capital plans, with their related stress test requirements, to the appropriate Federal Reserve Bank for review and to generally obtain regulatory approval before making capital distributions, which include dividends and purchases of capital securities and instruments.

Banking organizations are expected to maintain at least 50 percent of their Tier 1 capital as common equity. In addition, senior perpetual preferred stock issued to the U.S. Treasury under the Troubled Asset Relief Program ( TARP ) Capital Purchase Program may be included, without limit, as Tier 1 capital. Tier 2 capital consists of, among other things, a limited amount of subordinated debt, other preferred stock, certain other instruments and a limited amount of loan and lease loss reserves.

At December 31, 2013, Popular had \$427 million in trust preferred securities (capital securities) that are subject to the phase-out. Popular has not issued any trust preferred securities since May 19, 2010. At December 31, 2013, the remaining trust preferred securities corresponded to capital securities issued to the U.S. Treasury pursuant to the EESA. The Collins Amendment includes an exemption from the phase-out provision that applies to these capital securities because they were issued prior to October 4, 2010.

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In 2004, the Basel Committee on Banking Supervision (the *Basel Committee*) published a new set of risk-based capital standards (*Basel II*) in order to update the original international capital standards that had been put in place in 1988 (*Basel I*). A definitive final rule for implementing the advanced approaches of *Basel II* in the United States, which applies only to certain large or internationally active or *core* banking organizations (defined as those with consolidated total assets of \$250 billion or more or consolidated on-balance sheet foreign exposures of \$10 billion or more) became effective on April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but are not required to do so. The advanced approaches rules establish a series of transitional floors to provide a smooth transition to the advanced approaches rules and to limit temporarily the amount by which a banking organization's risk-based capital requirements could decline relative to the general risk-based capital rules.

*New Capital Rules to Implement Basel III Capital Requirements*

On July 2, 2013, the Federal Reserve Board approved the New Capital Rules to establish a new comprehensive regulatory capital framework for all U.S. banking organizations. On July 9, 2013, the New Capital Rules were approved by the OCC and (as interim final rules) by the FDIC.

The New Capital Rules generally implement the *Basel Committee's* December 2010 final capital framework referred to as *Basel III* for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including Popular, BPPR and BPNA, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the *Basel Committee's* 1988 *Basel I* capital accords, with a more risk-sensitive approach based, in part, on the standardized approach in the *Basel Committee's* 2004 *Basel II* capital accords. In addition, the New Capital Rules implement certain provisions of Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The New Capital Rules are effective for Popular, BPPR and BPNA on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called *Common Equity Tier 1* (*CET1*) and 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 existing regulations. Under the New Capital Rules, for most banking organizations, including the Corporation, 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 New Capital Rules' specific requirements.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 will be as follows:

- 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 New 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, when fully phased-in on January 1, 2019, Popular, BPPR and BPNA will be 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%.



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The New 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 the current general 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 are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including Popular, BPPR and BPNA, may make a one-time permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of the Popular's, BPPR's and BPNA's periodic regulatory reports in the beginning of 2015. Popular, BPPR and BPNA expect to make 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 portfolio. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out in the case of bank holding companies that had \$15 billion or more in total consolidated assets as of December 31, 2009. The Corporation's Tier I capital level at December 31, 2013, included \$ 427 million of trust preferred securities that are subject to the phase-out provisions of the New Capital Rules. The Corporation would be allowed to include only 25 percent of such trust preferred securities in Tier 1 capital as of January 1, 2015 and 0 percent as of January 1, 2016, and thereafter. Trust preferred securities no longer included in Popular's Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out and irrespective of whether such securities otherwise meet the revised definition of Tier 2 capital set forth in the New Capital Rules. The Corporation's trust preferred securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008 are exempt from the phase-out provision.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to BPPR and BPNA, the New Capital Rules revise the prompt corrective action ( PCA ) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category.

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, and resulting in higher risk weights for a variety of asset classes.

We believe that Popular, BPPR and BPNA will be able to meet well-capitalized capital ratios upon implementation of the revised requirements, as finalized.

*Interstate Branching*

Section 613 of 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. This section became effective on July 22, 2010. Prior to the enactment of the Dodd-Frank Act, the Interstate Banking Act provided that states may make an opt-in election to permit interstate branching through *de novo* branches. A majority of states did not opt in. Section 613 of the Dodd-Frank Act eliminated such required opt-in election. 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.

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**Table of Contents***Activities and Acquisitions*

Under the BHC Act, the activities of bank holding companies and their non-banking subsidiaries have been limited to the business of banking and activities closely related to banking, and no bank holding company could directly or indirectly acquire ownership or control of more than 5% of any class of voting shares or substantially all of the assets of any company in the United States, including a bank, without the prior approval of the Federal Reserve Board. In addition, bank holding companies generally have been prohibited under the BHC Act from engaging in non-banking activities, unless such activities were found by the Federal Reserve Board to be closely related to banking.

The Gramm-Leach-Bliley Act allows bank holding companies whose subsidiary depository institutions meet management, capital and Community Reinvestment Act standards to engage in a substantially broader range of nonbanking financial activities than is permissible for bank holding companies that fail to meet those standards, including securities underwriting and dealing, insurance underwriting and making merchant banking investments in nonfinancial companies. In order for a bank holding company to engage in the broader range of activities that are permitted by the Gramm-Leach-Bliley Act (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. In addition, Section 606 of the Dodd-Frank Act requires that a bank holding company that is a financial holding company and therefore may engage in the expanded financial activities authorized by the Gramm-Leach-Bliley Act 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 managerial 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.

Pursuant to Section 619 of the Dodd-Frank Act, commonly called the Volcker Rule, which became effective on July 21, 2012, the U.S. financial regulatory agencies are required to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). In December 2013, Federal regulators adopted final rules to implement the Volcker Rule. The final rules are highly complex, and many aspects of their application remain uncertain. We are continuing to evaluate the effects of the final rules, but we do not currently anticipate that the Volcker Rule will 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.

The Federal Reserve Board has the authority to limit and 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.

Pursuant to Section 163 of the Dodd-Frank Act, bank holding companies with total consolidated assets greater than \$50 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, Section 604 of the

Dodd-Frank Act, which became effective on July 21, 2011, added a new application requirement before a financial holding company (regardless of its size) may acquire a nonbank company with \$10 billion or more in total consolidated assets. As of December 31, 2013, Popular had total consolidated assets of \$35.7 billion.

*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

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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.*

Section 1075(a) of the Dodd-Frank Act added a new Section 920 of the Electronic Fund Transfer Act, which gives the Federal Reserve Board the authority to establish rules regarding interchange fees charged by payment card issuers for electronic debit transactions, and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer, with specific allowances for the costs of fraud prevention. On June 29, 2011, the Federal Reserve Board issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. The final rule regarding debit card interchange fees became effective on October 1, 2011. Under the final rule, 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. Also on June 29, 2011, the Federal Reserve Board approved an interim final rule that 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 the fraud-prevention standards set out in the interim final rule. The interim final rule regarding fraud-prevention adjustment also became effective on October 1, 2011.

*Consumer Financial Protection Act of 2010*

Title X of the Dodd-Frank Act, also known as the Consumer Financial Protection Act of 2010 or CFPB, created a new consumer financial services regulator, the Bureau of Consumer Financial Protection, commonly called the CFPB, which has assumed most of the consumer financial services regulatory responsibilities currently exercised by federal banking regulators and other agencies. The CFPB's primary functions include the supervision of covered persons (broadly defined to include 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 United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the OFAC rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). 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.

*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 2013, \$13 million was transferred to the statutory reserve account. During 2013, BPPR was in compliance with the statutory reserve requirement.

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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.

As previously mentioned in the Business section, 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, 2013, the legal lending limit for BPPR under this provision was approximately \$247 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 mortgage loans is conducted by Popular Mortgage, a division of BPPR. Effective December 31, 2012, Popular Mortgage Inc., previously a subsidiary of BPPR, was merged with and into BPPR.

## **Available Information**

We maintain an Internet website at [www.popular.com](http://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 public may read and copy any materials we file with the SEC at the SEC's Public Reference Room, located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. 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](http://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.



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**ITEM 1A. RISK FACTORS**

Popular, like other financial institutions, faces 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 facing us. Additional risks and uncertainties not currently known by us or that we currently deem to be immaterial, or that is generally applicable to all financial institutions, also may materially adversely affect our business, financial condition or results of operations.

**RISKS RELATING TO THE BUSINESS ENVIRONMENT AND OUR INDUSTRY**

**Weakness in the economy and in the real estate market in our geographic footprint has adversely impacted and may continue to adversely impact us.**

Popular is exposed to geographical and government risk. A significant portion of our financial activities and credit exposure is concentrated in Puerto Rico, which entered into a recession in the second quarter of 2006. The latest figures from the Puerto Rico Planning Board (the Planning Board), released in October 2013, project that Puerto Rico's real gross national product for fiscal year 2013 (ended June 30, 2013) neither grew nor declined when compared to the prior fiscal year. For fiscal year 2012 (ended June 30, 2012), the Planning Board's preliminary reports indicate that the real gross national product grew by only 0.1%. These were the first years reflecting a stable, but weak economy in Puerto Rico, following a six-year steep decline in economic activity. The Planning Board, however, currently projects that Puerto Rico's real gross national product for fiscal year 2014 (ending June 30, 2014) will decline by 0.8%. The Planning Board is expected to publish a new forecast in March 2014 for fiscal years 2014 and 2015, together with revised figures for fiscal year 2012 and the preliminary estimates for fiscal year 2013.

Employment continued to be a weak spot. A reduction in total employment began in the fourth quarter of fiscal year 2007 and has continued consistently through fiscal year 2013 due to the current recession and contractionary fiscal adjustment measures. According to the Household Survey (conducted by the Puerto Rico Department of Labor and Human Resources), the number of persons employed in Puerto Rico during fiscal year 2013 averaged 1,029,019, a decrease of 0.6% compared to the previous fiscal year; and the unemployment rate averaged 14.0%. During the first six months of fiscal year 2014 (June 30, 2013 through December 31, 2013), total employment fell by 2%, as compared to the same period for the prior fiscal year, and the unemployment rate averaged 14.8% compared to 14.2% for the same period of the prior fiscal year. Puerto Rico's fiscal situation is expected to continue to be challenging in 2014.

In February 2014, the three principal rating agencies (Moody's, S&P and Fitch) lowered their ratings on the general obligation bonds of the Commonwealth of Puerto Rico and on the bonds of several other Commonwealth instrumentalities to non-investment grade ratings. In connection with their rating actions, the rating agencies have noted various factors, including high levels of public debt, the lack of clear economic growth catalysts, fiscal budget deficits, the financial condition of the public sector employee pension plans and, more recently, liquidity concerns regarding the Commonwealth and Government Development Bank for Puerto Rico and concerns regarding access to market financing. Furthermore, the Puerto Rico economy continues to be susceptible to fluctuations in the price of crude oil due to its high dependence on fuel oil for energy production. Popular's assets and revenue composition by geographical area and by business segment reporting are presented in Note 42, Segment Reporting to consolidated financial statements.

The Government recently announced that it will take additional measures to reduce the budget deficit for fiscal year 2014 and is committed to achieving a balanced budget by fiscal year 2015. The additional measures the Government

must take to reduce or eliminate the budget deficits will include significant measures to increase revenues and/or reduce expenditures, which could have adverse effects for economic activity. Furthermore, the Commonwealth must access the capital markets to refinance existing debt. If the Commonwealth is unable to successfully access the bond market or obtain alternative sources of financing, or if the adjustment measures result insufficient to address the Commonwealth's fiscal problems, then the financial condition of the Commonwealth may deteriorate further, which could cause a further general deterioration of the economy and adversely affect our financial condition and profitability.

The lingering effects of the prolonged recession are still reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on mortgage loans granted in Puerto Rico. If the price of crude oil increases, if global or local economic conditions worsen or if the Government is unable to access the capital markets and manage its fiscal problems in an orderly manner, those adverse effects could continue or worsen. Any reduction in consumer spending as a result of these issues may also adversely impact our non-interest revenues.

For additional information regarding the Puerto Rico economy, refer to "Geographical and government risk" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Annual Report.

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

Further deterioration of the value of real estate collateral securing our construction, commercial and mortgage loan portfolios would result in increased credit losses. As of December 31, 2013, approximately 1%, 29% and 31% of our non-covered loan portfolio consisted of construction, commercial secured by real estate and mortgage loans, respectively.

Substantially our entire loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the U.S. Virgin Islands, the British Virgin Islands 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. Recent economic reports related to the real estate market in Puerto Rico indicate that several sectors of the real estate market are subject to reductions in value related to general economic conditions. In certain mainland markets like southern Florida, Illinois and California, we have experienced the negative impact associated with low absorption rates and property value adjustments due to overbuilding. 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,

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we may not realize an amount equal to the indebtedness secured by the property. In addition, given the current slowdown in the real estate market in Puerto Rico, the properties securing these loans may be difficult to dispose of, if foreclosed.

Construction and commercial loans, mostly secured by commercial and residential real estate properties entail a higher credit risk than consumer and residential mortgage loans, since they are larger in size, may have less collateral coverage, concentrate more risk in a single borrower and are generally more sensitive to economic downturns. As of December 31, 2013, non-covered commercial and construction loans secured by commercial real estate properties, amounted to \$6.5 billion or 30% of the total non-covered loan portfolio.

BPPR has various subsidiaries holding specific assets acquired in satisfaction of loans for real estate development projects. Total assets of those subsidiaries amounted to \$92.1 million as of December 31, 2013, of which \$10.8 million or 12% of total assets are foreclosed properties.

During the year ended December 31, 2013, net charge-offs specifically related to values of properties securing our non-covered construction, commercial, legacy and mortgage loan portfolios totaled \$3.9 million, \$115.7 million, \$1.2 million and \$13.7 million, respectively. Continued deterioration on 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 Management and Loan Quality section of the Management's Discussion and Analysis included in the Annual Report.

**Difficult market conditions have adversely affected the financial industry and our results of operations and financial condition.**

Market instability and lack of investor confidence have led many lenders and institutional investors to reduce or cease providing funding to borrowers, including other financial institutions. This has 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 have adversely affected our industry and our business, results of operations and financial condition. We do not expect a material improvement in the financial environment in the near future. A worsening of these difficult conditions would exacerbate the economic challenges facing us and others in the financial industry. In particular, we face the following risks in connection with these events:

We expect to face increased regulation of our industry, including as a result of the EESA and the Dodd-Frank Act and the creation of the new Consumer Financial Protection Bureau. Compliance with those regulations may increase our costs and limit our ability to pursue business opportunities. Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our customers become less predictive of future behavior.

The processes we use to estimate losses inherent in our credit exposure requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The reliability of these processes might be compromised if these variables are no longer capable of accurate estimation.

Competition in our industry could intensify as a result of increasing consolidation of financial services companies in connection with current market conditions.

The FDIC increased the assessments that we have to pay on our insured deposits during 2009 because market developments led to a substantial increase in bank failures and an increase in FDIC loss reserves, which in turn led to a depletion of the FDIC insurance fund reserves. We may be required to pay in the future significantly higher FDIC assessments on our deposits if market conditions do not improve or continue to deteriorate.

We may suffer higher credit losses because of federal or state legislation or other regulatory action that either (i) reduces the amount that our borrowers are required to pay us, or (ii) limits our ability to foreclose on properties or collateral or makes foreclosures less economically viable.

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**Financial services legislative and regulatory reforms may have a significant impact on our business and results of operations and on our credit ratings.**

Popular is subject to extensive regulation, supervision and examination by federal and Puerto Rico banking authorities. Any change in applicable federal 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 Popular's powers, authority and operations, which could have a material adverse effect on Popular's 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 would have a negative impact on Popular.

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. The U.S. Government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis. Several funding and capital programs by the Federal Reserve Board and the U.S. Treasury were launched in 2008 and 2009, with the objective of enhancing financial institutions' ability to raise liquidity. These programs had the effect of increasing the degree or nature of regulatory supervision to which we are subjected. These and other potential regulation and scrutiny may, or proposed legislative and regulatory changes could, significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and, limit our ability to pursue business opportunities in an efficient manner or otherwise adversely affect our results of operations or earnings.

**Our participation in TARP subjects us to increased scrutiny and imposes limitations on our business.**

We face increased regulation and regulatory scrutiny as a result of our participation in the TARP. Unless we have redeemed all of the trust preferred securities issued to the U.S. Treasury or the U.S. Treasury has transferred all of its trust preferred securities to third parties, the consent of the U.S. Treasury will be required for us to, among other things, increase the dividend rate per share of Common Stock above \$0.80 per share or to repurchase or redeem equity securities, including our Common Stock, subject to certain limited exceptions. Popular has also granted registration rights and offering facilitation rights to the U.S. Treasury pursuant to which we have agreed to lock-up periods during which it would be unable to issue equity securities. Our participation in TARP also imposes limitations on the payments we may make to our senior leaders. For more details on the implications of TARP please refer to the risks factors titled as follow: Our business could suffer if we are unable to attract, retain and motivate skilled senior leaders and Dividends on our Common Stock and Preferred Stock have been suspended and stockholders may not receive funds in connection with their investment in our Common Stock or Preferred Stock without selling their shares.

On October 18, 2013, the Corporation submitted a formal application to the Federal Reserve of New York to redeem the \$935 million in trust preferred securities due under the TARP. While there can be no assurance that the Corporation will be approved to repay TARP, nor on the timing of this event, if the Corporation is approved and repays TARP in full, a non-cash charge to earnings would be recorded for the unamortized portion of the discount associated with this debt, which at December 31, 2013 had a balance of \$404 million.

**The Dodd-Frank Act imposes new capital requirements, assessments and restrictions on our businesses, impacting the profitability of our business activities and changing certain of our business practices, and could expose us to additional costs, including increased compliance costs.**

On July 21, 2010, the Dodd-Frank Act was signed into law, which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike including several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future.

The Dodd-Frank Act, among other things, imposes new capital requirements on bank holding companies; changes the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base, and permanently raises the current standard deposit insurance limit to \$250,000; and expands the FDIC's authority to raise insurance premiums. The legislation also calls for the FDIC to raise the ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to offset the effect of increased assessments on insured depository institutions with assets of less than \$10 billion. The Dodd-Frank Act also limits interchange fees payable on debit card transactions, establishes the Bureau of Consumer Financial Protection as an independent entity within the

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Federal Reserve, which will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. The Dodd-Frank Act also includes provisions that affect corporate governance and executive compensation at all publicly-traded companies and allows financial institutions to pay interest on business checking accounts. The legislation also restricts proprietary trading, places restrictions on the owning or sponsoring of hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates.

These provisions, or any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition, and results of operations.

**Capital and liquidity proposals and legislation, if adopted, would change banking laws and our operating environment and that of our subsidiaries in substantial and unpredictable ways.***New Capital Rules to Implement Basel III Capital Requirements*

On July 2, 2013, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") approved final rules ("New Capital Rules") to establish a new comprehensive regulatory capital framework for all U.S. banking organizations. On July 9, 2013, the New Capital Rules were approved by the Office of the Comptroller of the Currency ("OCC") and (as interim final rules) by the Federal Deposit Insurance Corporation ("FDIC") (together with the Board, the "Agencies").

The New Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including Popular, BPPR and BPNA, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the New Capital Rules implement certain provisions of Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The New Capital Rules are effective for Popular, BPPR and BPNA on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1") and 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 existing regulations. Under the New Capital Rules, for most banking organizations, including the Corporation, 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 New Capital Rules specific requirements.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 will be as follows:

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 ).



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The New 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, when fully phased-in on January 1, 2019, Popular, BPPR and BPNA will be 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 New 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 the current general 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 are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including Popular, BPPR and BPNA, may make a one-time permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of the Popular's, BPPR's and BPNA's periodic regulatory reports in the beginning of 2015. Popular, BPPR and BPNA expect to make 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 portfolio. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out in the case of bank holding companies that had \$15 billion or more in total consolidated assets as of December 31, 2009. The Corporation's Tier I capital level at December 31 2013, included \$ 427 million of trust preferred securities that are subject to the phase-out provisions of the New Capital Rules. The Corporation would be allowed to include only 25 percent of such trust preferred securities in Tier 1 capital as of January 1, 2015 and 0 percent as of January 1, 2016, and thereafter. Trust preferred securities no longer included in Popular's Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out and irrespective of whether such securities otherwise meet the revised definition of Tier 2 capital set forth in the New Capital Rules. The Corporation's trust preferred securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008 are exempt from the phase-out provision.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to BPPR and BPNA, the New Capital Rules revise the prompt corrective action (PCA) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category.

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, and resulting in higher risk weights for a variety of asset classes.

We believe that Popular, BPPR and BPNA will be able to meet well-capitalized capital ratios upon implementation of the revised requirements, as finalized. Although we expect to continue to exceed the minimum requirements for well capitalized status following the implementation of the rules as proposed, there can be no assurances that we will remain well capitalized.

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**RISKS RELATING TO OUR BUSINESS**

**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 brokers and dealers, commercial banks, investment banks, mutual and 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 results 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 makes it more difficult to borrow in the credit markets.

**We are subject to risk related to our own credit rating**

The Corporation's banking subsidiaries currently do not use borrowings that are rated by the major rating agencies, as these banking subsidiaries are funded primarily with deposits and secured borrowings. The banking subsidiaries had \$19 million in deposits at December 31, 2013 that were subject to rating triggers.

Some of the Corporation's derivative instruments include financial covenants tied to the bank's well-capitalized status and certain formal regulatory actions. These agreements could require exposure collateralization, early termination or both. The fair value of derivative instruments in a liability position subject to financial covenants approximated \$15 million at December 31, 2013, with the Corporation providing collateral totaling \$19 million to cover the net liability position with counterparties on these derivative instruments.

In addition, certain mortgage servicing and custodial agreements that BPPR has with third parties include rating covenants. In the event of a credit rating downgrade, the third parties have the right to require the institution to engage a substitute cash custodian for escrow deposits and/or increase collateral levels securing the recourse obligations. Also, the Corporation services residential mortgage loans subject to credit recourse provisions. Certain contractual agreements require the Corporation to post collateral to secure such recourse obligations if the institution's required credit ratings are not maintained. Collateral pledged by the Corporation to secure recourse obligations amounted to approximately \$120 million at December 31, 2013. The Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation's liquidity resources and impact its operating results.

Our credit ratings were reduced substantially in 2009, and our senior unsecured ratings are now non-investment grade with the three major rating agencies. This may make it more difficult for the Corporation and its subsidiaries to borrow in the capital markets and at a higher cost.

**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 originated or acquired. 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.

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**Table of Contents****Rating downgrades on the Government of Puerto Rico's debt obligations could affect the value of our loans to the Government and our portfolio of Puerto Rico Government securities.**

In February 2014, the three principal nationally recognized rating agencies (Moody's, S&P and Fitch) downgraded the general-obligation bonds of the Commonwealth and other obligations of Puerto Rico instrumentalities to non-investment grade categories, citing concerns about financial flexibility and a reduced capacity to borrow in the financial markets. Debt from the Puerto Rico Sales Tax Financing Corporation (COFINA) retained an investment grade following the downgrades. The lower credit ratings of Puerto Rico will likely reduce the government's ability to finance its estimated budget deficit for fiscal year 2014 (which the Government announced it intends to reduce from \$820 million to \$650 million).

The value of Puerto Rico's government obligations was already adversely impacted during 2013 as a result of prior rating downgrades and the perceived deterioration of the Government's fiscal condition. It is uncertain how the financial markets may react to any potential further ratings downgrade of Puerto Rico's debt obligations. However, further deterioration in the fiscal situation with possible negative ratings implications, could further adversely affect the value of Puerto Rico's government obligations.

At December 31, 2013, the Corporation's direct exposure to the Puerto Rico government, instrumentalities and municipalities amounted \$1.2 billion, of which approximately \$950 million is outstanding. Of the amount outstanding, \$789 million consists of loans and \$161 million are securities. From this amount, \$527 million represents obligations from the Government of Puerto Rico and public corporations that are either collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as water and electric power utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The credit ratings of the public power and water utilities have also been reduced to non-investment grade categories by some of the rating agencies as part of the recent downgrades. The remaining \$423 million represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality.

In addition, at December 31, 2013, the Corporation had \$360 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default. These included \$274 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2012 - \$294 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had \$52 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMO's, and \$34 million of industrial development notes.

**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. In the past, we have 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, 2013, we serviced \$2.5 billion in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA 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 2013, we repurchased approximately \$126 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, 2013, our liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$41 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.

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**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 unsaleable or saleable 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 representation and warranty violations on specific portfolios. At December 31, 2013, Popular's reserve for estimated losses from representation and warranty arrangements amounted to \$26.3 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 or financial condition.

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

During 2008 and continuing in 2009, higher levels of bank failures have dramatically increased resolution costs of the FDIC and depleted the DIF. In addition, the FDIC instituted two temporary programs, to further insure customer deposits at FDIC-member banks: deposit accounts are now insured up to \$250,000 per customer (up from \$100,000) and non-interest-bearing transaction accounts are fully insured (unlimited coverage) as a result of our participation in the Transaction Account Guarantee Program. These programs have placed additional stress on the DIF.

In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC increased assessment rates of insured institutions uniformly by 7 cents for every \$100 of deposits beginning with the first quarter of 2009, with additional changes in April 1, 2009, which required riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on, among other things, secured liabilities and unsecured debt levels. In May 2009, the FDIC adopted a final rule, effective June 30, 2009, that imposed a special assessment of 5 cents for every \$100 on each insured depository institution's assets minus its Tier 1 capital as of June 30, 2009, subject to a cap equal to 10 cents per \$100 of assessable deposits for the second quarter 2009 risk-based capital assessment. This special assessment applied to us and resulted in a \$16.7 million expense in our second quarter of 2009. On November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years' worth of premiums to replenish its depleted insurance fund. In December 30, 2009, Popular prepaid \$221 million and reduced our year-end liquidity at our banking subsidiaries.

With the enactment of the Dodd-Frank Act, major changes were introduced to the FDIC deposit insurance system. Under the Dodd-Frank Act, the FDIC now has until the end of September 2020 to bring its reserve ratio to the new statutory minimum of 1.35%. New rules amending the deposit insurance assessment regulations under the requirements of the Dodd-Frank Act have been adopted, including a final rule designating 2% as the designated reserve ratio and a final rule extending temporary unlimited deposit insurance to non-interest bearing transaction accounts maintained in connection with lawyers' trust accounts. On February 7, 2011, the FDIC adopted regulations effective for the 2011 second quarter assessment and payable in September 2011, which outline significant changes in the risk-based premiums approach for banks with over \$10 billion of assets and creates a Scorecard system. The Scorecard system uses a performance score and loss severity score, which aggregate to an initial base assessment rate. The assessment base also changes from deposits to an institution's average total assets minus its average tangible equity. For 2013 the FDIC deposit insurance expense of Popular totaled \$61 million and the prepaid FDIC insurance assessment as of December 31, 2013 amounted to \$383 thousand.



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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.

**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, 2013 we had approximately \$648 million and \$39 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 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. Critical assumptions that are used as part of these evaluations include:

- selection of comparable publicly traded companies, based on nature of business, location and size;
- selection of comparable acquisition and capital raising transactions;
- the discount rate applied to future earnings, based on an estimate of the cost of equity;
- the potential future earnings of the reporting unit; and
- the market growth and new business assumptions.

We conducted our annual evaluation of goodwill during the third quarter of 2013 using July 31, 2013 as the annual evaluation date. This evaluation is a two- step process. The Step 1 evaluation of goodwill allocated to BPNA, our United States operations segment, indicated potential impairment of goodwill. The Step 1 fair value for the unit was below the carrying amount of its equity book value as of the July 31, 2013 valuation date, requiring the completion of Step 2. Step 2 required a valuation of all assets and liabilities of the BPNA unit, including any recognized and unrecognized intangible assets, to determine the fair value of net assets. To complete Step 2, we subtracted from the unit's Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 analysis indicated that the implied fair value of goodwill exceeded the goodwill carrying value of \$402 million, resulting in no goodwill impairment.

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 could be adversely affected.

**Our business could suffer if we are unable to attract, retain and motivate skilled senior leaders**

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. As TARP recipients, we are subject to the executive compensation provisions of the EESA, including amendments to such provisions implemented under the American Recovery and Reinvestment Act of 2009, which limit the types of compensation arrangements that Popular may enter into with our most senior leaders. Our competitors may be in an advantageous position to retain and attract senior leaders since we are one of only two institutions in Puerto Rico that received TARP money and are subject to TARP related

compensation provisions. 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. 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.

**Our compensation practices are subject to oversight by the Federal Reserve Board. Any deficiencies in our compensation practices may be incorporated into our supervisory ratings, which can affect our ability to make acquisitions or perform other actions.**

Our compensation practices are subject to oversight by the Federal Reserve Board. In October 2009, the Federal Reserve Board issued a comprehensive proposal on incentive compensation policies that applies to all banking organizations supervised by the Federal Reserve Board, including Popular and our banking subsidiaries. The proposal sets forth three key

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principles for incentive compensation arrangements that are designed to help ensure that incentive compensation plans do not encourage excessive risk-taking and are consistent with the safety and soundness of banking organizations. The three principles provide that a banking organization's incentive compensation arrangements should provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, be compatible with effective internal controls and risk management, and be supported by strong corporate governance. The proposal also contemplates a detailed review by the Federal Reserve Board of the incentive compensation policies and practices of a number of large, complex banking organizations. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The proposal provides that 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. Separately, the FDIC has solicited comments on whether to amend its risk-based deposit insurance assessment system to potentially increase assessment rates on financial institutions with compensation programs that put the FDIC deposit insurance fund at risk, and proposed legislation would subject compensation practices at financial institutions to heightened standards and increased scrutiny.

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 our and their key employees.

**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 BPNA, are limited by law in their ability to make dividend payments and other distributions to us based on their earnings and capital position. 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.

**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.

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.

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. In addition, servicing, licensing and custodial agreements that we are party to with third parties 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 Popular 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 \$120 million at December 31, 2013. 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 Popular's liquidity resources and impact

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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.**

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 we fail to maintain well-capitalized status under the regulatory framework, or are deemed not well managed under regulatory exam procedures, or if we experience certain regulatory violations, our status as a financial holding company and our related eligibility for a streamlined review process for acquisition proposals, and our ability to offer certain financial products will be compromised and our financial condition and results of operations could be adversely affected.

In July 2011, the Corporation and BPPR entered into a Memorandum of Understanding (the Corporation/BPPR MOU ) with the Federal Reserve Bank of New York (the FRB-NY ) and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (the Office of the Commissioner ). On the same date, BPNA entered into a Memorandum of Understanding (the BPNA MOU ) and collectively with the Corporation/BPPR MOU, the MOUs ) with the FRB-NY and the New York State Banking Department (the Banking Department ). The MOUs generally apply to the Corporation, the applicable bank subsidiary and the Corporation's nonbank subsidiaries. The MOUs provide, among other things, for the Corporation to take steps to improve its credit risk management practices and asset quality, and for the Corporation to develop strategic plans to improve earnings and to develop capital plans. The Corporation does not expect the capital plans to require it to maintain capital ratios in excess of those it currently has achieved. The MOUs require the Corporation to obtain approval from the applicable MOU counterparties prior to, among other things, declaring or paying dividends, purchasing or redeeming any shares of its stock, consummating acquisitions or mergers, or making any distributions on its trust preferred securities or subordinated debentures.

**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.

**The resolution of significant pending litigation, 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 28, Commitments & Contingencies , to the Consolidated Financial Statements.

**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**

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**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, including Cuba. 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 persons 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.

In June 2010, EVERTEC discovered potential violations of the Cuban Assets Control Regulations (CACR), which are administered by OFAC, due to an oversight in which the screening parameters for two customers located in Haiti and Belize were not activated. EVERTEC conducted an internal review and submitted a final voluntary self-disclosure to OFAC in September 2010.

Separately, in November 2010, EVERTEC submitted a final voluntary self-disclosure to OFAC regarding the processing of certain Cuba related credit card transactions involving Costa Rica and Venezuela that EVERTEC believed could not be rejected under governing local law and policies, but which nevertheless may have not been consistent with the CACR. The voluntary self-disclosure also covered the transmission, through EVERTEC's Costa Rica subsidiary, of data relating to debit card payment initiated by non-sanctioned persons traveling to Cuba. Notwithstanding the risk of violations of applicable governing local law and policies, around September 2010, EVERTEC ceased processing the credit card transactions and transmitting the data referred to in the two preceding sentences.

Additionally, in August 2013, we submitted a voluntary self-disclosure to OFAC regarding certain debit card transactions that originated from merchants in Cuba routed by Tarjetas y Transacciones en Red, TRANRED, C.A. (Tranred), which at the time was our subsidiary, on behalf of a Venezuelan bank customer. Because Tranred understood its Venezuelan customers issued debit cards for local Venezuelan transactions only, Tranred had not established screening for debit card transactions. Immediately upon discovery of the Cuba-originating transactions, Tranred implemented a new control filter in its debit card transaction routing system to prevent the routing of any transaction originating in Cuba. On July 31, 2013, Popular completed the sale of Tranred to a third party.

On December 4, 2013, Banco Popular submitted a voluntary self-disclosure to OFAC in connection with potential violations of the Iranian Transactions and Sanctions Regulations. In particular, Banco Popular disclosed several

transactions that occurred between March 20, 2012 and November 1, 2013, which might not have been timely blocked and reported to OFAC as required by the ITR. The transactions related to a non-profit corporation client of Banco Popular which owns and operates a full service television network. The transactions, which related to payment for air-time on the television network by a public broadcasting entity that appeared to be directly or indirectly owned, controlled and/or operated by the Islamic Republic of Iran Broadcasting ( IRIB ), Iran 's state-owned public broadcasting corporation, and, consequently, subject to OFAC sanctions, were identified as a result of Banco Popular 's BSA/AML/OFAC Compliance Program.

In addition to the matters set forth above, 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, including the CACR. Although OFAC 's response to our recent 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 may result in material fines, sanctions or other penalties being imposed on us.

We have agreed to indemnify EVERTEC for claims or damages related to the economic sanctions regulations administered by OFAC, including the potential violations of the CACR described above. 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.



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**RISKS RELATED TO THE FDIC-ASSISTED TRANSACTION**

**Risks Related to the FDIC-assisted Transaction**

We entered into an FDIC-assisted transaction involving Westernbank, which could present additional risks to our business. On April 30, 2010, BPPR acquired certain assets and assumed certain liabilities of Westernbank from the FDIC in an assisted transaction. Although this transaction provides for FDIC assistance to BPPR to mitigate certain risks, such as sharing exposure to loan losses (80% of the losses in substantially all the acquired portfolio will be borne by the FDIC) and providing indemnification against certain liabilities of the former Westernbank, we are still subject to some of the same risks we would face in acquiring another bank in a negotiated transaction. Such risks include risks associated with maintaining customer relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. In addition, because the FDIC-assisted transaction was structured in a manner that did not allow bidders the time and access to information normally associated with preparing for and evaluating a negotiated transaction, we may face additional risks in the FDIC-assisted transaction.

**The success of the FDIC-assisted transaction will depend on a number of uncertain factors.**

The success of the FDIC-assisted transaction will depend on a number of factors, including, without limitation:

- our ability to limit the outflow of deposits held by our new customers in the acquired branches and to successfully retain and manage interest-earning assets (i.e., loans) acquired in the FDIC-assisted transaction;
- our ability to attract new deposits and to generate new interest-earning assets in the areas previously served by the former Westernbank branches;
- our ability to control the incremental non-interest expense from the former Westernbank branches and other units in a manner that enables us to maintain a favorable overall efficiency ratio;
- our ability to collect on the loans acquired and satisfy the standard requirements imposed in the loss sharing agreements; and
- our ability to earn acceptable levels of interest and non-interest income, including fee income, from the acquired branches.

**The FDIC-assisted transaction increased BPPR's commercial real estate and construction loan portfolio, which have a greater credit risk than residential mortgage loans.**

With the acquisition of most of the former Westernbank's loan portfolio, the commercial real estate loan and construction loan portfolios represent a larger portion of BPPR's total loan portfolio than prior to the FDIC-assisted transaction. This type of lending is generally considered to have more complex credit risks than traditional single-family residential or consumer lending, because the principal is concentrated in a limited number of loans with repayment dependent on the successful operation or completion of the related real estate or construction project. Consequently, these loans are more sensitive to the current adverse conditions in the real estate market and the general economy. These loans are generally less predictable, more difficult to evaluate and monitor, and their collateral may be more difficult to dispose of in a market decline. Furthermore, since these loans are to Puerto Rico based borrowers, Popular's credit exposure concentration in Puerto Rico increased as a result of the acquisition. Although, the negative economic aspects of these risks are substantially reduced as a result of the FDIC loss sharing agreements, changes in national and local economic conditions could lead to higher loan charge-offs in connection with the FDIC-assisted transaction all of which would not be totally supported by the loss sharing agreements with the FDIC.

We acquired significant portfolios of loans in the FDIC-assisted transaction. Although these loan portfolios were initially accounted for at fair value, there is no assurance that there will not be additional charge-offs to this portfolio.

The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may increase the level of charge-offs that we make to our loan portfolio, and consequently, reduce our net income, and may also increase the level of charge-offs on the loan portfolio that we have acquired and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition even if other favorable events occur.

Although we have entered into loss sharing agreements with the FDIC which provide that 80% of losses related to specified loan portfolios that we have acquired in connection with the FDIC-assisted transaction will be borne by the FDIC, we are not protected for all losses resulting from charge-offs with respect to those specified loan portfolios. Additionally, the loss sharing agreements have limited terms; therefore, any charge-off of related losses that we experience after the term of the loss sharing agreements will not be reimbursed by the FDIC and will negatively impact our results of operations. The loss sharing

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agreements also impose standard requirements on us which must be satisfied in order to retain loss share protections. The FDIC has the right to refuse or delay payment for loan losses if the loss sharing agreements are not managed in accordance with their terms.

**Our decisions regarding the fair value of assets acquired could be inaccurate and our estimated loss share indemnification asset in the FDIC-assisted transaction may be inaccurate, which could materially and adversely affect our business, financial condition, results of operations, and future prospects.**

Management makes various assumptions and judgments about the collectability of acquired loan portfolios, 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 the FDIC-assisted transaction, we recorded a loss share indemnification asset that we consider adequate to absorb future losses which may occur in the acquired loan portfolio. In determining the size of the loss share indemnification asset, 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, 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 portfolio. Any increase in future loan losses could have a negative effect on our operating results. However, in the event expected losses from the Westernbank portfolio were to increase more than originally expected, the related increase in loss reserves would be largely offset by higher than expected indemnity payments from the FDIC. Refer to the Westernbank FDIC-assisted transaction section in the Annual Report for additional information on the Westernbank FDIC-assisted transaction, including the accounting for assets acquired and liabilities assumed as well as information on the breakdown and accounting of the acquired loan portfolio.

**Our ability to obtain reimbursement under the loss sharing agreements on covered assets depends on our compliance with the terms of the loss sharing agreements.**

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

- manage and administer the covered assets and collect and effect charge-offs and recoveries with respect to such covered assets in a manner consistent with its usual and prudent business and banking practices and, with respect to single family shared-loss loans, the procedures (including collection procedures) customarily employed by BPPR in servicing and administering mortgage loans for its own account and the servicing procedures established by FNMA or FHLMC, as in effect from time to time, and in accordance with accepted mortgage servicing practices of prudent lending institutions;
- exercise its best judgment in managing, administering and collecting amounts on covered assets and effecting charge-offs with respect to the covered assets;
- use commercially reasonable efforts to maximize recoveries with respect to losses on single family shared-loss assets and best efforts to maximize collections with respect to commercial shared-loss assets;
- retain sufficient staff to perform the duties under the loss share agreements;
- adopt and implement accounting, reporting, record-keeping and similar systems with respect to the commercial shared-loss assets;
- comply with the terms of the modification guidelines approved by the FDIC or another federal agency for any single-family shared loss loan;

provide notice with respect to proposed transactions pursuant to which a third party or affiliate will manage, administer or collect any commercial shared-loss assets; and file monthly and quarterly certificates with the FDIC specifying the amount of losses, charge-offs and recoveries.

Under the loss share agreements, BPPR is also required to maintain books and records sufficient to ensure and document compliance with the terms of the loss share agreements.

Under the terms of the loss share agreements, BPPR is also required to deliver certain certificates regarding compliance with the terms of each of the loss share agreements and the computations required there under. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss sharing coverage. BPPR believes that it has complied with the terms and conditions regarding the management of the covered assets. No assurances can be given that we will manage the covered assets in such a way as to always maintain loss share coverage on all such assets and fully recover the value of our loss share asset.

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For the quarters ended June 30, 2010 through March 31, 2012, BPPR received reimbursement for loss-share claims submitted to the FDIC, including charge-offs for certain commercial late stage real-estate-collateral-dependent loans calculated in accordance with BPPR's charge-off policy for non-covered assets. When BPPR submitted its shared-loss claim in connection with the June 30, 2012 quarter, however, the FDIC refused to reimburse BPPR for a portion of the claim because of a difference related to the methodology for the computation of charge-offs for certain commercial late stage real-estate-collateral-dependent loans. In accordance with the terms of the commercial loss share agreement, BPPR applied a methodology for charge-offs for late stage real-estate-collateral-dependent loans that conforms to its regulatory supervisory criteria and is calculated in accordance with BPPR's charge-off policy for non-covered assets. The FDIC has stated that it believes that BPPR should use a different methodology for those charge-offs. Notwithstanding the FDIC's refusal to reimburse BPPR for certain shared-loss claims, BPPR has continued to submit shared-loss claims for quarters subsequent to June 30, 2012. As of December 31, 2013, BPPR had unreimbursed shared-loss claims of \$247.0 million under the commercial loss share agreement with the FDIC. On February 14, 2014, BPPR received a payment of \$78.9 million related to reimbursable shared-loss claims from the FDIC. After giving effect to this payment, BPPR has unreimbursed shared-loss claims amounting to \$168.1 million, including \$158.1 million related to commercial late stage real-estate-collateral-dependent loans, determined in accordance with BPPR's regulatory supervisory criteria and BPPR's charge-off policy for non-covered assets. If the reimbursement amount for these claims were calculated in accordance with the FDIC's preferred methodology for late stage real-estate-collateral-dependent loans, the amount of such claims would be reduced by approximately \$144.4 million.

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

To the extent that we are not able to successfully resolve this matter through the arbitration process described above, a material difference could result in the timing and amount of charge-offs recorded by us and the amount of charge-offs reimbursed by the FDIC under the commercial loss share agreement. That could require us to make a material adjustment to the value of our loss share assets and the related true up payment obligation to the FDIC, and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

**RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES****Potential issuance of additional shares of our Common Stock could further dilute existing holders of our Common Stock.**

The potential issuance of additional shares of our Common Stock or common equivalent securities in future equity offerings, would dilute the ownership interest of our existing common stockholders.

**Dividends on our Common Stock and Preferred Stock have been or 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. In December 2010, we resumed payment of dividends on our Preferred Stock, subject to certain conditions agreed to with our regulators. In connection with the resumption of payment of dividends on our Preferred Stock, we agreed to fund the dividend payments out of newly-issued Common Stock issued to employees under Popular's existing savings and investment plans or, if such issuances are insufficient, other common equity capital raised by Popular. It is anticipated that sufficient Common Stock will be issued under those plans to cover the dividend payment. There can be no assurance that any dividends will be declared on the Preferred Stock in any future periods. Furthermore, unless we have redeemed all of the trust preferred securities issued to the U.S. Treasury or the U.S. Treasury has transferred all of its trust preferred securities to third parties, the consent of the U.S. Treasury will be required for us to, among other things, increase the dividend rate per share of Common Stock above \$0.80 per share or to repurchase or redeem equity securities, including our Common Stock, subject to certain limited exceptions. Popular has also granted registration rights and offering facilitation rights to the U.S. Treasury pursuant to which we have agreed to lock-up periods during which it would be unable to issue equity securities.

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This could adversely affect the market price of our Common 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. Moreover, the Federal Reserve Board and the FDIC have issued policy statements stating that the bank holding companies and insured banks should generally pay dividends only out of current operating earnings. In the current financial and economic environment, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios that are at the 100% or higher level unless both asset quality and capital are very strong.

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. The terms also prohibit us 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.

## **RISKS RELATING TO OUR OPERATIONS**

### **Cyber-attacks, system risks and data protection breaches could present significant reputational, legal and regulatory costs.**

Popular is under continuous threat of cyber-attacks especially as we continue to expand customer services via the internet and other remote service channels. The most significant cyber attack risks that we may face are e-fraud, denial-of-service and computer intrusion that might result in loss of sensitive customer 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. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of the threats from organized cybercriminals and hackers, and our plans to continue to provide e-banking and mobile banking services to our customers. We have not, to date, experienced any material losses as a result of cyber-attacks.

If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. 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 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. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, 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, 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.

**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 a region susceptible to hurricanes. Such weather events can 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 to the markets that we serve that a catastrophic hurricane could produce. Further, a hurricane in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely impact the value of any collateral held by us. Man-



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made disasters and other events connected with the region in which we are located 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 past or future hurricanes and other weather-related events could have an adverse effect on our business, financial condition or results of operations.

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, 2013, BPPR owned and wholly or partially occupied approximately 63 branch premises and other facilities throughout Puerto Rico. It also owned 6 parking garage buildings and approximately 36 lots held for future development or for parking facilities also in Puerto Rico, one building in the U.S. Virgin Islands and one in the British Virgin Islands. In addition, as of such date, BPPR leased properties mainly for branch operations in approximately 113 locations in Puerto Rico and 7 locations in the U.S. Virgin Islands. At December 31, 2013, BPNA had 94 offices (principally bank branches) of which 16 were owned and 78 were leased. These offices were located in New York, Illinois, New Jersey, California and Florida. Included in this figure is a leased six story office building in Rosemont, Illinois that is the site of BPNA's headquarters. Our management believes that each of our facilities are well maintained and suitable for its purpose. The principal properties owned by Popular for banking operations and other services are described below:

Popular Center, the twenty-story BPPR headquarters building, located at 209 Muñoz Rivera Avenue, Hato Rey, Puerto Rico. In addition, it has an adjacent parking garage with capacity for approximately 1,095 cars. BPPR operates a full service branch at the plaza level and our centralized units and subsidiaries occupy approximately 56% of the office floors space. Approximately 37% of the office space is leased to outside tenants and 4% is available for office and retail use. In addition, 3% of the tenants occupy part of the recently redeveloped ground and promenade levels, while other contract negotiations are underway to establish additional retail businesses including sit-down restaurants and other food vendors.

Popular Center North Building, a five-story building, on the same block as Popular Center. These facilities are connected to the main building by the parking garage and to the Popular Street building by a pedestrian bridge. It provides additional office space and parking for 100 cars. It also houses six movie theatres with stadium type seating for approximately 600 persons.

Popular Street Building, a parking and office building located at Ponce de León Avenue and Popular Street, Hato Rey, Puerto Rico. The six stories of office space and the basement are occupied by BPPR units and the Corporate Credit Risk Division. At the ground level, Popular Auto occupies approximately 10% of the retail type space and the remaining spaces are leased or available for leasing to outside tenants. It has parking facilities for approximately 1,165 cars.

Cupey Center Complex, one building, three stories high, and three buildings, two stories high each, located in Cupey, Río Piedras, Puerto Rico. This building is leased to EVERTEC. BPPR maintains a full service branch and some support services in these facilities. The Complex also includes a parking garage building with capacity for approximately 1,000 cars and houses a recreational center for employees.

Stop 22 Building, a twelve story structure located in Santurce, Puerto Rico. A BPPR branch, the Our People Division, the Asset Protection Division, the Auditing Division and the International Banking Center and Foreign Exchange Department are the main occupants of this facility.

Centro Europa Building, a seven-story office and retail building in Santurce, Puerto Rico. The BPPR's training center and loss mitigation unit occupies approximately 38% of this building. The remaining space is leased or available for leasing to outside tenants. The building also includes a parking garage with capacity for approximately 613 cars.

Old San Juan Building, a twelve-story structure located in Old San Juan, Puerto Rico. BPPR occupies approximately 36% of the building for a branch operation, an exhibition room and other facilities. The rest of the building is leased or available for leasing to outside tenants.

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Guaynabo Corporate Office Park Building, a two-story building located in Guaynabo, Puerto Rico. This building is fully occupied by Popular Insurance, LLC. as its headquarters. The property also includes an adjacent four-level parking garage with capacity for approximately 300 cars, a potable water cistern and a diesel storage tank.

Altamira Building, a nine-story office building located in Guaynabo, Puerto Rico. A seven-level parking garage with capacity for approximately 550 cars is also part of this property that houses the centralized offices Popular Auto, LLC. It also includes a full service branch and BPPR mortgage loans and servicing units.

El Señorial Center, a four-story office building and a two-story branch building located in Río Piedras, Puerto Rico. The property also includes an eight-level parking garage adjacent to the office building and four-levels of underground parking in the branch building, which together with the available ground parking space, provide for approximately 977 automobiles. As of December 31, 2013, a BPPR branch and the Río Piedras regional office operate in the branch building while a number of centralized BPPR offices occupy the main building. The Customer Contact Center and the Operations, Comptroller, Retail Credit Products and Services, and Card Products divisions are some of its occupants.

BPPR Virgin Islands Center, a three-story building located in St. Thomas, U.S. Virgin Islands housing a BPPR branch and centralized offices. The building is fully occupied by BPPR personnel.

Popular Center -Tortola, a four-story building located in Tortola, British Virgin Islands. A BPPR branch is located in the first story while the commercial credit department occupies the second story. Part of the third floor has been leased to an outside tenant while the remaining space is reserved for BPPR V.I. Region's expansion. The fourth floor is available for outside tenants.

## **ITEM 3. LEGAL PROCEEDINGS**

For a discussion of Legal proceedings, see Note 28, Commitments and Contingencies, to the Consolidated Financial Statements.

## **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. On May 29, 2012, the Corporation completed a 1-for-10 reverse split of its common stock, \$0.01 par value per share. Pursuant to the reverse stock split, each ten shares of authorized and outstanding common stock have been reclassified and combined into one new share of common stock. In connection with the reverse stock split, the number of shares of common stock authorized under the Corporation's Restated Certificate of Incorporation was reduced from 1,700,000,000 to 170,000,000 shares, without any change in par value per common share. The reverse split did not change the number of shares of the Corporation's preferred stock authorized, which remains at 30,000,000. All per share information presented in this Form10-K has been adjusted to reflect the reverse stock split.

Information concerning the range of high and low sales prices for the Common Stock for each quarterly period during 2012 and the previous four years, as well as cash dividends declared, is contained under Table 4, Common Stock Performance, in the Management's Discussion and Analysis of the Annual Report, and is incorporated herein by reference.

In June 2009, Popular announced the suspension of dividends on the Common Stock. Popular has no current plans to resume dividend payments on the Common Stock. 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.

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

As of February 21, 2014, Popular had 9,193 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 \$26.69 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, 2013 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.

In June 2009, Popular announced the suspension of dividends on its Series A and B Preferred Stock. On December 21, 2010, Popular announced that its Board of Directors declared monthly cash dividends of \$0.1328125 per share of 6.375% non-cumulative monthly income Preferred Stock, Series A, and of \$0.171875 per share of 8.25% non-cumulative monthly income preferred stock, Series B, paid on December 31, 2010 to holders of record as of December 28, 2010.

In connection with the resumption of payment of monthly dividends on the Preferred Stock, which amounted \$3.7 million for 2013, Popular has committed to the Board of Governors of the Federal Reserve System to fund the dividend payments out of newly-issued Common Stock issued to employees under Popular's existing savings and investment plans or, if such issuances are insufficient, other common equity capital raised by Popular. During 2012 the Common Stock issued under those plans was \$6.9 million that was well above the dividend payment. There can be no assurance that any dividends will be declared on the Preferred Stock in any future periods.

**2010 Capital Raise**

In April 2010, Popular raised \$1.15 billion through the sale of 46,000,000 depositary shares, each representing a 1/40th interest in a share of contingent convertible perpetual non-cumulative preferred stock, Series D, no par value, \$1,000 liquidation preference per share. The Preferred Stock represented by depositary shares automatically converted into the Common Stock at a conversion rate of 0.83333 shares of Common Stock for each depositary share on May 11, 2010, which was the 5th business day after Popular's common shareholders approved the amendment to Popular's restated certificate of incorporation to increase the number of authorized shares of Common Stock. The conversion of the depositary shares of Preferred Stock resulted in the issuance of 38,333,333 additional shares of Common Stock. The net proceeds from the public offering amounted to approximately \$1.1 billion, after deducting the underwriting discount and estimated offering expenses. Note 35, Net income (loss) per common share, to the audited consolidated financial statements provides information on the impact of the conversion on net (loss) income per common share.

**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. No shares will be sold directly by us to participants in the dividend reinvestment and stock purchase plan at less than the par value of our Common Stock. No additional shares were issued under the dividend reinvestment plan during 2013.

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For information about the securities authorized for issuance under our equity based plans, refer to Part III, Item 12.

In April 2004, our shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan. The maximum number of shares of Common Stock issuable under this Plan is 3,500,000.

In connection with our participation in the Capital Purchase Program under the Troubled Asset Relief Program, the consent of the U.S. Department of the Treasury is required for Popular to repurchase its Common Stock other than in connection with benefit plans consistent with past practice and certain other specified circumstances.

The following table sets forth the details of purchases of Common Stock during the quarter ended December 31, 2013 under the 2004 Omnibus Incentive Plan.

**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 Plan	Under the Programs
October 1 - October 31	2,075	\$ 26.98	-	-	-
November 1 - November 30	-	-	-	-	-
December 1 - December 31	-	-	-	-	-
Total December 31, 2013	2,075	\$ 26.98	-	-	-

**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, 2008, 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, 2008 = 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, and is incorporated herein by reference.



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Our ratio of earnings to fixed charges and of earnings to fixed charges and Preferred Stock dividends on a consolidated basis for each of the last five years is as follows:

	<u>Year ended December 31,</u>				
	2013	2012	2011	2010 (1)	2009 (1)
<b>Ratio of Earnings to Fixed Charges:</b>					
Including Interest on Deposits	2.0	1.4	1.5	1.4	(A)
Excluding Interest on Deposits	2.7	1.8	2.0	1.7	(A)
<b>Ratio of Earnings to Fixed Charges and Preferred Stock Dividends:</b>					
Including Interest on Deposits	2.0	1.4	1.4	1.4	(A)
Excluding Interest on Deposits	2.6	1.8	1.9	1.7	(A)

(1) The computation of earnings to fixed charges and preferred stock dividends excludes the results of discontinued operations.

(A) During 2009, earnings were not sufficient to cover fixed charges or preferred stock dividends and the ratios were less than 1:1. The Corporation would have had to generate additional earnings of approximately \$625 million to achieve ratios of 1:1 in 2009.

For purposes of computing these consolidated ratios, earnings represent income before income taxes, plus fixed charges. Fixed charges represent all interest expense and capitalized (ratios are presented both excluding and including interest on deposits), the portion of net rental expense, which is deemed representative of the interest factor and the amortization of debt issuance expense. The interest expense includes changes in the fair value of the non-hedging derivatives.

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

	<u>Year ended December 31,</u>				
(in thousands)	2013	2012	2011	2010	2009
Long-term obligations	\$1,584,754	\$1,777,721	\$1,856,372	\$4,170,183	\$2,648,632
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 Discussion and Analysis, and is incorporated herein by reference.

Table 31, Maturity Distribution of Earning Assets , in the Management Discussion and Analysis, 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 Discussion and Analysis in 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 in the Annual Report, and is incorporated herein by reference.

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**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.

**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, 2013, 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 **Shares Beneficially Owned by Directors and Executive Officers of the Corporation**, **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](http://www.popular.com). We will post on our website any amendments to the Code of Ethics or any waivers to the Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer or directors.

**ITEM 11. EXECUTIVE COMPENSATION**

The information under the captions Compensation of Directors , Compensation Committee Interlocks and Insider Participation and Executive Compensation Program , including the Compensation Discussion and Analysis in the Proxy Statement is incorporated herein by reference.

**Table of Contents****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS**

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

The following table set forth information as of December 31, 2013 regarding securities issued and issuable to directors and eligible employees under our equity based compensation plans.

<u>Plan Category</u>	<u>Plan</u>	<u>Options</u>	<u>Weighted Average Exercise Price of Outstanding Options</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</u>
Equity compensation plans approved by security holders	2001 Stock Option Plan	53,984	\$239.99		
	2004 Omnibus Incentive Plan	46,453	\$ 269.50		2,381,967
Total		100,437	\$ 253.64		2,381,967

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

The information under the caption Board of Directors Independence, Family Relationships and Other Relationships, Transactions and Events 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 Disclosure of Auditors Fees 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 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, 2013 and 2012

Consolidated Statements of Operations for each of the years in the three-year period ended December 31, 2013

Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2013

Consolidated Statements of Changes in Stockholders' Equity for each of the years in the three-year period ended December 31, 2013

Consolidated Statements of Comprehensive Income (Loss) for each of the years in the three-year period ended December 31, 2013

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

The exhibits listed on the Exhibits Index on page 55 of this report are filed herewith or are incorporated herein by reference.

Table of Contents**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.

POPULAR, INC.  
(Registrant)

By: S/ RICHARD L. CARRIÓN  
Richard L. Carrión  
Chairman of the Board, 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.

<u>S/ RICHARD L. CARRIÓN</u> Richard L. Carrión	Chairman of the Board, President, Chief Executive Officer and  Principal Executive Officer	<u>02-28-14</u>
<u>S/ CARLOS J. VÁZQUEZ</u> Carlos J. Vázquez Executive Vice President	Principal Financial Officer	<u>02-28-14</u>
<u>S/ JORGE J. GARCÍA</u> Jorge J. García Senior Vice President and Controller	Principal Accounting Officer	<u>02-28-14</u>
<u>S/ ALEJANDRO M. BALLESTER</u> Alejandro M. Ballester	Director	<u>02-28-14</u>
<u>S/ MARÍA LUISA FERRÉ</u> María Luisa Ferré	Director	<u>02-28-14</u>
<u>S/ C. KIM GOODWIN</u> C. Kim Goodwin	Director	<u>02-28-14</u>

<u>S/ JOAQUÍN E. BACARDÍ, III</u> Joaquín E. Bacardi, III	Director	<u>02-28-14</u>
<u>S/ WILLIAM J. TEUBER JR</u> William J. Teuber Jr.	Director	<u>02-28-14</u>
<u>S/ CARLOS A. UNANUE</u> Carlos A. Unanue	Director	<u>02-28-14</u>
<u>S/ JOHN W. DIERCKSEN</u> John W. Dierksen	Director	<u>02-28-14</u>
<u>S/ DAVID E. GOEL</u> David E. Goel	Director	<u>02-28-14</u>



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**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).
- 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 Composite 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, 2012).
- 3.2 Amended and Restated Bylaws of Popular, Inc., as amended (incorporated by reference to Exhibit 3.1 of Popular, Inc. s Current Report on Form 8-K, dated June 19, 2012 and filed on June 22, 2012).
- 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 Senior Indenture, 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 JP Morgan Chase Bank (formerly known as The First National Bank of Chicago), as trustee (incorporated by reference to Exhibit 4(d) to the Registration Statement No. 333-26941 of Popular, Inc., Popular International Bank, Inc., and Popular North America, Inc., as filed

with the SEC on May 12, 1997).

- 4.3 Second Supplemental Indenture, dated as of August 5, 1999, between Popular, Inc. and JP Morgan Chase Bank (formerly known as The First National Bank of Chicago), as trustee (incorporated by reference to Exhibit 4(e) to Popular, Inc.'s Current Report on Form 8-K (File No. 002-96018), dated August 5, 1999, as filed with the SEC on August 17, 1999).
- 4.4 Subordinated Indenture dated as of November 30, 1995, between Popular, Inc. and JP Morgan Chase Bank (formerly known as The First National Bank of Chicago), as trustee (incorporated by reference to Exhibit 4(e) of Popular, Inc.'s Registration Statement No. 333- 26941, dated May 12, 1997).
- 4.5 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 the Second Supplemental Indenture thereto, dated as of May 8, 1997, each among Popular North America, Inc., as issuer, Popular, Inc., as guarantor, and JP Morgan Chase Bank (formerly known as The First National Bank of Chicago), as successor trustee, (incorporated by reference to Exhibit 4(f) to

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the Registration Statement No. 333-26941 of Popular, Inc., Popular International Bank, Inc. and Popular North America, Inc., as filed with the SEC on May 12, 1997).

- 4.6 Third Supplemental Indenture of Popular North America, Inc., dated as of August 5, 1999, among Popular North America, Inc., Popular, Inc., as guarantor, and JP Morgan Chase Bank (formerly known as The First National Bank of Chicago), 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 with the SEC on August 17, 1999).
- 4.7 Form of Fixed Rate Medium-Term Note, Series F, of Popular North America, Inc., endorsed with the guarantee of Popular, Inc. (incorporated by reference to Exhibit 4(g) of Popular, Inc. s Current Report on Form 8-K, dated June 23, 2004 and filed on July 2, 2004).
- 4.8 Form of Floating Rate Medium-Term Note, Series F, of Popular North America, Inc., endorsed with the guarantee of Popular, Inc. (incorporated by reference to Exhibit 4(h) of Popular, Inc. s Current Report on Form 8-K, dated June 23, 2004 and filed on July 2, 2004).
- 4.9 Administrative Procedures governing Medium-Term Notes, Series F, of Popular North America, Inc., guaranteed by Popular, Inc. (incorporated by reference to Exhibit 10(b) of Popular, Inc. s Current Report on Form 8-K, dated June 23, 2004 and filed on July 2, 2004).
- 4.10 Junior Subordinated Indenture, among Popular North America, Inc., as issuer, Popular, Inc., as guarantor, and JP Morgan Chase Bank (formerly known as The First National Bank of Chicago), as trustee (incorporated by reference to Exhibit (4)(a) of Popular, Inc. s Current Report on Form 8-K, dated and filed on February 19, 1997).
- 4.11 Supplemental Indenture, dated as of August 31, 2009, among Popular North America, Inc., as issuer, Popular, Inc., as guarantor, and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4.1 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.12 Amended and Restated Trust Agreement of BanPonce Trust I, dated as of August 31, 2009, among Popular North America, Inc., as depositor, Popular, Inc., as guarantor, The Bank of New York Mellon, as property trustee, BNY Mellon Trust of Delaware, as Delaware trustee, the Administrative Trustees named therein, and the several Holders, as defined therein (incorporated by reference to Exhibit 4.5 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.13 Certificate of Trust of BanPonce Trust I (incorporated by reference to Exhibit 4.5 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009 and filed on September 3, 2009, included as Exhibit A of the Amended and Restated Trust Agreement).

- 4.14 Form of Capital Securities Certificate for BanPonce Trust I (incorporated by reference to Exhibit (4)(g) of Popular, Inc. s Current Report on Form 8-K, dated and filed on February 19, 1997).
- 4.15 Guarantee Agreement, dated as of August 31, 2009, by and among Popular North America, Inc., as guarantor, Popular, Inc., as additional guarantor, and The Bank of New York Mellon, as guarantee trustee, relating to BanPonce Trust I (incorporated by reference to Exhibit 4.9 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.16 Form of Junior Subordinated Deferrable Interest Debenture for Popular North America, Inc. (incorporated by reference to Exhibit (4)(i) of Popular, Inc. s Current Report on Form 8-K (File No. 000- 13818), dated and filed on February 19, 1997).
- 4.17 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).

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- 4.18 Certificate of Designation, Preference and Rights 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).
- 4.19 Form of Certificate of Trust of Popular Capital Trust III and Popular Capital Trust IV dated September 5, 2003 (incorporated by reference to Exhibit 4.3 to the Registration Statement filed with the SEC on September 5, 2003).
- 4.20 Certificate of Amendment to the Certificate of Trust of Popular Capital Trust IV (incorporated by reference to Exhibit 4.15 to the Automatic Shelf Registration Statement on Form S-3ASR filed with the SEC on June 16, 2012).
- 4.21 Supplemental Indenture, dated as of August 31, 2009, between Popular, Inc., as Issuer, and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.3 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.22 Amended and Restated Declaration of Trust and Trust Agreement of Popular Capital Trust I, dated as of August 31, 2009, among Popular, Inc., as depositor, The Bank of New York Mellon, as property trustee, BNY Mellon Trust of Delaware, as Delaware trustee, the Administrative Trustees named therein, and the several Holders, as defined therein (incorporated by reference to Exhibit 4.7 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.23 Certificate of Trust of Popular Capital Trust I (incorporated by reference to Exhibit 4.7 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009 and filed on September 3, 2009, included as Exhibit A of the Amended and Restated Declaration of Trust and Trust Agreement).
- 4.24 Form of Global Capital Securities Certificate for Popular Capital Trust I (incorporated by reference to Exhibit 4.7 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009 and filed on September 3, 2009, included as Exhibit C of the Amended and Restated Declaration of Trust and Trust Agreement).
- 4.25 Guarantee Agreement, dated as of August 31, 2009, between Popular, Inc., as guarantor and The Bank of New York Mellon, as guarantee trustee, relating to Popular Capital Trust I (incorporated by reference to Exhibit 4.11 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.26 Certificate of Junior Subordinated Debenture relating to Popular, Inc. s 6.70% Junior Subordinated Debentures, Series A Due November 1, 2033 (incorporated by reference to Exhibit 4.6 of Popular, Inc. s Current Report on Form 8-K dated October 31, 2003, as filed with the SEC on November 4, 2003).

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- 4.27 Indenture dated as of October 31, 2003, between Popular, Inc. and JP Morgan Chase Institutional Services (formerly Bank One Trust Company, N.A.) Debenture (incorporated by reference to Exhibit 4.2 of Popular, Inc. s Current Report on Form 8-K dated October 31,2003, as filed with the SEC on November 4, 2003).
- 4.28 First Supplemental Indenture, dated as of October 31, 2003, between Popular, Inc. and JP Morgan Chase Institutional Services (formerly Bank One Trust Company, N.A.) (Incorporated by reference to Exhibit 4.3 of Popular, Inc. s Current Report on Form 8-K dated October 31, 2003, as filed with the SEC on November 4, 2003).
- 4.29 Form of Junior Subordinated Indenture among Popular North America, Inc., Popular, Inc. and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4.10 to the Automatic Shelf Registration Statement on Form S-3ASR filed with the SEC on June 16, 2012).
- 4.30 Supplemental Indenture dated as of August 31, 2009, among Popular North America, Inc., as issuer, Popular, Inc., as guarantor, 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 August 31, 2009, and filed on September 3, 2009).

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- 4.31 Amended and Restated Trust Agreement of Popular North America Capital Trust I, dated as of August 31, 2009, among Popular North America, Inc., as depositor, Popular, Inc., as guarantor, The Bank of New York Mellon, as property trustee, BNY Mellon Trust of Delaware, as Delaware trustee, the Administrative Trustees named therein, and the several Holders, as defined therein (incorporated by reference to Exhibit 4.6 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.32 Certificate of Trust of Popular North America Capital Trust I (incorporated by reference to Exhibit 4.6 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009 and filed on September 3, 2009, included as Exhibit A of the Amended and Restated Trust Agreement).
- 4.33 Form of Capital Securities Certificate for Popular North America Capital Trust I (incorporated by reference to Exhibit 4.6 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009 and filed on September 3, 2009, included as Exhibit E of the Amended and Restated Trust Agreement).
- 4.34 Guarantee Agreement, dated as of August 31, 2009, by and among Popular North America, Inc., as guarantor, Popular, Inc., as additional guarantor and The Bank of New York Mellon, as guarantee trustee, relating to Popular North America Capital Trust I (incorporated by reference to Exhibit 4.10 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.35 Certificate of Junior Subordinated Debenture relating to Popular, Inc. s 6.125% Junior Subordinated Debentures, Series A due December 1, 2034 (incorporated by reference to Exhibit 4.6 of Popular, Inc. s Current Report on Form 8-K dated November 30, 2004, as filed with the SEC on December 3, 2004).
- 4.36 Second Supplemental Indenture, dated as of November 30, 2004, between Popular, Inc. and JP Morgan Trust Company, National Association (formerly Bank One Trust Company, N.A.) (incorporated by reference to Exhibit 4.3 of Popular, Inc. s Current Report on Form 8-K dated November 30, 2004, as filed with the SEC on December 3, 2004).
- 4.37 Supplemental Indenture, dated as of August 31, 2009, between Popular, Inc., as Issuer, and The Bank of New York Mellon, as successor trustee (incorporated by reference to Exhibit 4.4 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.38 Amended and Restated Declaration of Trust and Trust Agreement of Popular Capital Trust II, dated as of August 31, 2009, among Popular, Inc., as depositor, The Bank of New York Mellon, as property trustee, BNY Mellon Trust of Delaware, as Delaware trustee, the Administrative Trustees named therein, and the several Holders, as defined therein (incorporated by reference to Exhibit 4.8 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.39 Certificate of Trust of Popular Capital Trust II (incorporated by reference to Exhibit 4.8 of Popular, Inc. s Current Report on Form 8-K dated August 31, 2009 and filed on September 3, 2009, included as Exhibit A

of the Amended and Restated Declaration of Trust and Trust Agreement).

- 4.40 Form of Global Capital Securities Certificate for Popular Capital Trust II (incorporated by reference to Exhibit 4.8 of Popular, Inc.'s Current Report on Form 8-K dated August 31, 2009 and filed on September 3, 2009, included as Exhibit C of the Amended and Restated Declaration of Trust and Trust Agreement).
- 4.41 Guarantee Agreement, dated as of August 31, 2009, between Popular, Inc., as guarantor, and The Bank of New York Mellon, as guarantee trustee (incorporated by reference to Exhibit 4.12 of Popular, Inc.'s Current Report on Form 8-K dated August 31, 2009, and filed on September 3, 2009).
- 4.42 Certificate of Designation of the Popular, Inc.'s 8.25% Non-Cumulative Monthly Income Preferred Stock, Series B (incorporated by reference to Exhibit 3 to Popular, Inc.'s Form 8-A filed with the SEC on May 28, 2008).
- 4.43 Form of certificate representing the Popular, Inc.'s 8.25% Non-Cumulative Monthly Income Preferred Stock, Series B (incorporated by reference to Exhibit 4 to Popular, Inc.'s Form 8-A filed with the SEC on May 28, 2008).



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- 4.44 Warrant dated December 5, 2008 to purchase shares of Common Stock of Popular, Inc. (incorporated by reference to Exhibit 4.1 of Popular, Inc. s Current Report on Form 8-K dated December 5, 2008, as filed with the SEC on December 8, 2008).
- 4.45 Indenture between Popular, Inc. and The Bank of New York Mellon, as trustee, dated August 24, 2009 (incorporated by reference to Exhibit 4.2 of Popular, Inc. s Current Report on Form 8-K dated August 21, 2009 and filed on August 26, 2009).
- 4.46 First Supplemental Indenture between Popular, Inc. and Bank of New York Mellon, as trustee, dated August 24, 2009 (incorporated by reference to Exhibit 4.3 of Popular, Inc. s Current Report on Form 8-K dated August 21, 2009 and filed on August 26, 2009).
- 4.47 Amended and Restated Declaration of Trust and Trust Agreement of Popular Capital Trust III among Popular, Inc., as depositor, The Bank of New York Mellon, as property trustee, BNY Mellon Trust of Delaware, as Delaware trustee, and the several Holders as defined therein, dated as of August 24, 2009 (incorporated by reference to Exhibit 4.1 of Popular, Inc. s Current Report on Form 8-K dated August 21, 2009 and filed on August 26, 2009).
- 4.48 Form of Capital Securities Certificate of Popular Capital Trust III (incorporated by reference to Exhibit 4.1 of Popular, Inc. s Current Report on form 8-K dated August 21, 2009 and filed on August 26, 2009, included as Exhibit C of the Amended and Restated Declaration of Trust and Trust Agreement).
- 4.49 Guarantee Agreement by and between Popular, Inc. and The Bank of New York Mellon, dated as of August 24, 2009 (incorporated by reference to Exhibit 4.4 of Popular, Inc. s Current Report on Form 8-K dated August 21, 2009 and filed on August 26, 2009).
- 4.50 Sixth Supplemental Indenture, dated March 15, 2010, between Popular, Inc. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 99.1 of Popular Inc. s Current Report on Form 8-K dated March, 15, 2010 and filed on March 19, 2010).
- 4.51 Seventh Supplemental Indenture, dated March 15, 2010, between Popular, Inc. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 99.2 of Popular Inc. s Current Report on Form 8-K dated March, 15, 2010 and filed on March 19, 2010).
- 4.52 Purchase Money Note, issued on April 30, 2010 (incorporated by reference to Exhibit 4.1 of Popular, Inc. s Current Report on Form 8-K dated April 30, 2010 and filed on May 6, 2010).
- 4.53 Value Appreciation Instrument, issued on April 30, 2010 (incorporated by reference to Exhibit 4.2 of Popular, Inc. s Current Report on Form 8-K dated April 30, 2010 and filed on May 6, 2010).

- 4.54 Popular North America, Inc. 7.47% Senior Note Due 2014 (incorporated by reference to Exhibit 4.1 of Popular, Inc. s Current Report on Form 8-K dated June 10, 2011 and filed on June 13, 2011).
- 4.55 Popular North America, Inc. 7.66% Senior Note Due 2015 (incorporated by reference to Exhibit 4.2 of Popular, Inc. s Current Report on Form 8-K dated June 10, 2011 and filed on June 13, 2011).
- 4.56 Popular North America, Inc. 7.86% Senior Note Due 2016 (incorporated by reference to Exhibit 4.3 of Popular, Inc. s Current Report on Form 8-K dated June 10, 2011 and filed on June 13, 2011).
- 4.57 Certificate of Trust of Popular North America Capital Trust II (incorporated by reference to Exhibit 4.22 to the Automatic Shelf Registration Statement on Form S-3ASR filed with the SEC on June 16, 2006).

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- 4.58 Declaration of Trust and Trust Agreement of each of Popular North America Capital Trust II and Popular North America Capital Trust III dated June 16, 2006 (incorporated by reference to Exhibit 4.20 to the Automatic Shelf Registration Statement on Form S-3ASR filed with the SEC on June 16, 2012).
- 4.59 Certificate of Amendment to Certificate of Trust of each of Popular North America Capital Trust II and Popular North America Capital Trust III (incorporated by reference to Exhibit 4.24 to the Automatic Shelf Registration Statement on Form S-3ASR filed with the SEC on June 16, 2012).
- 10.1 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).
- 10.2 Popular, Inc. 2001 Stock Option Plan (incorporated by reference to Exhibit 4.4 of Popular, Inc. s Registration Statement on Form S-8 (No. 333-60666), filed on May 10, 2001).
- 10.3 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).
- 10.4 Amendment to the Popular, Inc. 2004 Omnibus Incentive Plan (incorporated by reference to Popular s Proxy Statement filed with the SEC on March 5, 2013).
- 10.5 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).
- 10.6 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).
- 10.7 Compensation Agreement for William J. Teuber as director of Popular, Inc. (incorporated by reference to Exhibit 10.4 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
- 10.8 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).
- 10.9 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

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ended December 31, 2009).

- 10.10 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).
- 10.11 Compensation Agreement for David E. Goel as director of Popular, Inc. dated April 30, 2013 (incorporated by reference to Exhibit 10.1 of Popular, Inc s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).
- 10.12 Compensation Agreement for Joaquin E. Bacardi, III as director of Popular, Inc. dated April 30, 2013 (incorporated by reference to Exhibit 10.1 of Popular, Inc s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).
- 10.13 Compensation Agreement for John. W. Diercksen as director of Popular, Inc. dated October 18, 2013. <sup>(1)</sup>
- 10.14 Form of Letter Agreement Regarding Standards for Incentive Compensation to Executive Officers under the TARP Capital Purchase Program (incorporated by reference to Exhibit 10.33 of Popular, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2008).
- 10.15 Purchase Agreement dated as of December 5, 2008 between Popular, Inc. and the United States Department of the Treasury (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Current Report on Form 8-K dated December 5, 2008, as filed with the SEC on December 8, 2008).

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- 10.16 Exchange Agreement by and among Popular, Inc., Popular Capital Trust III and the United States Department of Treasury, dated as of August 21, 2009 (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Current Report on Form 8-K dated August 21, 2009 and filed on August 26, 2009).
- 10.17 IP Purchase and Sale Agreement, dated as of June 30, 2010, between Popular, Inc. and EVERTEC, Inc. (incorporated by reference to Exhibit 10.1 of Popular, Inc. s Current Report on Form 8-K dated July 1, 2010 and filed on July 8, 2010).
- 10.18 Stockholder Agreement, dated as of September 30, 2010, among Carib Holdings, Inc., and each of the holders of Carib Holdings, Inc. (incorporated by reference to Exhibit 99.2 of Popular, Inc. s Current Report on Form 8-K dated September 30, 2010 and filed on October 6, 2010).
- 10.19 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).
- 10.20 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).
- 10.21 Employment Offer to Carlos J. Vázquez, as President of Banco Popular North America (incorporated by reference to Exhibit 99.4 of Popular, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
- 10.22 Agreement dated August 11, 2011 between Amílcar Jordán and his wife Leslie González and Popular, Inc. (incorporated by reference to Exhibit 99.1 of Popular, Inc. s Current Report on Form 8-K dated August 15, 2011 and filed August 17, 2011).
- 10.23 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).
- 10.24 Form of Popular, Inc. TARP Long-Term Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.22 of Popular, Inc. s Annual Report of Form 10-K for the year ended December 31, 2012).
- 12.1 Popular, Inc. s Computation of Ratio of Earnings to Fixed Charges<sup>(1)</sup>
- 13.1 Popular, Inc. s Annual Report to Shareholders for the year ended December 31, 2013<sup>(1)</sup>

- 21.1 Schedule of Subsidiaries of Popular, Inc. <sup>(1)</sup>
  
- 23.1 Consent of Independent Registered Public Accounting Firm. <sup>(1)</sup>
  
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. <sup>(1)</sup>
  
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. <sup>(1)</sup>
  
- 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. <sup>(1)</sup>
  
- 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. <sup>(1)</sup>
  
- 99.1 Certification of Principal Executive Officer Pursuant to 31 C.F.R. § 30.15<sup>(1)</sup>
  
- 99.2 Certification of Principal Financial Officer Pursuant to 31 C.F.R. § 30.15<sup>(1)</sup>

**Table of Contents**

101.INS	XBRL Instance Document <sup>(1)</sup>
101.SCH	XBRL Taxonomy Extension Schema Document <sup>(1)</sup>
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document <sup>(1)</sup>
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document <sup>(1)</sup>
101.LAB	XBRL Taxonomy Extension Label Linkbase Document <sup>(1)</sup>
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document <sup>(1)</sup>

<sup>(1)</sup> Included herewith

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.