



building business.  
**touching lives.**

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annual report **2017**



evertec®



### company profile

Evertec, Inc. (NYSE: EVTC) is a leading full service transaction processing company in Latin America, focused on simplifying commerce for merchants, financial institutions, government agencies and consumers.

We provide mission-critical technology solutions that enable our customers to issue, process and accept transactions securely. We provide these comprehensive end-to-end transaction processing solutions across several channels and geographic markets.

With 29 years of experience in the transaction processing industry, we employ over 2,100 professionals, including employees from our 65% owned subsidiary, Processa, and PayGroup employees. We operate in 11 countries and serve customers with diverse businesses across 26 countries.

### perfil de la empresa

*Evertec, Inc. (NYSE: EVTC), es una compañía líder que ofrece servicios de procesamiento de transacciones en América Latina, enfocada en simplificar el comercio para negocios, instituciones financieras, agencias de gobierno y consumidores.*

*Ofrecemos soluciones tecnológicas críticas que le permiten a nuestros clientes emitir, procesar y aceptar transacciones de manera segura. Brindamos estas soluciones completas a través de numerosos canales y mercados geográficos.*

*Con 29 años de experiencia en la industria de procesamiento de transacciones, empleamos más de 2,100 profesionales, incluyendo a los empleados de nuestra filial Processa, de la cual somos dueños del 65%, y a empleados de PayGroup. Operamos en 11 países y servimos a clientes con diversas operaciones a través de 26 países.*

Evertec®, Processa®, PayGroup®, ATH®, ATH Móvil® and ATH Móvil Business® are trademarks of Evertec, Inc. or its subsidiaries in the United States of America and/or other countries.





# to our valued shareholders:

*a nuestros valiosos accionistas:*

In 2017, Evertec's customers witnessed the strength of our capabilities and unwavering commitment to their success. As a financial and payments technology provider, our goal is to develop and deliver innovative technologies and services that bring direct value to our clients and enable financial inclusion in the countries and communities they serve. We also actively support these communities directly through corporate and employee led community service initiatives.

Our values and commitment were put to the test this year as Puerto Rico and the Caribbean experienced two devastating hurricanes, Irma and Maria. Overcoming unexplainable challenges, Evertec operated continuously during these storms and their aftermath, delivering uninterrupted reliable service and support that helped restore clients so they could deliver essential goods and services to their communities.

We also completed our largest acquisition in the Company's history, PayGroup, headquartered in Santiago, Chile. PayGroup significantly expanded our Latin American distribution channel and provides multiple complementary solutions to sell to our existing clients and markets. We also demonstrated progress on our service delivery initiative in Latin America and were recently rewarded with important customer renewals. I am incredibly proud of my colleagues and what they accomplished in 2017. We now have significantly more competitive products, deliver solutions in 26 countries, and have a deeper bench of talent. We are focused on the future of Evertec and our opportunities to drive expansion and deliver shareholder value.

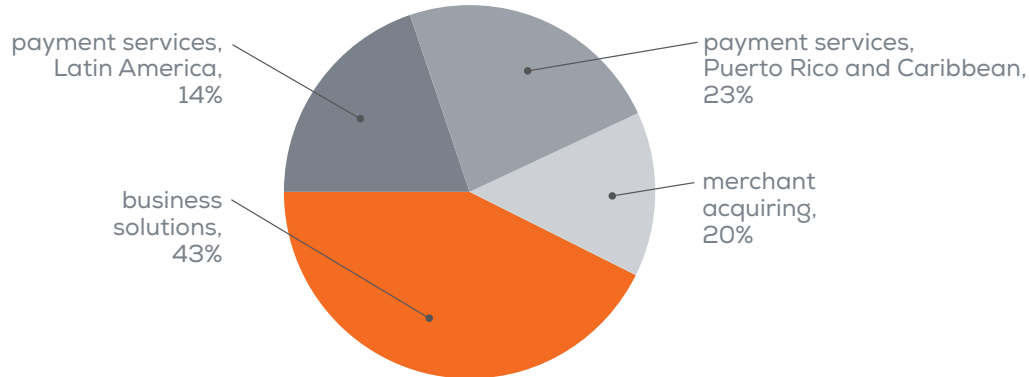
*En el 2017 los clientes de Evertec fueron testigos de la fortaleza de nuestras capacidades y el compromiso inquebrantable para con el éxito de cada uno. Como proveedor de servicios de tecnología financieras y de pagos, nuestra meta es desarrollar y proveer tecnologías y servicios innovadores que ofrecen valor directo a nuestros clientes y hacen posible la inclusión financiera en los países y comunidades donde ofrecen servicios. Nosotros también apoyamos activa y directamente a estas comunidades a través de iniciativas de servicios a la comunidad, lideradas por el grupo corporativo y los empleados.*

*Nuestros valores y compromiso se pusieron a prueba este año cuando Puerto Rico y el Caribe enfrentaron dos huracanes devastadores, Irma y María. Sobrepasando retos inexplicables, Evertec continuó operando durante y después de estos huracanes, ofreciendo servicios ininterrumpidos y confiables, y apoyo para ayudar a restablecer los servicios de nuestros clientes, con el fin de que pudieran brindar bienes y servicios a sus comunidades.*

*Además, completamos la adquisición más grande en la historia de la compañía, PayGroup, con sede principal en Santiago de Chile. PayGroup expande significativamente nuestros canales de distribución en América Latina y provee múltiples soluciones complementarias para ser ofrecidas a nuestros clientes y mercados existentes. A su vez, demostramos progreso en nuestra iniciativa de entrega de servicios en América Latina, y recientemente fuimos recompensados con renovaciones importantes de clientes. Estoy extremadamente orgulloso de mis colegas y lo que logramos en el 2017. Ahora tenemos productos más competitivos, proveemos soluciones en 26 países y tenemos un banco de talento más amplio. Estamos enfocados en el futuro de Evertec y en oportunidades para promover la expansión y proveer valor a los accionistas.*



## 2017 revenue by segment



### 2017 performance

Total revenue for 2017 was \$407 million, an increase of 5% versus prior year. Adjusted earnings per common share were \$1.47, a decrease of 12%, primarily reflecting the impact of the hurricanes. Operating cash flow was significant, at \$146 million, which allowed for continued investment in the business through capital expenditures of \$33 million, a completed acquisition of \$43 million, and return of capital to our shareholders through share repurchase and dividends of nearly \$29 million. Although the Board temporarily suspended the dividend post-hurricane, we are pleased that we continued to generate significant cash flow to weather these storms, invest in strategic business opportunities and deliver value to our shareholders.

### commitment to our customers

In 2017, we demonstrated our strong commitment to our customers. Following the immediate impact of the storms, our first priority was caring for the needs of our customers and our employees. Due to the scarcity of life essentials, our employees needed special help to enable them to work. Through internal initiatives and with the help of our partners, we were able to provide daycare, water, food, and expedite the provision of gas and financial services to our employees. By taking care of our employees, they were able to take care of our customers, delivering unparalleled service on the Island.

As various customers grappled with their own power, telecommunications and infrastructure issues, we were able to provide them support within our facilities, with several customers unexpectedly relocating their payroll function, distribution call center, and meeting facilities into our offices. Evertec stood as a company that

### desempeño 2017

*El ingreso total para el 2017 fue de \$407 millones, un aumento de 5% comparado con el año anterior. El ingreso ajustado por acción diluida fue de \$1.47, una merma de 12%, producto del impacto de los huracanes. El flujo de efectivo operacional fue significativo, con \$146 millones, lo que nos permitió continuar invirtiendo en el negocio a través de gastos de capital de \$33 millones, completar una adquisición de \$43 millones y el retorno de capital a nuestros accionistas a través de la recompra de acciones y dividendos de aproximadamente \$29 millones. Aunque la Junta suspendió temporalmente el dividendo luego de los huracanes, nos place informarles que continuamos generando un flujo de efectivo significativo que nos permitirá sobrepasar las tormentas, invertir en oportunidades de negocio estratégicas y proveerle valor a nuestros accionistas.*

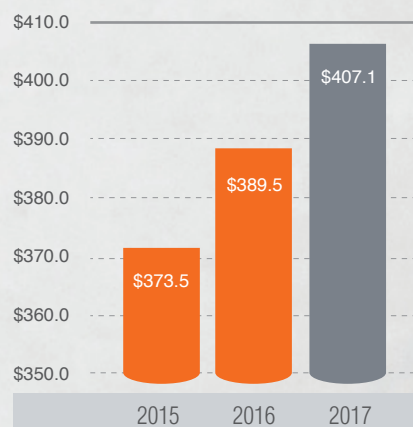
### compromiso con nuestros clientes

*En el 2017 demostramos nuestro fuerte compromiso con nuestros clientes. Inmediatamente después del impacto de los huracanes, nuestra prioridad fue atender las necesidades de nuestros clientes y empleados. Dada la escasez de los artículos esenciales de vida, nuestros empleados necesitaban ayuda especial para habilitar su regreso al trabajo. A través de iniciativas internas y con la ayuda de nuestros socios, fuimos capaces de proveer cuidado para niños, agua, alimentos, y acelerar la provisión de gasolina y servicios financieros a nuestros empleados. Gracias a las gestiones hechas con nuestros empleados, fuimos capaces de atender a nuestros clientes, ofreciendo servicios sin igual en la Isla.*

*Mientras varios clientes lidiaban con sus propios problemas de energía, telecomunicaciones e infraestructura, fuimos capaces de ofrecerles respaldo en nuestras instalaciones y*

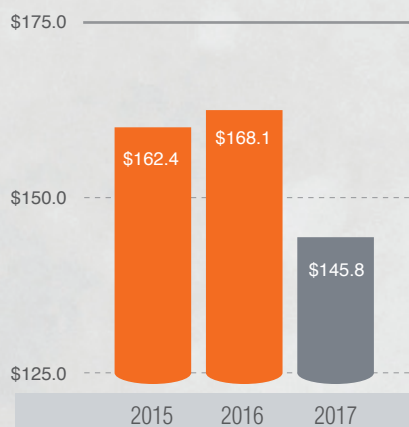
### revenue

\$ in millions

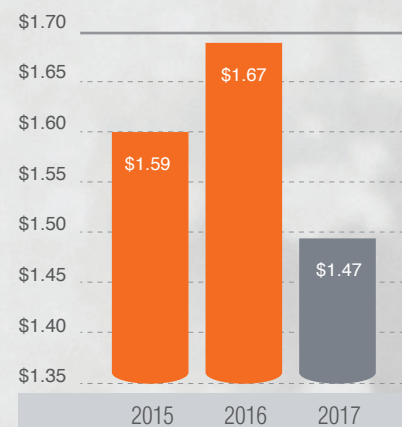


### operating cash flow

\$ in millions



### adjusted earnings per share<sup>1</sup>



<sup>1</sup>Adjusted earnings per share is a supplemental measure of the Company's performance is not required by, or presented in accordance with, accounting principles generally accepted in the United States of America ("GAAP"). It is not a measurement of the Company's financial performance under GAAP and should not be considered as an alternative to total revenue, net income or any other performance measures derived in accordance with GAAP or as alternatives to cash flows from operating activities, as an indicator of cash flows or as a measure of the Company's liquidity. In addition to GAAP measures, management uses this non-GAAP measure to focus on the factors the company believes are pertinent to the daily management of the Company's operations and believe it is frequently used by securities analysts, investors and other interested parties to evaluate companies in the industry. For a reconciliation of adjusted net income and adjusted earnings per share to the most directly comparable GAAP financial performance measures, refer to the chart shown below.

## reconciliation of gaap to non-gaap operating results

Years ended December 31

(Dollar amounts in thousands, except per share data)	2015	2016	2017
<b>Net income</b>	\$ 85,377	\$ 75,126	\$ 55,419
Income tax expense (benefit)	(3,335)	8,271	4,780
Interest expense, net	23,771	24,240	29,145
Depreciation and amortization	64,974	59,567	64,250
<b>EBITDA</b>	<b>170,787</b>	<b>167,204</b>	<b>153,594</b>
Software maintenance reimbursement and other costs <sup>(1)</sup>	1,902	521	-
Equity (income) loss <sup>(2)</sup>	(147)	52	(604)
Compensation and benefits <sup>(3)</sup>	12,237	10,482	9,755
Transaction, refinancing and other fees <sup>(4)</sup>	1,315	7,579	2,500
Purchase accounting <sup>(5)</sup>	82	-	-
Exit activity <sup>(6)</sup>	-	-	12,783
Restatement related expenses <sup>(7)</sup>	-	1,837	-
<b>Adjusted EBITDA</b>	<b>186,176</b>	<b>187,675</b>	<b>178,028</b>
Operating depreciation and amortization <sup>(8)</sup>	(29,301)	(28,468)	(30,585)
Cash interest expense, net <sup>(9)</sup>	(20,665)	(20,468)	(24,660)
Income tax expense <sup>(10)</sup>	(13,211)	(13,752)	(15,100)
Non-controlling interest <sup>(11)</sup>	-	(258)	(581)
<b>Adjusted Net Income</b>	<b>\$ 122,999</b>	<b>\$ 124,729</b>	<b>\$ 107,102</b>
Net income per common share (GAAP) diluted	\$ 1.11	\$ 1.01	\$ 0.76
Adjusted earnings per common share (Non-GAAP)	\$ 1.59	\$ 1.67	\$ 1.47
Shares used in computing adjusted earnings per common share	77,181,123	74,473,369	72,872,188

<sup>1</sup>Predominantly represents reimbursements received for certain software maintenance expenses as part of the Merger. <sup>2</sup>Represents the elimination of non-cash equity earnings from our 19.99% equity investment in Dominican Republic, Consorcio de Tarjetas Dominicanas, S.A. ("CONTADO"). <sup>3</sup>For the years ended December 31, 2017, 2016, 2015 primarily represents share-based compensation and other compensation expense of \$9.6 million, \$6.4 million, and \$5.3 million respectively, and severance payments of \$4.1 million and \$6.4 million for the year ended December 31, 2016 and 2015. <sup>4</sup>Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement, recorded as part of selling, general and administrative expense and cost of revenues, as well as relief contributions related to the Hurricanes. <sup>5</sup>Represents the elimination of the effects of purchase accounting in connection with certain customer service and software-related arrangements whereby Evertec receives reimbursements from Popular. <sup>6</sup>Impairment charge and contractual fees accrual for a third party software solution that was determined to be commercially unviable. <sup>7</sup>Represents consulting, audit and legal expenses incurred as part of the restatement. <sup>8</sup>Represents operating depreciation and amortization expense, which excludes amounts generated as a result of the Merger and other from purchase accounting intangibles generated from acquisitions. <sup>9</sup>Represents interest expense, less interest income, as they appear on our consolidated statements of income and comprehensive income, adjusted to exclude non-cash amortization of the debt issue costs, premium and accretion of discount. <sup>10</sup>Represents income tax expense calculated on adjusted pre-tax income using the applicable GAAP tax rate. <sup>11</sup>Represents the 35% non-controlling equity interest in Processa, net of amortization for intangibles created as part of the purchase.

others could count on when their own facilities were inoperable.

We helped small and medium sized merchants get back in business with the replacement of point of sale devices as well as wireless POS devices where there is limited telecommunication. We also provided our ATH Móvil Business application free of charge.

Evertec also demonstrated its commitment to the community. Through cooperation with various organizations, we helped raise money and collect food and other essential items for people in need after the storms. In addition, Evertec was one of the first companies to show its commitment to disaster relief with a pledge of \$1 million in donations. We supported one of the most effective relief initiatives led by “Unidos Por Puerto Rico”, which supplied many generators to small businesses that lacked access to electrical power.

We are very proud of what we have accomplished and our efforts continue. Our service delivery performance during and after the storm also provides a testament to the differentiation of our business continuity capabilities. We demonstrated that we provide a unique value on the island as we were able to deliver continuous services to our customers throughout the storm and its ongoing aftermath. As a consequence of our experience and accomplishments, we now have an even stronger relationship with our clients, partners and employees.

### acquisition of PayGroup

In July we completed the acquisition of PayGroup, which is headquartered in Santiago, Chile. PayGroup increased our geographic presence to 26 countries, adding eight new markets and further strengthening our presence in five current markets. PayGroup provides electronic payment and bill processing services, as well as card and merchant processing, risk management and business intelligence solutions. These products are delivered via proprietary platforms, which are developed and delivered by the company's employees in Chile and Uruguay. Their customer list includes top-tier financial institutions, regional retailers and payment processors across Latin America. PayGroup has over 300 employees working for an experienced management team and we are very pleased to have them join the Evertec family.

We have demonstrated early success with our PayGroup acquisition by recently closing two important cross-sale opportunities, one with a Colombian customer, and one which will enable us to retain a relationship with

*trasladarle a algunos clientes su servicio de nómina, centro de llamadas de distribución (call center), y facilidades de reuniones, a nuestras oficinas. Evertec se posicionó como una empresa en la cual otros podían contar cuando sus propias facilidades estaban inoperables.*

*Ayudamos a pequeños y medianos comerciantes a reiniciar sus negocios con el remplazo de dispositivos de puntos de venta, así como con dispositivos inalámbricos en lugares donde las telecomunicaciones estaban limitadas. También, ofrecemos nuestra aplicación ATH Móvil Business libre de costo.*

*Evertec también ha demostrado su compromiso con la comunidad. A través de la colaboración de varias organizaciones, ayudamos a recaudar dinero y recolectar alimentos y otros artículos esenciales, para personas con necesidades luego de las tormentas. Además, Evertec fue una de las primeras compañías en demostrar su compromiso con la recuperación al aportar \$1 millón en donativos. Ayudamos a una las de iniciativas de socorro y recuperación más efectivas, liderada por Unidos por Puerto Rico, que suplió generadores a pequeñas empresas que carecían de acceso al servicio eléctrico.*

*Estamos muy orgullosos de lo que hemos logrado y nuestros esfuerzos continúan. Nuestro desempeño en la prestación de servicios durante y después del huracán también es testimonio de la diferencia que hacen nuestras capacidades en la continuidad de negocios. Demostramos que proveemos un valor único en la Isla al poder ofrecer servicios continuos a nuestros clientes durante la tormenta y en su secuela. Como resultado de nuestra experiencia y nuestros logros, ahora tenemos una relación fortalecida con nuestros clientes, socios y empleados.*

### La adquisición de PayGroup

*En julio completamos la compra de PayGroup, con sede en Santiago de Chile. PayGroup aumenta nuestra presencia geográfica a 26 países, añadiendo ocho nuevos mercados y fortaleciendo aún más nuestra presencia en cinco mercados actuales. PayGroup provee pagos electrónicos y servicios de procesamiento de facturación, así como procesamiento de tarjetas y comerciantes, manejo de riesgos y soluciones de inteligencia de negocios. Estos productos se proveen mediante plataformas propietarias, que son desarrolladas y apoyadas por empleados de la empresa en Chile y Uruguay. Su lista de clientes incluye instituciones financieras de alto nivel, detallistas regionales y procesadores de pago a través de América Latina. PayGroup tiene más de 300 empleados trabajando con un grupo gerencial de vasta experiencia y nos complace que se unan a la familia de Evertec.*





On March 23, Evertec executives and guests visited the New York Stock Exchange to celebrate with the 10 Chairman's Award employee winners of 2017. To mark the occasion Mac Schuessler, CEO, rang the bell at the closing ceremony. / El pasado 23 de marzo, ejecutivos e invitados de Evertec visitaron el *New York Stock Exchange* para celebrar con los 10 empleados ganadores del Chairman's Award 2017. Para marcar la ocasión Mac Schuessler, CEO, tocó la campana de la ceremonia de cierre.

a customer that is migrating off other Evertec products. Achieving these two early wins demonstrates the benefits of the PayGroup acquisition.

With the acquisitions of both PayGroup and Processa, we have meaningfully advanced our strategy of building a unique Latin American-focused payments business with scale. Our revenue generated from Latin America in 2018 is anticipated to approximately double from where we were in 2015.

### innovation

Innovation continues to be a key part of our overall strategy, enabling us to deliver the best solutions to our customers and to drive growth. As an example, in June, we successfully launched our ATH Móvil Business solution which enables small and medium merchants, mostly not previously a part of the payments ecosystem, to accept and process electronic payments. The response has been very positive, with over 3,000 businesses now using the application. While this will not be a significant revenue driver in 2018, we believe this innovative solution enhances the ATH brand and provides a significant value to our ATH network members. Our ATH Móvil application is now in use by over 1 million users.

*La adquisición de PayGroup ya ha rendido frutos al haber cerrado recientemente dos importantes oportunidades de venta cruzada, una con un cliente en Colombia y otra que nos ayuda a retener la relación con un cliente que está migrando de otros productos de Evertec. Lograr estas dos victorias a corto plazo demuestra el beneficio de la compra de PayGroup.*

*Con la adquisición de PayGroup y Processa, hemos avanzado significativamente en nuestra estrategia de crear un negocio único de pagos con escala en América Latina. Se anticipa que nuestro ingreso generado de América Latina en 2018 sea aproximadamente el doble del de 2015.*

### innovación

*La innovación sigue siendo parte de nuestra estrategia general, haciendo posible que llevemos las mejores soluciones a nuestros clientes e impulsar el crecimiento. Como ejemplo de esto, en junio lanzamos ATH Móvil Business, que le permite a pequeños y medianos comerciantes, principalmente aquellos que no eran parte del ecosistema de pagos, aceptar y procesar pagos electrónicos. La respuesta ha sido muy positiva, con más de 3,000 negocios usando la aplicación. Aunque esto no será una fuente significativa de ingreso en el 2018, entendemos*

## looking forward

As we begin 2018, we will continue to support the rebuilding in Puerto Rico. It will continue to be our top priority to get more merchants back in business. We will also focus on growing the acceptance of our ATH Móvil Business solution. Additionally, we stand ready to address opportunities to help the Puerto Rican government with their efforts to streamline their operations.

In Latin America, we will continue our focus on service improvements, build out our product offerings, and leverage our client base with cross selling opportunities. Lastly, we will focus on delivering shareholder value through our careful deployment of capital.

While 2017 was a year of challenges, it was also a year of progress for Evertec as we executed well against our core long-term strategies. We remain committed to building a unique Latin American focused payments and processing business. We would like to thank our dedicated team for their commitment, express our appreciation to the Board of Directors for their guidance; and finally, we want to thank you, our shareholders for believing in us. We are operating from a stronger foundation and we are taking actions aimed at strengthening our business this year and beyond.

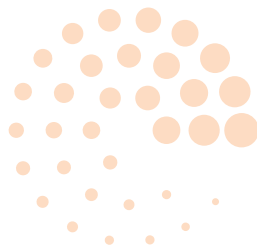
*que esta innovadora solución realza la marca ATH y provee valor significativo a los miembros de nuestra red ATH. Al día de hoy, ATH Móvil tiene más de 1 millón de usuarios.*

### *mirando hacia adelante*

*A medida que entramos en el año 2018, continuaremos respaldando la reconstrucción de Puerto Rico. Nuestra prioridad principal será lograr que más comerciantes regresen a sus negocios. También, nos enfocaremos en aumentar la aceptación de nuestra solución ATH Móvil Business. Además, estamos listos para abordar oportunidades que surjan para ayudar al Gobierno de Puerto Rico en sus esfuerzos de agilizar sus operaciones.*

*En América Latina continuamos enfocados en mejoras de servicio, ampliar nuestras ofertas de producto, y apalancar nuestra base de clientes con oportunidades de venta cruzada. Finalmente, estaremos enfocados en llevarle valor a nuestros accionistas a través de un despliegue cuidadoso de capital.*

*Aunque el 2017 fue un año de retos, fue también un año de progreso para Evertec, ya que ejecutamos bien nuestras estrategias principales a largo plazo. Continuamos comprometidos con el desarrollo de un negocio único en América Latina, enfocado en pagos y procesamiento. Queremos darle las gracias a nuestro equipo por su compromiso, expresar nuestro agradecimiento a la Junta de Directores por su dirección; y finalmente, agradecerles a ustedes, nuestros accionistas, por creer en nosotros. Estamos operando con una base más sólida y tomando acciones para fortalecer nuestro negocio este año y hacia el futuro.*



**Mac Schuessler**

President and Chief Executive Officer  
 Presidente y Principal Oficial Ejecutivo





social  
responsibility  
*responsabilidad social*

## 2017 corporate social responsibility major contributions

If there is something that distinguishes Evertec, it is our commitment to the well being of the communities in which we conduct business. Being a responsible corporate citizen and encouraging our employees to participate in the development of their communities are pillars of our Social Responsibility Program. Our Program, supported in these pillars, has three main areas of action: education, community and environmental conservation.

Our corporate contributions during the year included over \$1.2 million that were invested between donations, sponsorships and our support for the hurricane's relief efforts. We also celebrated meaningful initiatives across the Company, like our "Volunteer Day". More than 750 Evertec employees and family members invested more than 3,800 hours of volunteer work in support of 24 nonprofit organizations. Our Scholarship Program, established in 2015, granted 52 scholarships to outstanding students in Puerto Rico and Latin America. The Program is supported by Evertec, its executives and Board Members and has distributed over \$200,000 in 3 years.

Also, our environmental program "Revolución Naranja", celebrated 10 years of its implementation and collected over 497,000 pounds of recyclable materials in 2017.

However, 2017 was a special year for all of us due to hurricanes Irma and Maria. Evertec joined the efforts of "Unidos por Puerto Rico", "Embracing Puerto Rico", managed by Fundación Banco Popular. We also joined and supported the "Emergency Fund of CulturArte de Puerto Rico" created to assist the students and professors of the Puerto Rico Conservatory of Music that were victims of the hurricanes. We held a special "Maria Volunteer Day" aiding more than 1,000 families, distributing more than 16,000 pounds of food and sharing over 1,400 volunteer hours. Lastly, but not less important, we created "Puerto Rico Ponte en Marcha" an initiative primarily focused on providing merchants with technology and telecommunications solutions, equipment and support to help them get back to business and ignite the recovery of Puerto Rico.



## 2017 mayores contribuciones de responsabilidad social corporativa

*Si hay algo que distingue a Evertec, es su compromiso por el bienestar de las comunidades en las cuales llevamos a cabo nuestras operaciones. Ser un ciudadano corporativo responsable y motivar a nuestros empleados a participar en el desarrollo de sus comunidades, son pilares de nuestro Programa de Responsabilidad Social. Nuestro Programa, basado en estos pilares, tiene tres áreas principales de acción: educación, comunidad y la conservación del ambiente.*

*Nuestras contribuciones corporativas durante el año incluyeron la aportación de más de \$1.2 millones que fueron invertidos entre donaciones, auspicios y nuestro apoyo a los esfuerzos de recuperación por los huracanes. También realizamos iniciativas significativas a través de la compañía, tal como nuestro "Día del Voluntariado". Más de 750 empleados de Evertec y sus familiares invirtieron sobre 3,800 horas de trabajo voluntario en apoyo a 24 organizaciones sin fines de lucro. Nuestro Programa de Becas, establecido en 2015, otorgó 52 becas a estudiantes sobresalientes de Puerto Rico y América Latina. El Programa es financiado por Evertec, sus ejecutivos y miembros de la Junta de Directores, y ha distribuido más de \$200,000 en tres años.*

*Además, nuestro programa ambiental "Revolución Naranja", celebró 10 años de su implementación y recolectó en el 2017 sobre 497,000 libras de materiales reciclables.*

*Sin embargo, el 2017 fue un año especial para todos nosotros debido a los huracanes Irma y María. Evertec se unió a los esfuerzos de "Unidos por Puerto Rico", "Embracing Puerto Rico", dirigido por la Fundación Banco Popular, y se unió y apoyó el "Fondo de Emergencia de CulturArte de Puerto Rico" creado para asistir a los estudiantes y profesores del Conservatorio de Música de Puerto Rico que fueron víctimas de los huracanes. Además, celebramos el "Día del Voluntariado María" un evento especial mediante el cual logramos apoyar a más de 1,000 familias, distribuimos sobre 16,000 libras de alimentos y brindamos más de 1,400 horas voluntarias. Finalmente, pero no menos importante, creamos "Puerto Rico Ponte en Marcha" una iniciativa enfocada principalmente en proveerle a los comerciantes soluciones de tecnología y telecomunicaciones, equipos y soporte, que los ayudara a retomar las operaciones de sus negocios y que a la vez impulsara la recuperación de Puerto Rico.*

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

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**FORM 10-K**

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

For the fiscal year ended December 31, 2017

or

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

Commission File Number 001-35872

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**EVERTEC, Inc.**

(Exact name of registrant as specified in its charter)

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**Puerto Rico**

(State or other jurisdiction of  
incorporation or organization)

**66-0783622**

(I.R.S. employer  
identification number)

**Cupey Center Building, Road 176, Kilometer 1.3,  
San Juan, Puerto Rico**

(Address of principal executive offices)

**00926**

(Zip Code)

**(787) 759-9999**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class

Common Stock, \$0.01 par value

Name of each exchange on which registered

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

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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 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.:

Large accelerated filer  Accelerated filer

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

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

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

The aggregate market value of the common stock held by non-affiliates of EVERTEC, Inc. was approximately \$1,042,574,760 based on the closing price of \$17.30 as of the close of business on June 30, 2017.

As of February 21, 2018, there were 72,429,141 outstanding shares of common stock of EVERTEC, Inc.

**Documents Incorporated by Reference:**

Part III incorporates certain information by reference to the Proxy Statement for the 2018 Annual Meeting of Shareholders



**EVERTEC, Inc.**  
**2017 Annual Report on Form 10-K**

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## Forward-Looking Statements

This Annual Report on Form 10-K, or Report, contains “forward-looking statements” within the meaning of, and subject to the protection of, the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “estimates,” “will,” “should,” “plans” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and may involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. Among the factors that significantly impact our business and could impact our business in the future are:

- our reliance on our relationship with Popular, Inc. (“Popular”) for a significant portion of our revenues pursuant to our master services agreement with them, and our reliance on Banco Popular de Puerto Rico (“Banco Popular”), Popular’s principal banking subsidiary, to grow our merchant acquiring business;
- as a regulated institution, we most likely will be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition, and may be unable to obtain such approval on a timely basis or at all, which may make transactions more expensive or impossible to complete, or make us less attractive to potential sellers;
- our ability to renew our client contracts on terms favorable to us, including our contract with Popular;
- our dependence on our processing systems, technology infrastructure, security systems and fraudulent payment detection systems, as well as on our personnel and certain third parties with whom we do business, and the risks to our business if our systems are hacked or otherwise compromised;
- our ability to develop, install and adopt new software, technology and computing systems;
- a decreased client base due to consolidations and failures in the financial services industry;
- the credit risk of our merchant clients, for which we may also be liable;
- the continuing market position of the ATH network;
- a reduction in consumer confidence, whether as a result of a global economic downturn or otherwise, which leads to a decrease in consumer spending;
- our dependence on credit card associations, including any adverse changes in credit card association or network rules or fees;
- changes in the regulatory environment and changes in international, legal, tax, political, administrative or economic conditions;
- the geographical concentration of our business in Puerto Rico, including our business with the government of Puerto Rico and its instrumentalities, which are facing severe fiscal challenges;
- additional adverse changes in the general economic conditions in Puerto Rico, whether as a result of the government’s debt crisis or otherwise, including the continued migration of Puerto Ricans to the U.S. mainland, which could negatively affect our customer base, general consumer spending, our cost of operations and our ability to hire and retain qualified employees;
- operating an international business in Latin America and the Caribbean, in jurisdictions with potential political and economic instability;
- our ability to execute our geographic expansion and acquisition strategies, including challenges in successfully acquiring new businesses and integrating and growing acquired businesses;
- our ability to protect our intellectual property rights against infringement and to defend ourselves against claims of infringement brought by third parties;
- our ability to recruit and retain the qualified personnel necessary to operate our business;
- our ability to comply with U.S. federal, state, local and foreign regulatory requirements;
- evolving industry standards and adverse changes in global economic, political and other conditions;
- our high level of indebtedness and restrictions contained in our debt agreements, including the senior secured credit facilities, as well as debt that could be incurred in the future;
- our ability to prevent a cybersecurity attack or breach in our information security;
- our ability to generate sufficient cash to service our indebtedness and to generate future profits;
- our ability to refinance our debt;
- the possibility that we could lose our preferential tax rate in Puerto Rico;
- the risk that the counterparty to our interest rate swap agreement fails to satisfy its obligations under the agreement
- uncertainty of the pending debt restructuring process under Title III of the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”), as well as actions taken by the Puerto Rico government or by the PROMESA Board to address the Puerto Rico fiscal crisis;
- uncertainty related to Hurricanes Irma and Maria and their aftermaths’ impact on the economies of Puerto Rico and the Caribbean;

- the possibility of future catastrophic hurricanes affecting Puerto Rico and/or the Caribbean, as well as other potential natural disasters;
- the nature, timing and amount of any restatement; and
- other risks and uncertainties detailed in Part I, Item IA “Risk Factors” in this Report.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under “Item 1A. Risk Factors,” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Report. These forward-looking statements speak only as of the date of this Report, and we do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Report or to reflect the occurrence of unanticipated events.



## INDUSTRY AND MARKET DATA

This Form 10-K includes industry data that we obtained from periodic industry publications, including the August 2017 Nilson Report and the 2017 World Payments Report. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable. This Form 10-K also includes market share and industry data that were prepared primarily based on management's knowledge of the industry and industry data. Unless otherwise noted, statements as to our market share and market position relative to our competitors are approximated and based on management estimates using the above-mentioned latest-available third-party data and our internal analyses and estimates. While we are not aware of any misstatements regarding any industry data presented herein, our estimates, in particular as they relate to market share and our general expectations, involve risks and uncertainties and are subject to change based on various factors, including those discussed under "Risk Factors," "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

## Part I

### Item 1. Business

*Except as otherwise indicated or unless the context otherwise requires, (a) the terms “EVERTEC,” “we,” “us,” “our,” “our Company” and “the Company” refer to EVERTEC, Inc. and its subsidiaries on a consolidated basis, (b) the term “Holdings” refers to EVERTEC Intermediate Holdings, LLC, but not any of its subsidiaries and (c) the term “EVERTEC Group” refers to EVERTEC Group, LLC and its predecessor entities and their subsidiaries on a consolidated basis, including the operations of its predecessor entities prior to the Merger (as defined below). EVERTEC Inc.’s subsidiaries include Holdings, EVERTEC Group, EVERTEC Dominicana, SAS, Tecnopago SpA, EFT Group SpA, EFT Global Services, SpA, EFT Group S.A., Tecnopago España SL, EFT Servicios Profesionales SpA, Paytrue S.A., Caleidon, S.A., Paytrue Solutions Informatica Ltda., EVERTEC Panamá, S.A., EVERTEC Costa Rica, S.A. (“EVERTEC CR”), EVERTEC Guatemala, S.A., Processa, SAS (“Processa”), EVERTEC USA, LLC and EVERTEC México Servicios de Procesamiento, S.A. de C.V. Neither EVERTEC nor Holdings conducts any operations other than with respect to its indirect or direct ownership of EVERTEC Group.*

### Company Overview

EVERTEC is a leading full-service transaction processing business in Latin America and the Caribbean, providing a broad range of merchant acquiring, payment services and business process management services. According to the August 2017 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. We serve 26 countries in the region from our base in Puerto Rico. We manage a system of electronic payment networks that process more than two billion transactions annually, and offer a comprehensive suite of services for core bank processing, cash processing and technology outsourcing. In addition, we own and operate the ATH network, one of the leading personal identification number (“PIN”) debit networks in Latin America. We serve a diversified customer base of leading financial institutions, merchants, corporations and government agencies with “mission-critical” technology solutions that enable them to issue, process and accept transactions securely. We believe our business is well-positioned to continue to expand across the fast-growing Latin American region.

We are differentiated, in part, by our diversified business model, which enables us to provide our varied customer base with a broad range of transaction-processing services from a single source across numerous channels and geographic markets. We believe this capability provides several competitive advantages that will enable us to continue to penetrate our existing customer base with complementary new services, win new customers, develop new sales channels and enter new markets. We believe these competitive advantages include:

- Our ability to provide best in class products;
- Our ability to provide in one package a range of services that traditionally had to be sourced from different vendors;
- Our ability to serve customers with disparate operations in several geographies with integrated technology solutions that enable them to manage their business as one enterprise; and
- Our ability to capture and analyze data across the transaction processing value chain and use that data to provide value-added services that are differentiated from those offered by pure-play vendors that serve only one portion of the transaction processing value chain (such as only merchant acquiring or payment services).

Our broad suite of services spans the entire transaction processing value chain and includes a range of front-end customer-facing solutions such as the electronic capture and authorization of transactions at the point-of-sale, as well as back-end support services such as the clearing and settlement of transactions and account reconciliation for card issuers. These include: (i) merchant acquiring services, which enable point of sale (“POS”) and e-commerce merchants to accept and process electronic methods of payment such as debit, credit, prepaid and electronic benefit transfer (“EBT”) cards; (ii) payment processing services, which enable financial institutions and other issuers to manage, support and facilitate the processing for credit, debit, prepaid, automated teller machines (“ATM”) and EBT card programs; and (iii) business process management solutions, which provide “mission-critical” technology solutions such as core bank processing, as well as IT outsourcing and cash management services to financial institutions, corporations and governments. We provide these services through scalable, end-to-end technology platforms that we manage and operate in-house and that generates significant operating efficiencies that enable us to maximize profitability.

We sell and distribute our services primarily through a proprietary direct sales force with established customer relationships. We are also building a variety of indirect sales channels that enable us to leverage the distribution capabilities of partners in adjacent markets, including value-added resellers. We continue to pursue joint ventures and merchant acquiring alliances. We benefit from an attractive business model, the hallmarks of which are recurring revenue, scalability, significant operating margins and moderate capital expenditure requirements. Our revenue is predominantly recurring in nature because of the mission-critical and embedded nature of the services we provide. In addition, we generally negotiate multi-year contracts with

our customers. We believe our business model should enable us to continue to grow our business organically in the primary markets we serve without significant incremental capital expenditures.

## **Financial Information About Operating Segments and Geographic Areas**

In December of 2017, as a result of the PayGroup acquisition, the Chief Operating Decision Maker ("CODM") completed an evaluation of the current Company structure and the information regularly reviewed for purposes of allocating resources and assessing performance. As a result of this evaluation, Management concluded that the operating segments are driven by the products and services the Company provides and the geographic regions in which the Company operates, resulting in four business segments: Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America (collectively "Payment Services segments"), Merchant Acquiring, and Business Solutions. We recasted our segment results for all previous periods to conform to the new segment presentation. In addition to these operating segments, Management identified certain functional cost areas that operate independently and do not constitute businesses in themselves. These cost areas could neither be concluded as operating segments nor could they be combined with any other operating segments. Therefore, these cost areas are aggregated and presented as "Corporate and Other" category in the financial statements alongside the operating segments. The Corporate and Other category consists of corporate overhead expenses, certain leveraged activities and other non-operating and miscellaneous expenses that are not included in the operating segments. For information about our operating segments refer to Note 23 of the Notes to Consolidated Financial Statements.

## **Corporate Background**

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) is a Puerto Rico corporation organized in April 2012. Our main operating subsidiary, EVERTEC Group, LLC (formerly known as EVERTEC, LLC and EVERTEC, Inc., hereinafter "EVERTEC Group"), was organized in Puerto Rico in 1988. EVERTEC Group was formerly a wholly-owned subsidiary of Popular. On September 30, 2010, pursuant to an Agreement and Plan of Merger (as amended, the "Merger Agreement"), AP Carib Holdings, Ltd. ("Apollo"), an affiliate of Apollo Global Management LLC, acquired a 51% indirect ownership interest in EVERTEC Group as part of a merger (the "Merger") and EVERTEC Group became a wholly-owned subsidiary of Holdings.

On April 17, 2012, EVERTEC Group was converted from a Puerto Rico corporation to a Puerto Rico limited liability company (the "Conversion") for the purpose of improving its consolidated tax efficiency by taking advantage of changes to the Puerto Rico Internal Revenue Code, as amended (the "PR Code"), that permit limited liability companies to be treated as partnerships that are pass-through entities for Puerto Rico tax purposes. Concurrent with the Conversion, Holdings, which is our direct subsidiary, was also converted from a Puerto Rico corporation to a Puerto Rico limited liability company. Prior to these conversions, EVERTEC, Inc. was formed in order to act as the new parent company of Holdings and its subsidiaries, including EVERTEC Group. The transactions described above in this paragraph are collectively referred to as the "Reorganization."

## **History**

We have over a 25 year operating history in the transaction processing industry. Prior to the Merger, EVERTEC Group was 100% owned by Popular, the largest financial institution in the Caribbean, and operated substantially as an independent entity within Popular. As mentioned above, following the Merger, Apollo owned a 51% interest in us and shortly thereafter, we began the transition to a separate, stand-alone entity. As a stand-alone company, we have made substantial investments in our technology and infrastructure, recruited various senior executives with significant transaction processing experience in Latin America, enhanced our profitability through targeted productivity and cost savings actions and broadened our footprint beyond the markets historically served.

We continue to benefit from our relationship with Popular. Popular is our largest customer, acts as one of our largest merchant referral partners and sponsors us with the card associations (such as Visa or MasterCard), enabling merchants to accept these card associations' credit card transactions. Popular also provides merchant sponsorship as one of the participants of the ATH network, enabling merchants to connect to the ATH network and accept ATH debit card transactions. We provide a number of critical products and services to Popular, which are governed by a 15-year Amended and Restated Master Services Agreement (the "Master Services Agreement") that runs through 2025.

On April 17, 2013, the Company completed its initial public offering of 28,789,943 shares of common stock at a price to the public of \$20.00 per share. On September 18, 2013 and December 13, 2013, the Company completed public offerings of 23,000,000 and 15,233,273 shares, respectively, of the Company's common stock by Apollo, Popular, and current and former employees. After the completion of these offerings, Popular owned approximately 11.7 million shares of EVERTEC's common stock, or 16.1% as of December 31, 2017, and Apollo no longer owns any of the Company's common stock.



## **Principal Stockholder**

Popular, Inc. (NASDAQ: BPOP), whose principal banking subsidiary's history dates back to 1893, is the No. 1 bank holding company by both assets and deposits based in Puerto Rico, and, as of September 30, 2017, ranks 48 by assets among U.S. bank holding companies. As of December 31, 2017, Popular owned approximately 16.1% of our common stock.

## **Industry Trends**

### *Shift to Electronic Payments*

The ongoing migration from cash, check and other paper methods of payment to electronic payments continues to benefit the transaction processing industry globally. This migration is driven by factors including customer convenience, marketing efforts by financial institutions, card issuer rewards and the development of new forms of payment. We believe that the penetration of electronic payments in the markets where we principally operate is significantly lower relative to more mature U.S. and European markets and that this ongoing shift will continue to generate important growth opportunities for our business. In addition, in an effort to better capture taxes over generated revenue, legislation in Puerto Rico has required most licensed professionals to provide an electronic payment option to their customers, and that all consumer businesses that generate revenues in excess of \$50,000 provide an electronic payment option, with the exception of certain businesses, further expanding the need for an electronic payment network in Puerto Rico.

### *Fast Growing Latin American and Caribbean Financial Services and Payments Markets*

Currently, the penetration of banking products, including electronic payments, in the Latin American and Caribbean region is lower relative to the mature U.S. and European markets. As these markets continue to grow, and financial inclusion increases, the emergence of a larger and more sophisticated consumer base will influence and drive an increase in card (like debit, credit, prepayment, and EBT) and electronic payments usage. According to the 2017 World Payments Report, non-cash payment volumes in Latin America grew by 7.2% from 2015 to 2016, and are projected to grow 7.1% through 2020, mainly driven by high levels of digital innovation taking place as banks move away from their traditional retail banking strategies and invest in digital technologies. In North America, non-cash payments grew by 4.4% and are projected to grow 4.4% through 2020, attributable to a significant growth in proximity mobile payments. While in the past mature markets have dominated non-cash transaction volumes, a shift in balance is occurring as the developing markets' share of global non-cash transaction volumes have increased from 12% to 27%. If current trends continue, developing markets' share of global non-cash volumes is expected to increase from 27% in 2013 to 33% by 2020. We believe that the attractive characteristics of our markets and our position across multiple services and sectors will continue to drive growth and profitability in our businesses.

### *Ongoing Technology Outsourcing Trends*

Financial institutions globally are facing significant challenges including the entrance of non-traditional competitors, the compression of margins on traditional products, significant channel proliferation and increasing regulation that could potentially curb profitability. Many of these institutions have traditionally fulfilled their IT needs through legacy computer systems, operated by the institution itself. Legacy systems are generally highly proprietary, inflexible and costly to operate and maintain and we believe the trend to outsource in-house technology systems and processes by financial institutions will continue. We believe our ability to provide integrated, open, flexible, customer-centric and efficient IT products and services cater to the evolving needs of our customers, particularly for small- and mid-sized financial institutions in the Latin American markets in which we operate.

### *Industry Innovation*

The electronic payments industry experiences ongoing technology innovation. Emerging payment technologies such as prepaid cards, contactless payments, payroll cards, mobile commerce, mobile "wallets" and innovative POS devices facilitate the continued shift away from cash, check and other paper methods of payment. The increasing demand for new and flexible payment options catering to a wider range of consumer segments is driving growth in the electronic payment processing sector.

### *Our Competitive Strengths*

#### *Market Leadership in Latin America and the Caribbean*

We believe we have an inherent competitive advantage relative to U.S. competitors based on our first-hand knowledge of the Latin American and Caribbean markets and technological needs, language and culture. We have built leadership positions

across the transaction processing value chain in the key geographic markets that we serve, which we believe will enable us to continue to penetrate our core markets and provide advantages to enter new markets. According to the August 2017 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. We own and operate the ATH network, one of the leading ATM and PIN debit networks in Latin America. EVERTEC processed approximately two billion transactions in 2017, which according to management estimates, makes ATH branded products the most frequently used electronic method of payment in Puerto Rico. We offer compelling value to our merchants, as noted in the most recent report published by the Federal Reserve Board regarding debit network fees, the ATH network ranked as one of the most economical networks for merchants. Given our scale and customer base of top tier financial institutions and government entities, we believe we are the leading card issuer and core bank processor in the Caribbean and the only non-bank provider of cash processing services to the U.S. Federal Reserve in the Caribbean. We believe our competitive position and brand recognition increases card acceptance, driving usage of our proprietary network, and presents opportunities for future strategic relationships.

#### *Broad and Deep Customer Relationships and Recurring Revenue Business Model*

We have built a strong and long-standing portfolio of financial institution, merchant, corporate and government customers across Latin America and the Caribbean, which provides us with a reliable, recurring revenue base and powerful references that have helped us expand into new channels and geographic markets. Our Payment Services and Merchant Acquiring segments, as well as certain business lines representing the majority of our business solutions segment, generate recurring revenues that collectively accounted for approximately 94% of our total revenues in 2017. We receive recurring revenues from services based on our customers' on-going daily commercial activity such as processing loans, hosting accounts and information on our servers, and processing everyday payments at grocery stores, gas stations and similar establishments. We generally provide these services under one to five year contracts, often with automatic renewals. We also provide a few project-based services that generate non-recurring revenues in our business solutions segment such as IT consulting for a specific project or integration. Additionally, we entered into a 15-year Master Services Agreement with Popular on September 30, 2010. We provide a number of critical payment services and business solutions products and services to Popular and benefit from the bank's distribution network and continued support. Through our long-standing and diverse customer relationships, we are able to gain valuable insight into trends in the marketplace that allows us to identify new market opportunities. In addition, we believe the recurring nature of our business model provides us with revenue and earnings stability.

#### *Highly Scalable, End-to-End Technology Platform*

Our diversified business model is supported by our scalable, end-to-end technology platforms that allow us to provide a broad range of transaction processing services and develop and deploy technology solutions to our customers at low incremental costs and increasing operating efficiencies. We have spent over \$170 million over the last five years on technology investments, including POS, to continue to build the capacity and functionality of our platforms and we have been able to achieve attractive economies of scale with flexible product development capabilities. We believe that our platforms will allow us to provide differentiated services to our customers and facilitate further expansion into new sales channels and geographic markets.

#### *Experienced Management Team with a Strong Track Record of Execution*

We have grown our revenue organically by introducing new products and services and expanding our geographic footprint throughout Latin America. We have a proven track record of creating value from operational and technology improvements and capitalizing on cross-selling opportunities. We have combined new leadership at EVERTEC, bringing many years of industry experience, with long-standing leadership at the operating business level. Collectively, our management team benefits from an average of over 20 years of industry experience and we believe they are well positioned to continue to drive growth across business lines and regions.

### **Our Growth Strategy**

We intend to grow our business by continuing to execute on the following business strategies:

#### *Continue Cross-Sales to Existing Customers*

We seek to grow revenue by continuing to sell additional products and services to our existing merchant, financial institution, corporate and government customers. We intend to broaden and deepen our customer relationships by leveraging our full suite of end-to-end technology solutions. For example, we believe that there is significant opportunity to cross-sell our network services, ATM point-of-sale processing and card issuer processing services to our over 180 existing financial institution

customers, particularly in markets outside of Puerto Rico. We will also seek to continue to cross-sell value added services into our existing merchant base.

#### *Leverage Our Franchise to Attract New Customers in the Markets We Currently Serve*

We intend to attract new customers by leveraging our comprehensive product and services offering, the strength of our brand and our leading end-to-end technology platform. Furthermore, we believe we are well positioned to develop new products and services to take advantage of our access to and position in markets we currently serve. For example, in markets we serve outside of Puerto Rico, we believe there is a significant opportunity to penetrate small to medium financial institutions with our products and services.

#### *Expand in the Latin American Region*

We believe there is substantial opportunity to expand our businesses in the Latin American region. We believe that we have a competitive advantage relative to U.S. competitors based on our first-hand knowledge of the Latin American and Caribbean markets and their technological needs, language and culture. We believe significant growth opportunities exist in a number of large markets such as Colombia, México, and Chile, among others. We also believe that there is an opportunity to provide our services to existing financial institution customers in other regions where they operate. Additionally, we continually evaluate our strategic plans for geographic expansion, which can be achieved through joint ventures, partnerships, alliances or strategic acquisitions. For a description of risks associated with obtaining regulatory approvals and other risks associated with strategic transactions, see “Item 1A. Risk Factors—Risks Related to Our Business—Our expansion and selective acquisition strategy exposes us to risks, including the risk that we may not be able to successfully integrate acquired businesses.”

#### *Develop New Products and Services*

Our experience with our customers provides us with insight into their needs and enables us to continuously develop new transaction processing services. We plan to continue growing our merchant, financial institution, corporate and government customer base by developing and offering additional value-added products and services to cross-sell along with our core offerings. We intend to continue to focus on these and other new product opportunities in order to take advantage of our leadership position in the transaction processing industry in the Latin American and Caribbean region.

### **Our Business**

We offer our customers end-to-end products and solutions across the transaction processing value chain from a single source across numerous channels and geographic markets, as further described below.

#### *Merchant Acquiring*

According to the August 2017 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. Our merchant acquiring business provides services to merchants that allow them to accept electronic methods of payment such as debit, credit, prepaid and EBT cards carrying the ATH, Visa, MasterCard, Discover and American Express brands. Our full suite of merchant acquiring services includes, but is not limited to, the underwriting of each merchant’s contract, the deployment and rental of POS devices and other equipment necessary to capture merchant transactions, the processing of transactions at the point-of-sale, the settlement of funds with the participating financial institution, detailed sales reports and customer support. In 2017, our merchant acquiring business processed over 358 million transactions.

#### *Payment Services*

We are the largest card processor and card network service provider in the Caribbean. We provide a diversified suite of payment processing products and services to blue chip regional and global corporate customers, government agencies, and financial institutions across Latin America and the Caribbean. These services provide the infrastructure technology necessary to facilitate the processing and routing of payments across the transaction processing value chain.

At the point-of-sale, we sell transaction processing technology solutions, similar to the services in our merchant acquiring business, to other merchant acquirers to enable them to service their own merchant customers. We also offer terminal driving solutions to merchants, merchant acquirers (including our merchant acquiring business) and financial institutions, which provide the technology to securely operate, manage and monitor POS terminals and ATMs. We also rent POS devices to financial institution customers who seek to deploy them across their own businesses.



To connect the POS terminals to card issuers, we own and operate the ATH network, one of the leading ATM and PIN debit networks in Latin America. The ATH network connects the merchant or merchant acquirer to the card issuer and enables transactions to be routed or “switched” across the transaction processing value chain. The ATH network offers the technology, communications standards, rules and procedures, security and encryption, funds settlement and common branding that allow consumers, merchants, merchant acquirers, ATMs, card issuer processors and card issuers to conduct commerce seamlessly, across a variety of channels, similar to the services provided by Visa and MasterCard. The ATH network and processing businesses processed approximately two billion transactions in 2017.

To enable financial institutions, governments and other businesses to issue and operate a range of payment products and services, we offer an array of card processing and other payment technology services, such as internet and mobile banking software services, bill payment systems and EBT solutions. Financial institutions and certain retailers outsource to us certain card processing services such as card issuance, processing card applications, cardholder account maintenance, transaction authorization and posting, high volume payment processing fraud and risk management services, and settlement. Our payment products include electronic check processing, automated clearing house (“ACH”), lockbox, online, interactive voice response and web-based payments through personalized websites, among others.

We have been the main provider of EBT services to the Puerto Rican government since 1998. Our EBT application allows certain agencies to deliver government benefits to participants through a magnetic card system and serves approximately 800,000 active participants.

### *Business Solutions*

We provide our financial institutions, corporate and government customers with a wide suite of business process management solutions including specifically core bank processing, network hosting and management, IT consulting services, business process outsourcing, item and cash processing, and fulfillment. In addition, we believe we are the only non-bank provider of cash processing services to the U.S. Federal Reserve in the Caribbean.

### **Competition**

Competitive factors impacting the success of our services include the quality of the technology-based application or service, application features and functions, ease of delivery and integration, ability of the provider to maintain, enhance, and support the applications or services, and price. We believe that we compete well in each of these categories. In addition, we believe that our relationship with Popular, scale and expertise, and financial institution industry expertise, combined with our ability to offer multiple applications, services and integrated solutions to individual customers, enhances our competitiveness against companies with more limited offerings and helps us compete with large global competitors with similar assets to ours.

In merchant acquiring, we compete with several other service providers and financial institutions, including Worldpay, Inc., First Data Corporation, Global Payments Inc., Elavon, Inc., Sage Payment Solutions, independent sales organizations and some local banks. Also, the card associations and payment networks are increasingly offering products and services that compete with ours. The main competitive factors are price, brand awareness, strength of the relationship with financial institutions, system functionality, integration service capabilities and innovation. Our business is also impacted by the expansion of new payments methods and devices, card association business model expansion, and bank consolidation.

In payment services, we compete with several other third party card processors and debit networks, including First Data Corporation, TecnoCom Telecomunicaciones y Energía, S.A., Fidelity National Information Services, Inc., Fiserv, Inc., Total System Services, Inc., Vantiv, Inc., MasterCard, Visa, American Express, Discover and Global Payments Inc. Also, card associations and payment networks are increasingly offering products and services that compete with our products and services. The main competitive factors are price, system performance and reliability, system functionality, security, service capabilities and disaster recovery and business continuity capabilities.

In business solutions, our main competition includes internal technology departments within financial institutions, retailers, data processing or software development departments of large companies and/or large technology and consulting companies. Main competitive factors are price, system performance and reliability, system functionality, security, service capabilities, and disaster recovery and business continuity capabilities.

## **Intellectual Property**

We own numerous registrations for several trademarks in different jurisdictions and own or have licenses to use certain software and technology, which are critical to our business and future success. For example, we own the ATH and EVERTEC trademarks in several jurisdictions, which are associated by the public, financial institutions and merchants with high quality and reliable electronic commerce, payments, and debit network solutions and services. Such goodwill allows us to be competitive, retain our customers, and expand our business. Further, we also use a combination of (i) proprietary software, and (ii) duly licensed third party software to operate our business and deliver secure and reliable products and services to our customers. The licensed software is subject to terms and conditions that we considered within the industry standards. Most are perpetual licenses and the rest are term licenses with renewable terms. In addition, we monitor these license agreements and maintain close contact with our suppliers to ensure their continuity of service.

We seek to protect our intellectual property rights by securing appropriate statutory intellectual property protection in the relevant jurisdictions. We also protect proprietary know-how and trade secrets through company confidentiality policies, licenses, programs, and contractual agreements.

## **Employees**

As of December 31, 2017, we had approximately 2,100 employees across 11 countries in the United States, Latin America and the Caribbean. In Brazil, we have one unionized employee covered by the terms of industry-specific collective agreements. None of our other employees are otherwise represented by any labor organization. We consider our relationships with our employees to be good. We have not experienced any work stoppages in connection with employee matters.

## **Government Regulation and Payment Network Rules**

### ***Federal Reserve Regulations***

Popular is a bank holding company that has elected to be treated as a financial holding company under the provisions of the Gramm-Leach-Bliley Act of 1999. As long as we are deemed to be a “subsidiary” of Popular for purposes of the Bank Holding Company (“BHC”) Act, we will be subject to regulation and oversight by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and our activities will be subject to several related significant restrictions, the more significant of which are discussed below.

### ***Transactions with Affiliates***

If we are deemed to be an affiliate of Popular for purpose of the affiliate transaction rules found in Section 23A and 23B of the Federal Reserve Act and Regulation W of the Federal Reserve Board, we will be subject to various restrictions on our ability to borrow from, and engage in certain other transactions with Popular’s bank subsidiaries, Banco Popular and Banco Popular North America (“BPNA”). In general these rules require that any “covered transaction” that we enter into with Banco Popular or BPNA (or any of their respective operating subsidiaries), as the case may be, must be secured by designated amounts of specified collateral and must be limited to 10% of Banco Popular’s or BPNA’s, as the case may be, capital stock and surplus. In addition, all “covered transactions” between Banco Popular or BPNA, on the one hand, and Popular and all of its subsidiaries and affiliates on the other hand, must be limited to 20% of Banco Popular’s or BPNA’s, as the case may be, capital stock and surplus. “Covered transactions” are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve Board) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, Section 23B and Regulation W require that if we are deemed an affiliate of Banco Popular or BPNA, all transactions between us and either Banco Popular or BPNA be on terms and conditions, including credit standards, that are substantially the same or at least as favorable to Banco Popular or BPNA, as the case may be, as those prevailing at the time for comparable transactions involving other non-affiliated companies or, in the absence of comparable transactions, on terms and conditions, including credit standards, that in good faith would be offered by Banco Popular or BPNA to, or would apply to, non-affiliated companies.

### ***Permissible Activities***

As long as we are deemed to be controlled by Popular for bank regulatory purposes, we may conduct only those activities that are authorized for a bank holding company or a financial holding company under the BHC Act, the Federal Reserve Board’s Regulation K and other relevant U.S. federal banking laws. These activities generally include activities that are related to banking, financial

in nature or incidental to financial activities. In addition, restrictions placed on Popular as a result of supervisory or enforcement actions may restrict us or our activities in certain circumstances, even if these actions are unrelated to our conduct or business. As long as we are deemed to be a foreign subsidiary of a bank holding company under the Federal Reserve Board's regulations, we will rely on the authority granted under the Federal Reserve Board's Regulation K to conduct our data processing, management consulting and related activities outside the United States. The Federal Reserve Board's Regulation K generally limits activities of a bank holding company outside the United States that are not banking or financial in nature, specifically permitted under Regulation K to foreign subsidiaries or necessary to carry on such activities that are not otherwise permissible for a foreign subsidiary under the banking regulations. We continue to engage in certain activities outside the scope of such permissible activities pursuant to authority under the Federal Reserve Board's Regulation K, which allows a bank holding company to retain, in the context of an acquisition of a going concern, such otherwise impermissible activities if they account for not more than 5% of either the consolidated assets or consolidated revenues of the acquired organization.

New lines of business, other new activities, divestitures or acquisitions that we may wish to commence in the future may not be permissible for us under the BHC Act, Regulation K or other relevant U.S. federal banking laws. Further, as a result of being subject to regulation and supervision by the Federal Reserve Board, we may be required to obtain the approval of the Federal Reserve Board before engaging in certain new activities or businesses, whether organically or by acquisition, unless such activities are considered financial in nature. More generally, the Federal Reserve Board has broad power to approve, deny or refuse to act upon applications or notices for us to conduct new activities, acquire or divest businesses or assets, or reconfigure existing operations. If we are unable to obtain any such approval on a timely basis, are delayed in receiving approval or do not receive approval, this may make transactions more expensive or may make us less attractive to potential sellers.

#### *Examinations*

As a technology service provider to financial institutions, we are also subject to regulatory oversight and examination by the Federal Financial Institutions Examination Council (the "FFIEC"), an interagency body of federal financial regulators that includes the Federal Reserve Board. The office of the Commissioner of Financial Institutions of Puerto Rico also participates in such examinations by the FFIEC. In addition, independent auditors annually review several of our operations to provide reports on internal controls for our clients' auditors and regulators.

#### *Regulatory Reform and Other Legislative Initiatives*

The payment card industry has come under increased scrutiny from lawmakers and regulators. The Dodd-Frank Wall Street Reform and Protection Act (the "Dodd-Frank Act") set forth significant structural and other changes to the regulation of the financial services industry, including the establishment of the Consumer Financial Protection Bureau (the "CFPB"). The CFPB has broad supervisory, enforcement and rulemaking authority over consumer financial products and services (including many offered by us and by our clients) and certain bank and non-bank providers of such products and services. In addition, Section 1075 of the Dodd-Frank Act (commonly referred to as the "Durbin Amendment") imposes new restrictions on card networks and debit card issuers. More specifically, the Durbin Amendment provides that the interchange transaction fees that a card issuer or payment network may receive or charge for an electronic debit transaction must be "reasonable and proportional" to the cost incurred by the card issuer in authorizing, clearing and settling the transaction. The Board of Governors of the Federal Reserve System (the "Federal Reserve") adopted final regulations implementing the Durbin Amendment on June 29, 2011 and added a fraud-prevention adjustment on July 27, 2012.

The Federal Reserve's regulations (a) limit debit transaction interchange fees to  $\$.21 + (5 \text{ bps times the value of the transactions}) + \$.01$  (as a fraud adjustment for issuers that have in place policies and measures to address fraud); (b) require that issuers must enable at least two unaffiliated payment card networks on their debit cards without regard to authentication method; and (c) prohibit card issuers and payment card networks from entering into exclusivity arrangements for debit card processing and restrict card issuers and payment networks from inhibiting the ability of merchants to direct the routing of debit card transactions over networks of their choice. The Dodd-Frank Act also allows merchants to set minimum dollar amounts (currently, not to exceed \$10) for the acceptance of a credit card and provide discounts or incentives to entice consumers to pay with various payment methods, such as cash, checks, debit cards or credit cards, as the merchant prefers.

The CFPB is responsible for many of the regulatory functions previously performed by the federal banking and other agencies with respect to consumer financial products and services. In addition to rulemaking authority over several enumerated federal consumer financial protection laws, the CFPB is authorized to issue rules prohibiting unfair, deceptive or abusive acts or practices in connection with the offering of a consumer financial product or service or any transaction with a consumer for such product or service. The CFPB also has authority to examine supervised entities for compliance with, and to enforce violations of, consumer financial protection laws.



As an affiliate of Banco Popular-an insured depository institution with greater than \$10 billion in total consolidated assets-and as a service provider to other insured depository institutions with \$10 billion or more in total consolidated assets, as well as larger participants in markets for consumer financial products and services, as determined by the CFPB, we are subject to the supervision, enforcement and rulemaking authority of the CFPB. CFPB rules, examinations and enforcement actions may require us to adjust our activities and may increase our compliance costs.

In 2017, the former Director of the CFPB resigned and was replaced by an interim Director. This change in leadership, although the subject of ongoing litigation, may result in certain changes to CFPB policies and supervision, enforcement and rulemaking priorities. In addition, various legislative proposals to restructure or limit the authority of the CFPB, or to modify certain consumer financial protection laws or CFPB regulations, have been considered by Congress. It is unclear whether or to what extent any such change would affect the manner in which we engage in consumer product and service activities.

In addition to the Dodd-Frank Act, from time to time, various legislative initiatives are introduced in Congress and state legislatures, and changes in regulations or agency policies, or in the interpretation of such regulations and policies, are proposed by regulatory agencies. Such initiatives may include proposals to modify the powers of bank holding companies and their affiliates. Such legislation or changes in regulation could affect our operating environment in substantial and unpredictable ways. If adopted, such legislation or changes in regulation could increase the cost of doing business or limit permissible activities. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations or related policies and guidance, would have on our financial condition or results of operations.

### ***Other Government Regulations***

Our services are also subject to a broad range of complex federal, state, Puerto Rico and foreign regulation, including privacy laws, international trade regulations, the Bank Secrecy Act and other anti-money laundering laws, anti-trust and competition laws, the U.S. Internal Revenue Code, the PR Code, the Employee Retirement Income Security Act, the Health Insurance Portability and Accountability Act and other Puerto Rico laws and regulations. Failure of our services to comply with applicable laws and regulations could result in restrictions on our ability to provide such services, as well as the imposition of civil fines and/or criminal penalties. The principal areas of regulation (in addition to oversight by the Federal Reserve Board) that impact our business are described below.

#### *Privacy*

We and our financial institution clients are required to comply with various U.S. state, federal and foreign privacy laws and regulations, including those imposed under the Gramm-Leach-Bliley Act of 1999 which applies directly to a broad range of financial institutions and to companies that provide services to financial institutions. These laws and regulations place restrictions on the collection, processing, storage, use and disclosure of certain personal information, require disclosure to individuals of detailed privacy practices and provide them with certain rights to prevent the use and disclosure of protected information. The regulations, however, permit financial institutions to share information with non-affiliated parties who perform services for the financial institutions. These laws also impose requirements for safeguarding personal information through the issuance of data security standards or guidelines. Certain state laws impose similar privacy obligations, as well as, in certain circumstances, obligations to provide notification to affected individuals, states officers and consumer reporting agencies, as well as businesses and governmental agencies that own data, of security breaches of computer databases that contain personal information. In addition, U.S. state and federal government agencies have been contemplating or developing new initiatives to safeguard privacy and enhance data security. Some foreign privacy laws are stricter than those applicable under U.S. federal, state or Puerto Rican law. As a provider of services to financial institutions, we are required to comply with the privacy regulations and are bound by the same limitations on disclosure of the information received from our customers as apply to the financial institutions themselves. See “Item 1A. Risk Factors-Risks Related to Our Business-Security breaches or our own failure to comply with privacy regulations and industry security requirements imposed on providers of services to financial institutions and card processing services could harm our business by disrupting our delivery of services and damaging our reputation.”

#### *Anti-Money Laundering and Office of Foreign Assets Control Regulation*

Since we provide data processing services to both foreign and domestic financial institutions, we are required to comply with certain anti-money laundering and terrorist financing laws and economic sanctions imposed on designated foreign countries, nationals and others. Specifically, we must adhere to the requirements of the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (collectively, the “BSA”) regarding processing and facilitation of financial transactions, as well as other state, local and foreign laws relating to money laundering. Furthermore, as a data processing company that provides services to foreign parties and facilitates financial transactions between foreign parties, we are obligated to screen transactions for compliance with the sanctions programs administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”). These

regulations prohibit us from entering into or facilitating a transaction to or from or dealings with specified countries, their governments and, in certain circumstances, their nationals and others, such as narcotics traffickers, and terrorists or terrorist organizations designated by the U.S. Government under one or more sanctions regimes.

A major focus of governmental policy in recent years has been aimed at combating money laundering and terrorist financing. Preventing and detecting money laundering, and other related suspicious activities at their earliest stages warrants careful monitoring. The BSA, along with a number of other anti-money laundering laws, imposes various reporting and record-keeping requirements concerning currency and other types of monetary instruments. Similar anti-money laundering, counter-terrorist financing and proceeds of crime laws apply to movements of currency and payments through electronic transactions and to dealings with persons specified on lists maintained by organizations similar to OFAC in several other countries and which may impose specific data retention obligations or prohibitions on intermediaries in the payment process. These laws and regulations impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for us.

#### *Federal Trade Commission Act and Other Laws Impacting our Customers' Business*

All persons engaged in commerce, including, but not limited to, us and our merchant and financial institution customers are subject to Section 5 of the Federal Trade Commission Act prohibiting Unfair or Deceptive Acts or Practices (“UDAP”). In addition, there are other laws, rules and/or regulations, including the Telemarketing Sales Act, that may directly impact the activities of our merchant customers and in some cases may subject us, as the merchant's payment processor, to investigations, fees, fines and disgorgement of funds in the event we are deemed to have aided and abetted or otherwise provided the means and instrumentalities to facilitate the illegal activities of the merchant through our payment processing services. Federal and state regulatory enforcement agencies including the Federal Trade Commission, or FTC, and the states' attorneys general have authority to take action against nonbanks that engage in UDAP or violate other laws, rules and regulations. To the extent we process payments for a merchant that may be in violation of these laws, rules and regulations, we may be subject to enforcement actions and as a result may incur losses and liabilities that may impact our business.

#### *Anti-trust and Competition Laws*

We are required to comply with various federal, local and foreign competition and anti-trust laws, including the Sherman Act, Clayton Act, Hart-Scott-Rodino Antitrust Improvements Act, Robinson-Patman Act, Federal Trade Commission Act and Puerto Rico Anti-Monopoly Act. In general, competition laws are designed to protect businesses and consumers from anti-competitive behavior. Competition and anti-trust law investigations can be lengthy and violations are subject to civil and/or criminal fines and other sanctions for both corporations and individuals that participate in the prohibited conduct. Class action civil anti-trust lawsuits can result in significant judgments, including in some cases, payment of treble damages and/or attorneys' fees to the successful plaintiff. See “Item 1A. Risk Factors-Risks Related to Our Business-Failure to comply with U.S. state and federal antitrust requirements, or the Puerto Rico Anti-Monopoly Act, and government investigations into our compliance, could adversely affect our business.”

#### *Foreign Corrupt Practices Act (“FCPA”), Export Administration and Other*

As a data processing company that services both foreign and domestic clients, our business activities in foreign countries, and in particular our transactions with foreign governmental entities, subject us to the anti-bribery provisions of the FCPA, as well as the laws and regulations of the foreign jurisdiction where we operate. Pursuant to applicable anti-bribery laws, our transactions with foreign government officials and political candidates are subject to certain limitations. Finally, in the course of business with foreign clients and subsidiaries, we export certain software and hardware that is regulated by the Export Administration Regulations from the United States to the foreign parties. Together, these regulations place restrictions on who we can transact with, what transactions may be facilitated, how we may operate in foreign jurisdictions, and what we may export to foreign countries.

The preceding list of laws and regulations is not exhaustive, and the regulatory framework governing our operations changes continuously. The enactment of new laws and regulations may increasingly affect directly and indirectly the operation of our business, which could result in substantial regulatory compliance costs, litigation expense, loss of revenue, decreased profitability and/or adverse publicity.

## ***Association and Network Rules***

Several of our subsidiaries are registered with or certified by card associations and payment networks, including the ATH network, MasterCard, Visa, American Express, Discover and numerous debit and EBT networks as members or as service providers for member institutions in connection with the services we provide to our customers. As such, we are subject to applicable card association and network rules, which could subject us to a variety of fines or penalties that may be levied by the card associations or networks for certain acts and/or omissions by us, our acquirer customers, processing customers and/or merchants. For example, “EMV” is a credit and debit card authentication methodology that the card associations are mandating to processors, issuers and acquirers in the payment industry. Compliance deadlines for EMV mandates vary by country and by payment network. We have invested significant resources and man-hours to develop and implement this methodology in all our payment related platforms. However, we are not certain if or when our financial institution customers will use or accept the methodology and the time it will take for this technology to be rolled-out to all customer ATM and POS devices connected to our platforms or adopted by our card issuing clients. Non-compliance with EMV mandates could result in lost business or financial losses from fraud or fines from network operators. We are also subject to network operating rules promulgated by the National Automated Clearing House Association relating to payment transactions processed by us using the Automated Clearing House Network and to various government laws regarding such operations, including laws pertaining to EBT.

## **Geographic Concentration**

Our revenue composition by geographical area is based in Latin America and the Caribbean. Latin America includes, among others, Costa Rica, México, Guatemala, Colombia, Chile, Uruguay, Brazil and Panamá. The Caribbean primarily represents Puerto Rico, the Dominican Republic and the Virgin Islands. See Note 23 of Audited Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for additional information related to geographic areas.

## **Seasonality**

Our payment businesses generally experience increased activity during the traditional holiday shopping periods and around other nationally recognized holidays.

## **Available Information**

EVERTEC’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to such reports (if applicable) filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are available free of charge, through our website, <http://www.evertecinc.com>, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. In addition, we make available on our website under the heading of “Corporate Information” our: (i) Code of Ethics; (ii) Code of Ethics for Service Providers; (iii) Corporate Governance Guidelines; (iv) the charters of the Audit, Compensation and Nominating and Corporate Governance committees, and also we intend to disclose any amendments to the Code of Ethics. The aforementioned reports and materials can also be obtained free of charge upon written request or telephoning to the following address or telephone number:

EVERTEC, Inc.  
Cupey Center Building  
Road, 176, Kilometer 1.3  
San Juan, Puerto Rico 00926  
(787) 759-9999

The public may read and copy any materials EVERTEC files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. In addition, the public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>.

## **Item 1A. Risk Factors**

Readers should carefully consider, in connection with other information disclosed in this Annual Report on Form 10-K, the risks and uncertainties described below. The following discussion sets forth some of the more important risk factors that could affect our business, financial condition, operating results or cash flow. However, other factors, besides those discussed below or elsewhere in this Report or other of our reports filed with or furnished to the Securities and Exchange Commission (“SEC”), also could adversely affect our business, financial condition, operating results or cash flow. We cannot assure you that the risk factors described below or elsewhere in this document are a complete set of all potential risks we may face; additional risks and

uncertainties not presently known to us or not believed by us to be material may also negatively impact us. These risk factors also serve to describe factors which may cause our results to differ materially from those discussed in forward looking statements included herein or in other documents or statements that make reference to this Annual Report on Form 10-K. Please also refer to the section titled “Forward Looking Statements” in this Annual Report on Form 10-K.

## **Risks Related to Our Business**

### ***We expect to continue to derive a significant portion of our revenue from Popular.***

Our services to Popular account for a significant portion of our revenues, and we expect that our services to Popular will continue to represent a significant portion of our revenues for the foreseeable future. In 2017, products and services billed to Popular accounted for approximately 43% of our total revenues. The majority of Popular’s business is presented in the Business Solutions segment. If Popular were to terminate, fail to perform under, or fail to renew the Master Services Agreement (“MSA”), which currently expires in 2025, or our other material agreements with Popular, our revenues could be materially reduced and our profitability and cash flows could also be materially reduced which, in turn, could potentially limit our ability to renegotiate our debt.

### ***We depend, in part, on our merchant relationships and our alliance with Banco Popular, a wholly-owned subsidiary of Popular, to grow our merchant acquiring business. If we are unable to maintain these relationships and this alliance, our business may be adversely affected.***

Growth in our merchant acquiring business is derived primarily from acquiring new merchant relationships, new and enhanced product and service offerings, cross selling products and services into existing relationships, the shift of consumer spending to increased usage of electronic forms of payment, and the strength of our relationship with Banco Popular. A substantial portion of our business is generated from our Independent Sales Organization Sponsorship and Services Agreement (the “ISO Agreement”) with Banco Popular, which expires in 2025.

Banco Popular acts as a merchant referral source and provides sponsorship into the ATH, Visa, Discover and MasterCard networks for merchants, as well as card association sponsorship, clearing and settlement services. We provide transaction processing and related functions. Both alliance partners may provide management, sales, marketing, and other administrative services. We rely on the continuing growth of our merchant relationships, our alliance with Banco Popular and other distribution channels. There can be no guarantee that this growth will continue and the loss or deterioration of these relationships could negatively impact our business and result in a reduction of our revenue and profit.

### ***Our MSA with Popular, our ISO Agreement with Banco Popular and our ATH Network Participation Agreement and ATH Support Agreement with Banco Popular (the “BPPR ATH Agreements”) have initial terms ending in 2025. If Popular or Banco Popular decide not to renew one or more of these agreements, or if we are unable to negotiate extensions, or if we must provide significant concessions to Popular or Banco Popular to secure extensions, our results of operations, financial condition and trading price of our common stock may be materially adversely affected, and it could also potentially limit our ability to renegotiate our debt.***

Our MSA with Popular has an initial term that ends in 2025. For 2017, we derived approximately 43% of our revenue from such contract, which makes the MSA our most significant client contract. We expect that we will enter into a negotiation with Popular prior to the expiration of the initial term of the MSA. We cannot be certain that we will be able to negotiate an extension to the MSA. In addition, even if we are able to negotiate an extension of the MSA, any new master services agreement may be materially different from the existing MSA and may result in significant concessions to Popular. Any such events may materially negatively impact our financial condition, results of operations and trading price of our common stock, as well as potentially limit our ability to renegotiate our debt.

We are also a counterparty to Banco Popular under the ISO Agreement, which has an initial term ending on 2025. Pursuant to the ISO Agreement, Banco Popular sponsors us as an independent sales organization with respect to certain credit card associations and is required to exclusively refer to us any merchant that inquires about, requests or otherwise evidences interest in the merchant services, among other things. If the ISO Agreement is not renewed, we will have to seek other card association sponsors, we will not benefit from BPPR referral of merchants and we may experience the loss of some merchants if BPPR enters the merchant acquiring business or associates itself with another independent sales organization. Any of these may negatively impact our financial condition and results of operations.

Similarly, the BPPR ATH Agreements have initial terms ending in 2025. Under such agreements, among other things, we provide Banco Popular certain ATM and POS services in connection with our ATH network; we grant a license to use the ATH



logo, word mark and associated trademarks; and Banco Popular agrees to support, promote and market the ATH network and brand and to issue debit cards bearing the symbol of the ATH network. If one or both of the BPPR ATH Agreements are not extended, our ATH brand and network could be negatively impacted and our financial conditions and results of operations adversely affected.

***If we are unable to renew other client contracts at favorable terms, we could lose clients and our results of operations and financial condition may be adversely affected.***

Failure to achieve favorable renewals of client contracts could negatively impact our business. Our contracts with private clients generally run for a period of one to five years, except for the Master Services Agreement with Popular, described above. Our government contracts generally run for one year without automatic renewal periods due to requirements of the government procurement rules and related fiscal funding requirements. Our standard merchant contract has an initial term of one or three years, with automatic one-year renewal periods. At the end of the contract term, clients have the opportunity to renegotiate their contracts with us and to consider whether to engage one of our competitors to provide products and services. If we are not successful in achieving high renewal rates and contract terms that are favorable to us, our results of operations and financial condition may be adversely affected.

***Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our notes and senior secured credit facilities.***

We are highly leveraged. As of December 31, 2017, the total principal amount of our indebtedness was approximately \$624.8 million. Our high degree of leverage could have important consequences for you, including:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow for other purposes, including for our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates because our borrowings are predominantly at variable rates of interest;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our other debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the agreements governing such other indebtedness;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, business development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from exploiting.

For the year ended December 31, 2017, our cash interest expense on the senior secured credit facilities amounted to \$25.4 million. Our interest expense could increase if interest rates increase because the entire amount of the indebtedness under the senior secured credit facilities bears interest at a variable rate. At December 31, 2017, we had approximately \$611.7 million aggregate principal amount of variable rate indebtedness under the senior secured credit facilities of which \$200 million is fixed with an interest rate swap. A 100 basis point increase in interest rates over our floor(s) on our debt balances outstanding as of December 31, 2017 under the senior secured credit facilities would increase our annual interest expense by approximately \$4.1 million after taking into consideration the referenced fixed interest rate swap.

***We rely on our systems, employees and certain counterparties, and certain failures could materially adversely affect our operations.***

Our businesses are dependent on our ability to process, record and monitor a large number of transactions. If any of our financial, accounting, or other data processing systems or applications fail or have other significant shortcomings or limitations, we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which we do business could also be sources of operational risk to us, including relating to breakdowns or failures of such parties' own systems or employees. Any of these occurrences could diminish our ability to operate one or more of our businesses, or result

in potential liability to clients, reputational damage and regulatory intervention, any of which could materially adversely affect us.

We may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages, natural disasters, disease pandemics or other unanticipated damage to property or physical assets. Such an incident occurred as a result of the impact and aftermath of Hurricanes Irma and Maria in 2017, which affected the ability of the majority of the island's businesses to transact electronically in Puerto Rico and the Caribbean. Such disruptions may give rise to losses in service to customers and loss or liability to us. In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. Any such failure could affect our operations, damage our reputation and materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, by causing a loss of confidence in our services that leads to a decrease in use of our services, and by exposing us to litigation, regulatory fines, penalties or other sanctions or losses not covered by insurance.

***If our amortizable intangible assets or goodwill become impaired, it may adversely affect our financial condition and operating results.***

If our amortizable intangible assets or goodwill were to become impaired, we may be required to record a significant charge to earnings. Under the generally accepted accounting principles in the United States of America (“GAAP”), definitive useful life intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested for impairment at least annually.

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.

***Our risk management procedures may not be fully effective in identifying or helping us mitigate our risk exposure against all types of risks.***

We operate in a rapidly changing industry, and we have experienced significant change in the past five years, including our separation from Popular following the Merger, our initial public offering in April 2013 and our listing on the New York Stock Exchange (“NYSE”). Accordingly, we may not be fully effective in identifying, monitoring and managing our risks. In some cases, the information we use to perform our risk assessments may not be accurate, complete or up-to-date. In other cases, our risk assessments may depend upon information that we may not have or cannot obtain. If we are not fully effective or we are not always successful in identifying all risks to which we are or may be exposed, we could be subject to losses, penalties, litigation or regulatory actions that could harm our reputation or have a material adverse effect on our business, financial conditions and results of operations.

***Security breaches or our own failure to comply with privacy regulations and industry security requirements imposed on providers of services to financial institutions and card processing services could harm our business by disrupting our delivery of services and damaging our reputation.***

As part of our business, we electronically receive, process, store and transmit sensitive business information of our customers. In addition, we collect personal consumer data, such as names and addresses, social security numbers, driver’s license numbers, cardholder data and payment history records. The uninterrupted operation of our information systems and the confidentiality of the customer/consumer information that resides on such systems are critical to the successful operations of our business. Despite the safeguards we have in place, unauthorized access to our computer systems or databases could result in the theft or publication of confidential information, the deletion or modification of records or could otherwise cause interruptions in our operations. These risks are increased when we transmit information over the Internet. Our visibility in the global payments industry may attract hackers to conduct attacks on our systems that could compromise the security of our data or could cause interruptions in the operations of our businesses and subject us to increased costs, litigation and other liabilities. There is also a possibility of mishandling or misuse, 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 acting contrary to our policies, or where such information is intercepted or otherwise improperly taken by third parties. An information breach in the system and loss of confidential information such as credit card numbers and related information could have a longer and more significant impact on the business operations than a hardware failure and could result in claims against us for misuse of personal information, such as identity theft.

Additionally, as a provider of services to financial institutions, such as card processing services, we are subject directly (or indirectly through our clients) to the same laws, regulations, industry standards and limitations on disclosure of the information we receive from our customers that apply to the customers themselves. If we fail to comply with these regulations, standards and limitations, we could be exposed to claims for breach of contract, fines, governmental proceedings, or prohibitions on card processing services. In addition, as more restrictive privacy laws, rules or industry security requirements are adopted in the future on the federal or local level or by a specific industry body, the change could have an adverse impact on us through increased costs or restrictions on business processes. We may be required to expend significant capital and other resources to comply with mandatory privacy and security standards required by law, industry standards or contracts.

Any inability to prevent security or privacy breaches or failure to comply with privacy regulations and industry security requirements could cause our existing customers to lose confidence in our systems and terminate their agreements with us, and could inhibit our ability to attract new customers, damage our reputation and/or adversely impact our relationship with administrative agencies.

***We may experience breakdowns in our processing systems that could damage customer relations and expose us to liability.***

We depend heavily on the reliability of our processing systems in our core businesses. A system outage or data loss, regardless of reason, could have a material adverse effect on our business, financial condition and results of operations. Not only would we suffer damage to our reputation in the event of a system outage or data loss, but we may also be liable to third parties. Some of our contractual agreements with financial institutions require the crediting of certain fees if our systems do not meet certain specified service levels. To successfully operate our business, we must be able to protect our processing and other systems from interruption, including from events that may be beyond our control. Events that could cause system interruptions include, but are not limited to, fire, natural disasters, telecommunications failure, computer viruses, terrorist acts and war. Although we have taken steps to protect against data loss and system failures, there is still risk that we may lose critical data or experience system failures. We perform the vast majority of disaster recovery operations ourselves, though we utilize select third parties for some aspects of recovery. To the extent we outsource our disaster recovery, we are at risk of the vendor's unresponsiveness in the event of breakdowns in our systems. Furthermore, our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur.

***Lack of system integrity, fraudulent payments or credit quality related to funds settlement could result in a financial loss.***

We settle funds on behalf of financial institutions, other businesses and consumers and process funds transactions from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions facilitated by us include debit card, credit card, electronic bill payment transactions, ACH payments, electronic benefits transfer transactions and check clearing that supports consumers, financial institutions and other businesses. These payment activities rely upon the technology infrastructure that facilitates the verification of activity with counterparties, the facilitation of the payment and, in some cases, the detection or prevention of fraudulent payments. If the continuity of operations, integrity of processing, or ability to detect or prevent fraudulent payments were compromised this could result in a financial loss to us.

***We may experience defects, development delays, installation difficulties, system failure, or other service disruptions with respect to our technology solutions, which would harm our business and reputation and expose us to potential liability.***

Many of our services are based on sophisticated software, technology and computing systems, and we may encounter delays when developing new technology solutions and services. Further, the technology solutions underlying our services have occasionally contained, and may in the future contain, undetected errors or defects when first introduced or when new versions are released. In addition, we may experience difficulties in installing or integrating our technologies on platforms used by our customers. Finally, our systems and operations could be exposed to damage or interruption from fire, natural disaster, power loss, telecommunications failure, unauthorized entry and computer viruses or other cyber-attacks. Attacks on information technology systems continue to grow in frequency, complexity and sophistication, a trend we expect will continue. Such attacks have become a point of focus for individuals, businesses and governmental entities. The objectives of these attacks include, among other things, gaining unauthorized access to systems to facilitate financial fraud, disrupt operations, cause denial of service events, corrupt data, and steal non-public information.

As part of our business, we electronically receive, process, store and transmit a wide range of confidential information, including sensitive customer information and personal consumer data. We also operate payment, cash access and electronic card systems. A successful cyber-attack on our system could result in: (1) interruption of business operations; (2) delay in market acceptance; (3) additional development and remediation costs; (4) diversion of technical and other resources; (5) loss of customers; (6) negative publicity and loss of reputation; or (7) exposure to liability claims.

Any one or more of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

***The ability to adopt technology to changing industry and customer needs or trends may affect our competitiveness or demand for our products, which may adversely affect our operating results.***

Changes in technology may limit the competitiveness of and demand for our services. Our businesses operate in industries that are subject to technological advancements, developing industry standards and changing customer needs and preferences. Also, our customers continue to adopt new technology for business and personal uses. We must anticipate and respond to these industry and customer changes in order to remain competitive within our relative markets. Our inability to respond to new competitors and technological advancements could impact all of our businesses. For example, the ability to adopt technological advancements surrounding POS technology available to merchants could have an impact on our merchant acquiring business.

***Consolidations in the banking and financial services industry could adversely affect our revenues by eliminating existing or potential clients and making us more dependent on a more limited number of clients.***

In recent years, there have been a number of mergers and consolidations in the banking and financial services industry. Mergers and consolidations of financial institutions reduce the number of our clients and potential clients, which could adversely affect our revenues. Further, if our clients fail or merge with or are acquired by other entities that are not our clients, or that use fewer of our services, they may discontinue or reduce their use of our services. It is also possible that the larger banks or financial institutions resulting from mergers or consolidations would have greater leverage in negotiating terms with us or could decide to perform in-house some or all of the services which we currently provide or could provide. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to the credit risk that our merchants will be unable to satisfy obligations for which we may also be liable.***

We are subject to the credit risk of our merchants being unable to satisfy obligations for which we also may be liable. For example, as the merchant acquirer, we are contingently liable for transactions originally acquired by us that are disputed by the cardholder and charged back to the merchants. For certain merchants, if we are unable to collect this amount from the merchant, due to the merchant's insolvency or other reasons, we will bear the loss for the amount of the refund or chargeback paid to the cardholder. Notwithstanding our adherence to industry standards with regards to the acceptance of new merchants and certain steps to screen for credit risk, it is possible that a default on such obligations by one or more of our merchants could have a material adverse effect on our business.

***Increased competition or changes in consumer spending or payment preferences could adversely affect our business.***

A decline in the market for our services, either as a result of increased competition, continued migration of Puerto Ricans to the U.S. mainland, a further deterioration in the Puerto Rico economy, a decrease in consumer spending or a shift in consumer payment preferences, could have a material adverse effect on our business. We may face increased competition in the future as new companies enter the market and existing competitors expand their services. Some of these competitors could have greater overall financial, technical and marketing resources than us, which could enhance their ability to finance acquisitions, fund internal growth and respond more quickly to professional and technological changes. Some competitors could have or may develop a lower cost structure. New competitors or alliances among competitors could emerge, resulting in a loss of business for us and a corresponding decline in revenues and profit margin. Further, if consumer confidence decreases in a way that adversely affects consumer spending, whether in conjunction with a global economic downturn or otherwise, we could experience a reduction in the volume of transactions we process. In addition, if we fail to respond to changes in technology or consumer payment preferences, we could lose business to competitors.

***Changes in credit card association or other network rules or standards could adversely affect our business.***

In order to provide our transaction processing services, several of our subsidiaries are registered with or certified by Visa, Discover and MasterCard and other networks as members or as service providers for member institutions. As such, we and many of our customers are subject to card association and network rules that could subject us or our customers to a variety of fines or penalties that may be levied by the card associations or networks for certain acts or omissions by us, acquirer customers, processing customers and merchants. Visa, Discover, MasterCard and other networks, some of which are our competitors, set the standards with respect to which we must comply. The termination of Banco Popular's or our subsidiaries' member registration or our subsidiaries' status as a certified service provider, or any changes in card association or other network rules or standards, including interpretation and implementation of the rules or standards, that increase the cost of doing



business or limit our ability to provide transaction processing services to or through our customers, could have an adverse effect on our business, operating results and financial condition.

***Changes in interchange fees or other fees charged by card associations and debit networks could increase our costs or otherwise adversely affect our business.***

From time to time, card associations and debit networks change interchange, processing and other fees, which could impact our merchant acquiring and payment services businesses. It is possible that competitive pressures will result in our merchant acquiring and payment services businesses absorbing a portion of such increases in the future, which would increase our operating costs, reduce our profit margin and adversely affect our business, operating results and financial condition.

***Our revenues from the sale of services to merchants that accept Visa, Discover and MasterCard cards are dependent upon our continued Visa, Discover and MasterCard registration and financial institution sponsorship.***

In order to provide our Visa, Discover and MasterCard transaction processing services, we must be registered as a merchant processor of Visa, Discover and MasterCard. These designations are dependent upon our being sponsored by member banks of those organizations. If our sponsor banks should stop providing sponsorship for us, we would need to find another financial institution to serve as a sponsor, which could prove to be difficult and/or more expensive. If we are unable to find a replacement financial institution to provide sponsorship we may no longer be able to provide processing services to the affected customers which would negatively impact our revenues and earnings.

***For purposes of the Bank Holding Company Act of 1956 (the “BHC Act”), for so long as we are deemed to be controlled by Popular, we will be subject to supervision and examination by U.S. federal banking regulators, and our activities will be limited to those permissible for Popular. Furthermore, as a technology service provider to regulated financial institutions, we are subject to additional regulatory oversight and examination. As a regulated institution, we may be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition.***

For so long as we are deemed to be a “subsidiary” of Popular for purposes of the BHC Act, in other words deemed to be controlled by Popular, we will be subject to regulation and supervision by the Federal Reserve Board. The BHC Act defines “control” differently than GAAP. As a deemed “subsidiary”, we may conduct only those activities that are authorized for our deemed parent, which depend on whether it is treated as a bank holding company or a financial holding company. The activities that are permissible for subsidiaries of bank holding companies are those that are treated as closely related to banking; those that are permissible for subsidiaries of financial holding companies generally include activities that are financial in nature or complementary to financial activities. In addition, we are subject to regulatory oversight and examination by the Federal Financial Institution Examination Council because we are a technology service provider to regulated financial institutions, including Banco Popular.

New lines of business, other new activities, acquisitions that we may wish to commence or undertake in the future and the manner in which we conduct our business may not be permissible for us under the BHC Act, Regulation K or other relevant U.S. federal banking laws or may require the approval of the Federal Reserve Board or any other applicable U.S. federal banking regulator. In addition, potential acquisitions or deals may take longer, be more costly, or make us less attractive as a buyer. Additional regulatory requirements may be imposed if Popular is subject to any enforcement action. More generally, the Federal Reserve Board has broad powers to approve, deny or refuse to act upon applications or notices submitted by Popular on our behalf with respect to new activities, the acquisition of businesses or assets, or the reconfiguration of existing operations. Any such action by the Federal Reserve Board may also depend on our ability to comply with the standards imposed by our regulators. There can be no assurance that any required regulatory approvals will be obtained. In addition, further restrictions placed on Popular as a result of supervisory or enforcement actions may restrict us or our activities in certain circumstances, even if these actions are unrelated to conduct our business.

***Changes in laws, regulations and enforcement activities may adversely affect the products and services we provide and markets in which we operate.***

We and our customers are subject to U.S. federal, Puerto Rico and other countries’ laws, rules and regulations that affect the electronic payments industry. Our customers are subject to numerous laws, rules and regulations applicable to banks, financial institutions, processors and card issuers in the United States and abroad. We are subject to regulation because of our activities in the countries where we carry them out and because of our relationship with Popular, and at times we are also affected by the laws, rules and regulations to which our customers are subject. Failure to comply with any of these laws, rules and regulations may result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of service, and/or the imposition of civil and criminal penalties, including fines which could have an adverse effect on our financial condition.

In addition, even an inadvertent failure by us to comply with laws, rules and regulations, as well as rapidly evolving social expectations of corporate fairness, could damage our reputation or brands.

Regulation of the electronic payment card industry, including regulations applicable to us and our customers, has increased significantly in recent years. There is also continued scrutiny by the U.S. Congress of the manner in which payment card networks and card issuers set various fees, from which some of our customers derive significant revenue. For example, on July 21, 2010, the Dodd-Frank Act was signed into law in the United States. The Durbin Amendment contains requirements relating to payment card networks. To implement this provision, the Federal Reserve adopted rules which took effect on October 1, 2011 and April 1, 2012. These rules, among other things, place certain restrictions on the interchange transaction fees that a card issuer can receive for an electronic debit transaction originated at a merchant and also places various exclusivity prohibitions and routing requirements on such transactions. To date, the Durbin Amendment has had mixed implications for our business, but the overall net impact has been positive due to lower interchange costs improving the overall margins of the business. However, we cannot assure you that this trend will continue, and we believe that any future impact (positive or negative) resulting from the Durbin Amendment and subsequent developments is uncertain due to the competitive landscape in which we operate. Further, banking regulators have been strengthening their examination guidelines with respect to relationships between banks and their third-party service providers, such as EVERTEC. Any such heightened supervision of our relationship with Popular could have an effect on our contractual relationship with Popular as well as on the standards applied in the evaluation of our services. See “Item 1. Business-Government Regulation and Payment Network Rules-Regulatory Reform and Other Legislative Initiatives.”

Further changes to laws, rules and regulations, or interpretation or enforcement thereof, could have a negative financial effect on us. We have structured our business in accordance with existing tax laws and interpretations of such laws. Changes in tax laws or their interpretations could decrease the value of revenues we receive and the amount of our cash flow and have a material adverse impact on our business.

***Our business concentration in Puerto Rico and our business with the government of Puerto Rico expose us to significant risks.***

For the fiscal years ended December 31, 2017 and 2016, approximately 81% and 84%, respectively, of our total revenues were generated from our operations in Puerto Rico. In addition, some revenues that are generated from our operations outside Puerto Rico are dependent upon our operations in Puerto Rico. As a result, our financial condition and results of operations are highly dependent on the economic and political conditions in Puerto Rico, and could be significantly adversely impacted by adverse economic or political developments in Puerto Rico.

In 2017, the government of Puerto Rico was our second largest customer representing approximately 7% of our total revenues. Revenues from the government of Puerto Rico come from numerous agencies and public corporations. We believe the significant majority of the services we provide to the government of Puerto Rico are mission-critical or essential. Some of the government-sponsored initiatives we provide are indirectly funded in part by U.S. federal government programs. The government of Puerto Rico is currently experiencing a fiscal crisis (as described further in the following risk factor). A federal law adopted in June 2016 created an Oversight Board with broad budgetary and financial powers over Puerto Rico’s budget, laws, financial plans and regulation, and imposes an automatic temporary stay on all litigation against Puerto Rico and its instrumentalities to enforce or collect claims against the Puerto Rico government. If the Puerto Rico government defaults in payment, delays or withholds payment to us, we may have limited options for recourse and may not be able to recover the full amount on the receivables due to us. In addition, the Puerto Rico government may elect not to renew contracts for our services, or the Oversight Board may decide not to approve the budget for them. While we believe that the government of Puerto Rico will continue to engage our services despite the challenging financial situation it is currently facing, a failure of the government to do so or the Oversight Board to approve the required budget could have a material adverse impact on our financial condition and results of operations.

In addition, Puerto Rico’s location in the Caribbean exposes the island to increased risk of hurricanes and other severe tropical weather conditions and natural disasters. In 2017, Puerto Rico was hit by two powerful hurricanes, Irma and Maria, causing catastrophic damage across the island and affecting our business. We cannot predict if similarly powerful hurricanes will become more commonplace. Similarly, we cannot be certain of the effect that potential future hurricanes may have on Puerto Rico or our business. Such hurricanes, tropical storms and other natural disasters could negatively affect, among other things, our ability to provide services, as well as our physical locations, property and equipment, and could have a material adverse effect on our financial condition and results of operations

***The Government of Puerto Rico’s fiscal crisis continues. The expiration of the automatic stay on litigation to collect claims against the Government on May 1, 2017, the initiation of creditor litigation promptly thereafter and the Government’s filing***

***for bankruptcy protection on May 3, 2017, are all expected to further slow the Puerto Rico economy, increase emigration from Puerto Rico, increase the risk of non-payment of Government obligations and negatively affect the economy and consumer spending, which could have a material adverse effect on our business and the trading price of our common stock.***

The Commonwealth of Puerto Rico (the "Commonwealth") has been in economic recession since 2006. In August 2015, the Commonwealth defaulted for the first time on the Public Finance Corporation bonds. In April 2016, the Puerto Rico governor signed a debt moratorium law that gave the governor emergency powers to deal with the fiscal crisis, including the ability to declare a moratorium on any debt payment. On June 30, 2016, the U.S. President signed into law the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). PROMESA establishes a fiscal oversight and management board (the "Oversight Board") comprised of seven voting members appointed by the President. PROMESA also imposed an automatic stay on all litigation against Puerto Rico and its instrumentalities, as well as any other judicial or administrative actions or proceedings to enforce or collect claims against the Puerto Rico government.

On May 1, 2017, the automatic stay expired. Promptly after the expiration of the stay, creditors of the Puerto Rico government filed various lawsuits involving defaults on more than \$70 billion of bonds issued by Puerto Rico, having failed to reach a negotiated settlement on such defaults with the Puerto Rico government during the period of the automatic stay. On May 3, 2017, the Oversight Board filed a voluntary petition of relief on behalf of the Commonwealth pursuant to Title III of PROMESA for the restructuring of the Commonwealth's debt. Subsequently, the Oversight Board filed voluntary petitions of relief pursuant to Title III of PROMESA on behalf of certain public corporations and instrumentalities. Title III is an in-court debt restructuring proceeding similar to protections afforded debtors under Chapter 11 of the United States Code (the "Bankruptcy Code"); the Bankruptcy Code is not available to the Commonwealth or its instrumentalities.

The approximate aggregate amount of unfunded pension obligations of the Puerto Rico government and its instrumentalities plus the bonds in default, far exceed the approximately \$20 billion of outstanding obligations involved when Detroit filed for bankruptcy protection in 2013, which was described as the largest municipal bankruptcy at that time. Moreover, there is no precedent for a Title III filing, and there may be uncertainties as to the processes to be followed.

While the Title III processes do not foreclose negotiations between creditors and the Puerto Rico government toward a consensual restructuring agreement, there can be no assurance that meaningful negotiations will occur or that any consensual agreement will be reached or by what date. Importantly, there also can be no assurance as to the financial outcome or timing of the completion of the Title III processes. There also can be no assurance as to any favorable intervention by the U.S. Congress or the U.S. President.

In all events, the invocation of Title III is expected to potentially deepen Puerto Rico's economic recession, and to further curtail the ability of the Commonwealth and its instrumentalities, subject to the oversight of the Oversight Board (collectively, the "Government"), to access capital markets to place new debt or roll future maturities. Additionally, potential Government actions such as further reductions in spending or the imposition of new taxes may further deepen the current economic crisis, lead to an increase in unemployment rates, and result in a continued decline in population and in the economy.

Consequently, such recent events could potentially adversely impact the trading price of our common stock, adversely impact our customer base, depress general consumer spending and delay the Government's payments thus increasing our Government accounts receivables, and potentially impair the collectability of those accounts receivable, all of which, individually or in the aggregate, could potentially have a material adverse effect on our business, financial condition and results of operations. As of December 31, 2017, we had no direct exposure to the Government's debt obligations and had net receivables of \$11.8 million with the Commonwealth and certain public corporations.

***Hurricanes Irma and Maria and their aftermaths could have a prolonged negative impact on the Puerto Rican and Caribbean economies and a material adverse effect on our business and results of operations***

Hurricanes Irma and Maria and their aftermaths, including the widespread power outage in Puerto Rico, the damage to infrastructure and communications networks, and the temporary cessation and slow pace of reestablishment of regular day-to-day commerce, have severely impacted the economies of Puerto Rico and the Caribbean. It is unknown how long it will take for the business communities, resident populations and the economies to recover. Puerto Rico's current situation following Hurricane Maria could further accelerate the ongoing emigration trend of Puerto Rico residents to the United States. A prolonged delay in the repairs to the islands' infrastructures, decline in business volume and any other economic declines due to Hurricanes Irma and Maria and their aftermaths may impact demand for our services and could have a material adverse effect on our business and results of operations.

***There are risks associated with our presence in international markets, including political or economic instability.***

Our financial performance may be significantly affected by general economic, political and social conditions in the emerging markets where we operate. Many countries in Latin America have suffered significant economic, political and social crises in the past, and these events may occur again in the future. Instability in Latin America has been caused by many different factors, including:

- exposure to foreign exchange variation;
- significant governmental influence over local economies;
- substantial fluctuations in economic growth;
- high levels of inflation;
- exchange controls or restrictions on expatriation of earnings;
- high domestic interest rates;
- wage and price controls;
- changes in governmental economic or tax policies;
- imposition of trade barriers;
- unexpected changes in regulation which may restrict the movement of funds or result in the deprivation of contract rights or the taking of property without fair compensation; and
- overall political, social and economic instability.

Adverse economic, political and social conditions in the Latin America markets where we operate may create uncertainty regarding our operating environment, which could have a material adverse effect on our company.

***Our business in countries outside the United States and transactions with foreign governments increase our compliance risks and exposes us to business risks.***

Our operations outside the United States could expose us to trade and economic sanctions or other restrictions imposed by the United States or other local governments or organizations. The U.S. Departments of the Treasury and Justice (the “Agencies”), the SEC and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of economic sanctions laws, the FCPA and other federal statutes. Under economic sanctions laws, the Agencies may seek to impose modifications to business practices, including cessation of business activities involving sanctioned countries, and modifications to compliance programs, which may increase compliance costs. In addition, we are also subject to compliance with local government regulations. If any of the risks described above materialize, it could adversely impact our business, operating results and financial condition.

These regulations also prohibit improper payments or offers of payments to foreign governments and their officials and political parties by the United States and other business entities for the purpose of obtaining or retaining business. We have operations and deal with government entities and financial institutions in countries known to experience corruption, particularly certain emerging countries in Latin America, and further international expansion may involve more of these countries. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees or consultants that could be in violation of various laws including the FCPA, even though these parties are not always subject to our control. Our existing safeguards and any future improvements may prove to be less than effective, and our employees or consultants may engage in conduct for which we may be held responsible. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition.

We are also subject to the Export Administration Regulations (“EAR”) administered by the U.S. Department of Commerce’s Bureau of Industry and Security which regulates the export, re-export and re-transfer abroad of covered items made or originating in the United States as well as the transfer of covered U.S.-origin technology abroad. We have adopted an Export Management Compliance Policy, a comprehensive compliance program under which the goods and technologies that we export are identified and classified under the EAR to make sure they are being exported in compliance with the requirements of the EAR. However, there can be no assurance that we have not violated the EAR in past transactions or that our new policies and procedures will prevent us from violating the EAR in every transaction in which we engage. Any such violations of the EAR could result in fines, penalties or other sanctions being imposed on us, which could negatively affect our business, operating results and financial condition.

Moreover, some financial institutions refuse, even in the absence of a regulatory requirement, to provide services to companies operating in certain countries or engaging in certain practices because of concerns that the compliance efforts perceived to be necessary may outweigh the usefulness of the service relationship. Our operations outside the United States make it more likely



that financial institutions may refuse to conduct business with us for this type of reason. Any such refusal could negatively affect our business, operating results and financial condition.

***We and our subsidiaries 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 are found to have failed to comply with applicable U.S. sanctions laws and regulations in these instances, we and our subsidiaries could be exposed to fines, sanctions and other penalties or other governmental investigations.***

We and our subsidiaries 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 a U.S.-based entity, we and our subsidiaries 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. Failure to comply with these sanctions and embargoes may result in material fines, sanctions or other penalties being imposed on us or other governmental investigations. 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.

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. These policies and procedures include the use of software to screen transactions we process for evidence of sanctioned-country and persons involvement. Consistent with a risk-based approach and the difficulties of 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 every transaction in which we engage, and such violations could adversely affect our reputation, business, financial condition and results of operations. Because we process transactions on behalf of the aforementioned financial institutions through the aforementioned payment networks, we have processed a limited number of transactions potentially involving sanctioned countries and there can be no assurances that, in the future, we will not inadvertently process such transactions. Due to a variety of factors, including technical failures and limitations of our transaction screening process, conflicts between U.S. and local laws, political or other concerns in certain countries in which we and our subsidiaries operate, and/or failures in our ability effectively to control employees operating in certain non-U.S. subsidiaries, we have not rejected every transaction originating from or otherwise involving sanctioned countries, or persons and there can be no assurances that, in the future, we will not inadvertently fail to reject such transactions.

EVERTEC Group voluntarily submitted two disclosures to OFAC in 2010 (the "2010 Disclosures") regarding potential violations of the Cuban Assets Control Regulations ("CACR") by EVERTEC Group, its subsidiary in Costa Rica, and a former subsidiary in Venezuela that involved processing Cuba-related credit and debit card transactions and shortcomings in sanctions screening processes. In addition, Popular filed a voluntary disclosure with OFAC in 2013 (the "2013 Disclosure") regarding potential violations of the CACR in connection with certain routed debit card transactions by Tranred that may have been representative of transactions that occurred prior to October 2010, when the entity was under the ownership and control of EVERTEC.

To date, OFAC has not imposed any fines or penalties nor has the U.S. government taken other enforcement actions in connection with the 2010 Disclosures and 2013 Disclosure. EVERTEC Group and its subsidiaries have implemented a number of corrective actions in order to address the sanctions issues that were the subject of these disclosures and reduce the risk of future violations of the CACR and other U.S. sanctions. Should OFAC determine that certain activities identified in the voluntary self-disclosures described above constituted violations of the CACR, civil or criminal penalties could be assessed against EVERTEC Group and/or its subsidiary.

Popular agreed to specific indemnification obligations with respect to the 2010 Disclosures, the 2013 Disclosure and certain other matters, in each case, subject to the terms and conditions contained in the Merger Agreement and/or contained in the Venezuela Transition Services Agreement, dated September 29, 2010, as amended. However, we cannot assure you that we will be able to fully collect any claims made with respect to such indemnities or that Popular and/or Tranred will satisfy its indemnification obligations to us.

***Our expansion and selective acquisition strategy exposes us to risks, including the risk that we may not be able to successfully integrate acquired businesses.***

As part of our growth strategy, we evaluate opportunities for acquiring complementary businesses that may supplement our internal growth. However, there can be no assurance that we will be able to identify and purchase suitable operations. Furthermore, for as long as we are deemed a “subsidiary” of a bank holding company for purposes of the BHC Act, we may conduct only activities authorized under the BHC Act and the Federal Reserve Board’s Regulation K and other related regulations for a bank holding company or a financial holding company. These restrictions may limit our ability to acquire other businesses or enter into other strategic transactions. See “-For purposes of the BHC Act, for as long as we are deemed to be controlled by Popular, we will be subject to supervision and examination by U.S. federal banking regulators, and our activities are limited to those permissible for Popular. Furthermore, as a technology service provider to regulated financial institutions, we are subject to additional regulatory oversight and examination. As a regulated institution, we may be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition.”

In addition, in connection with any acquisitions, we must comply with U.S. federal and other antitrust and/or competition law requirements. Further, the success of any acquisition depends in part on our ability to integrate the acquired company, which may involve unforeseen difficulties and may require a disproportionate amount of our management’s attention and our financial and other resources. Although we conduct due diligence investigations prior to each acquisition, there can be no assurance that we will discover all operational deficiencies or material liabilities of an acquired business for which we may be responsible as a successor owner or operator. The failure to successfully integrate these acquired businesses or to discover such liabilities could adversely affect our operating results.

***Failure to protect our intellectual property rights and defend ourselves from potential intellectual property infringement claims may diminish our competitive advantages or restrict us from delivering our services.***

Our trademarks, proprietary software, and other intellectual property, including technology/software licenses, are important to our future success. For example, the ATH trademark and trade name is recognized in Latin America and the Caribbean. Therefore, such marks represent substantial intangible assets and are important to our business. Limitations or restrictions on our ability to use such marks or a diminution in the perceived quality associated therewith could have an adverse impact on the growth of our businesses. We also rely on proprietary software and technology, including third party software that is used under licenses. It is possible that others will independently develop the same or similar software or technology, which would permit them to compete with us more efficiently. Furthermore, if any of the third party software or technology licenses are terminated or otherwise determined to be unenforceable, then we would have to obtain a comparable license, which may involve increased license fees and other costs.

Despite our efforts to protect our proprietary or confidential business know-how and other intellectual property rights, unauthorized parties may attempt to copy or misappropriate certain aspects of our services, infringe upon our rights, or to obtain and use information that we regard as proprietary. Policing such unauthorized use of our proprietary rights is often very difficult, and therefore, we are unable to guarantee that the steps we have taken will prevent misappropriation of our proprietary software/technology or that the agreements entered into for that purpose will be effective or enforceable in all instances. Misappropriation of our intellectual property or potential litigation concerning such matters could have a material adverse effect on our results of operations or financial condition. Our registrations and/or applications for trademarks, copyrights, and patents could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide us with maximum protection or meaningful advantage. If we are unable to maintain the proprietary nature of our software or technologies, we could lose competitive advantages and our businesses may be materially adversely affected. Furthermore, the laws of certain foreign countries in which we do business or contemplate doing business in the future may not protect intellectual property rights to the same extent as do the laws of the United States or Puerto Rico. Adverse determinations in judicial or administrative proceedings could prevent us from selling our services and products, or prevent us from preventing others from selling competing services, and may result in a material adverse effect on our business, financial condition and results of operations.

***If our applications or services or third party applications upon which we rely are found to infringe the proprietary rights of others, we may be required to change our business practices and may also become subject to significant costs and monetary penalties.***

As our IT applications and services develop, we are increasingly subject to potential claims for intellectual property infringement, for example, patent or copyright infringement. Any such claims, even if lacking merit, could: (i) be expensive and time-consuming to defend; (ii) cause us to cease making, licensing or using software or applications that incorporate the challenged intellectual property; (iii) require us to redesign our software or applications, if feasible; (iv) divert management’s attention and resources; and (v) require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies. Unfavorable resolution of these claims could result in us being restricted from delivering the related service and products, liable for damages, or otherwise result in a settlement that could be material to us.

***The ability to recruit, retain and develop qualified personnel is critical to our success and growth.***

All of our businesses function at the intersection of rapidly changing technological, social, economic and regulatory developments that requires a wide ranging set of expertise and intellectual capital. For us to successfully compete and grow, we must retain, recruit and develop the necessary personnel who can provide the needed expertise across the entire spectrum of our intellectual capital needs. In addition, we must develop our personnel to provide succession plans capable of maintaining continuity in the midst of the inevitable unpredictability of human capital. However, the market for qualified personnel is competitive and we may not succeed in recruiting additional personnel or may fail to effectively replace current personnel who depart with qualified or effective successors. Recruiting and retaining qualified personnel in Puerto Rico is particularly challenging, given the poor state of the Puerto Rican economy and the increased emigration of Puerto Ricans following Hurricanes Irma and Maria. Our effort to retain and develop personnel may also result in significant additional expenses, which could adversely affect our profitability. We cannot assure you that key personnel, including executive officers, will continue to be employed or that we will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on us.

***Failure to comply with U.S. state and federal antitrust requirements, or the Puerto Rico Anti-Monopoly Act, and government investigations into our compliance, could adversely affect our business.***

Due to our ownership of the ATH network and our merchant acquiring and payment services business in Puerto Rico, we are involved in a significant percentage of the debit and credit card transactions conducted in Puerto Rico each day. Regulatory scrutiny of, or regulatory enforcement action in connection with, compliance with U.S. state and federal antitrust requirements could potentially have a material adverse effect on our reputation and business.

In February 2016, the Department of Justice of the Commonwealth of Puerto Rico announced that it initiated a formal investigation into whether we had engaged in conduct that interferes with free competition with respect to the products and services we provide within the Commonwealth of Puerto Rico and which conduct could constitute a violation of the Puerto Rico Anti-Monopoly Act, Law 77 of June 25, 1964. In August 2016, we received official confirmation that the Puerto Rico Department of Justice had formally closed its investigation and concluded that we had not engaged in such conduct. However, there can be no assurance that another such investigation will not be initiated in the future. If there is another such investigation, an adverse finding could lead to restrictions on our business, or our being required to take action, that has a materially adverse effect on our financial condition and results of operations. Any such effect, or the perception by investors as to the likelihood of such an effect, could have a material adverse effect on our stock price.

***The market for our electronic commerce services is evolving and may not continue to develop or grow rapidly enough for us to maintain and increase our profitability.***

If the number of electronic commerce transactions does not continue to grow or if consumers or businesses do not continue to adopt our services, it could have a material adverse effect on the profitability of our business, financial condition and results of operations. We believe future growth in the electronic commerce market will be driven by the cost, ease-of-use, and quality of products and services offered to consumers and businesses. In order to consistently increase and maintain our profitability, consumers and businesses must continue to adopt our services.

***Our subsidiary, EVERTEC Group, benefits from a preferential tax exemption grant from the Puerto Rico Government under the Tax Incentive Act No. 73 of 2008 that imposes certain commitments, conditions and representations on EVERTEC Group. If EVERTEC Group does not comply with the terms of the grant, EVERTEC Group may be subject to reduction of the benefits of the grant, tax penalties, other payment obligations or full revocation of the grant, which could have a material adverse effect on our financial condition, results of operations and our stock price.***

EVERTEC Group has a tax exemption grant under the Tax Incentive Act No. 73 of 2008 from the Government of Puerto Rico. Under this grant, EVERTEC Group will benefit from a preferential income tax rate of 4% on industrial development income, as well as from tax exemptions with respect to its municipal and property tax obligations for certain activities derived from its data processing operations in Puerto Rico. The grant has a term of 15 years effective as of January 1, 2012 with respect to income tax obligations and July 1, 2013 and January 1, 2013 with respect to municipal and property tax obligations, respectively.

The grant contains customary commitments, conditions and representations that EVERTEC Group will be required to comply with in order to maintain the grant. The more significant commitments include: (i) maintaining at least 750 employees in EVERTEC Group's Puerto Rico data processing operations during 2012 and at least 700 employees for the remaining years of

the grant, (ii) investing at least \$200.0 million in building, machinery, equipment or computer programs to be used in Puerto Rico during the effective term of the grant (to be made over four year capital investment cycles in \$50.0 million increments), (iii) an additional best efforts capital investments requirement of \$75.0 million by December 31, 2026 (to be made over four year capital investment cycles in \$20.0 million the first three increments and \$15.0 million the last increment); and (iv) 80% of EVERTEC Group employees must be residents of Puerto Rico. Failure to meet the requirements could result, among other things, in reductions in the benefits of the grant, tax penalties, other payment obligations or revocation of the grant in its entirety, which could have a material adverse effect on our financial condition, results of operations and our stock price.

## **Risks Related to Our Structure, Governance and Stock Exchange Listing**

***We are a holding company and rely on dividends and other payments, advances and transfers of funds from our subsidiaries to meet our obligations and pay any dividends.***

We have no direct operations or significant assets other than the ownership of 100% of the membership interest of Holdings, which in turn has no significant assets other than ownership of 100% of the membership interest of EVERTEC Group. Because we conduct our operations through our subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our financial obligations, and to pay any dividends with respect to our common stock. Legal and contractual restrictions in the senior secured credit facilities and other agreements which may govern future indebtedness of our subsidiaries, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. The earnings from, or other available assets of, our subsidiaries may not be sufficient to pay dividends or make distributions or loans or enable us to pay any dividends on our common stock or other obligations.

***Any declaration and payment of future dividends to holders of our common stock may be limited by restrictive covenants of our debt agreements, and will be at the sole discretion of our Board and will also depend on many factors.***

Any declaration and payment of future dividends to holders of our common stock may be limited by restrictive covenants of our debt agreements, and will be at the sole discretion of our Board and will depend on many factors, including our financial condition, earnings, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that our Board deems relevant. The terms of our senior secured credit facilities may restrict our ability to pay cash dividends on our common stock. We are prohibited from paying any cash dividend on our common stock unless we satisfy certain conditions. The senior secured credit facilities also include limitations on the ability of our subsidiaries to pay dividends to us. Furthermore, we will be permitted under the terms of our debt agreements to incur additional indebtedness that may severely restrict or prohibit the payment of dividends. The agreements governing our current and future indebtedness may not permit us to pay dividends on our common stock.

***The requirements of having a class of publicly traded equity securities may strain our resources and distract management.***

Upon completion of our initial public offering in April 2013, we became subject to additional reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Sarbanes-Oxley Act of 2002, (the “Sarbanes-Oxley Act”), and the Dodd-Frank Act. The Dodd-Frank Act effects comprehensive changes to public company governance and disclosures in the United States and subjects us to additional federal regulation. Some of the regulation mandated under the Dodd-Frank Act has yet to be adopted or implemented. We cannot predict with any certainty the requirements of the regulations ultimately adopted or how such regulations will impact the cost of compliance for a company with publicly traded common stock. We are currently evaluating and monitoring developments with respect to the Dodd-Frank Act and other new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management’s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. These new rules and regulations may make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our Board, particularly to serve on our audit committee, and qualified executive officers.



***We are required to maintain effective internal controls over financial reporting, which could place a strain on our resources, and our failure to do so could require a restatement of our financials and lead to a potential default under our credit facility or a delisting from NYSE.***

The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. These requirements may place a strain on our systems and resources. Under Section 404 of the Sarbanes-Oxley Act, we are required to include a report of management on our internal control over financial reporting in this Annual Report on Form 10-K for the year ended December 31, 2017. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight is required. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. If we are unable to conclude that our disclosure controls and procedures and internal control over financial reporting are effective, or if our independent public accounting firm is unable to provide us with an unqualified report on our internal control over financial reporting in future years, investors may lose confidence in our financial reports and our stock price may decline. In addition, a material weakness in our internal controls over financial reporting could lead to the occurrence of material misstatements in our financial statements and we could be required to restate our financial results. Our failure to file timely and file materially complete and accurate financial information in our reports with the SEC could lead to a number of adverse consequences, including a loss of confidence by our investors, a default under our credit facility, or a violation of NYSE's listing rules that could lead to our delisting. Any of these results could have a material adverse effect on our business and results of operations and on the trading price of our common stock.

***The price of our common stock may fluctuate significantly and you could lose all or part of your investment.***

Volatility in the market price of our common stock may prevent you from being able to sell your common stock at or above the price you paid for your common stock. The market price for our common stock could fluctuate significantly for various reasons, including:

- our operating and financial performance and prospects;
- changes in earnings estimates or recommendations by securities analysts who track our common stock or industry;
- market perception of our success, or lack thereof, in pursuing our growth strategy;
- market perception of the challenges of operating a company in Puerto Rico; and
- sales of common stock by us, our stockholders, Popular or members of our management team.

In addition, the stock market has experienced significant price and volume fluctuations historically. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industries. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce our share price.

***Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of shares of our common stock.***

We may sell additional shares of common stock in subsequent public offerings or otherwise, including financing acquisitions. Our amended and restated certificate of incorporation authorizes us to issue 206,000,000 shares of common stock, of which 72,394,043 are outstanding as of January 31, 2018. All of these shares, other than the 11,654,803 shares held by Popular and the shares held by our officers and directors, are freely transferable without restriction or further registration under the Securities Act.

In addition, we have filed a Form S-8 under the Securities Act covering 12,089,382 shares of our common stock reserved for issuance under our Carib Holdings, Inc. 2010 Equity Incentive Plan (or the 2010 Plan), and our EVERTEC, Inc. 2013 Equity Incentive plan (or the 2013 Plan) and certain options and restricted stock granted outside of these plans (which we refer to as the Equity Plans), but subject to the terms and conditions of the 2010 Plan. Accordingly, shares of our common stock registered under such registration statement may become available for sale in the open market upon grants under the Equity Incentive Plans, subject to vesting restrictions and Rule 144 limitations applicable to our affiliates.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including any shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

***If securities analysts stop publishing research or reports about our company, or if they issue unfavorable commentary about us or our industry or downgrade our common stock, the price of our common stock could decline.***

The trading market for our common stock will depend in part on the research and reports that third party securities analysts publish about our company and our industry. One or more analysts could downgrade our common stock or issue other negative commentary about our company or our industry. In addition, we may be unable or slow to attract research coverage. Alternatively, if one or more of these analysts cease coverage of our company, we could lose visibility in the market. As a result of one or more of these factors, the trading price of our common stock could decline.

***The interests of Popular may conflict with or differ from your interests as a stockholder.***

Popular has the right to nominate two members of our Board and, therefore, may be able to influence our decisions. The interests of Popular could conflict with your interests as a holder of our common stock. For example, the concentration of ownership held by Popular, the terms of the Stockholder Agreement and our organizational documents (including Popular's quorum rights and consent rights over amendments to our bylaws) and Popular's right to terminate certain of its agreements with us in certain situations upon a change of control of EVERTEC Group, could delay, defer or prevent certain significant corporate actions that you as a stockholder may otherwise view favorably, including a change of control of us (whether by merger, takeover or other business combination). See "Certain Relationships and Related Party Transactions" in EVERTEC's proxy statement for a description of the circumstances under which Popular may terminate certain of its agreements with us. A sale of a substantial number of shares of stock in the future by Popular could cause our stock price to decline.

***Our organizational documents and Stockholder Agreement may impede or discourage a takeover, which could deprive our investors of the opportunity to receive a premium for their shares.***

Provisions of our amended and restated certificate of incorporation, amended and restated bylaws and the Stockholder Agreement may make it more difficult for, or prevent a third party from, acquiring control of us without the approval of our Board and/or Popular. These provisions include:

- a voting agreement pursuant to which Popular agreed to vote its shares in favor of the Popular director nominees (which, constitute the right to appoint two of our nine directors), directors nominated by a committee of our Board in accordance with the Stockholder Agreement and the management director and to remove and replace any such directors in accordance with the terms of the Stockholder Agreement and applicable law and an agreement by us to take all actions within our control necessary and desirable to cause the election, removal and replacement of such directors in accordance with the Stockholder Agreement and applicable law;
- requiring that a quorum for the transaction of business at any meeting of the Board (other than a reconvened meeting with the same agenda as the originally adjourned meeting) consist of (1) a majority of the total number of directors then serving on the Board and (2) at least one director nominated by Popular, for so long as it owns, together with its affiliates, 5% or more of our outstanding common stock;
- prohibiting cumulative voting in the election of directors;
- authorizing the issuance of "blank check" preferred stock without any need for action by stockholders other than Popular (as further described below);
- prohibiting stockholders from acting by written consent unless the action is taken by unanimous written consent;
- establishing advance notice requirements for nominations for election to our Board or for proposing matters that can be acted on by stockholders at stockholder meetings, which advance notice requirements are not applicable to any directors nominated in accordance with the terms of the Stockholder Agreement.

Our issuance of shares of preferred stock could delay or prevent a change in control of us. Our Board has authority to issue shares of preferred stock, subject to the approval of at least one director nominated by Popular for so long as it, together with its respective affiliates, owns at least 10% of our outstanding common stock. Our Board may issue preferred stock in one or more series, designate the number of shares constituting any series, and fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. The issuance of shares of our preferred stock may have the effect of delaying, deferring or preventing a change in control without further action by the stockholders, even where stockholders are offered a premium for their shares. In addition, Popular, under and subject to the Stockholder Agreement and our organizational documents, will retain significant influence over matters requiring board or stockholder approval, including the election of directors. See "Certain Relationships and Related Party Transactions-Related Party Transactions". Together, our amended and restated certificate of incorporation, bylaws and Stockholder Agreement could make the removal of management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our common stock. Furthermore, the

existence of the foregoing provisions, as well as the significant common stock owned by Popular and its individual right to nominate a specified number of directors in certain circumstances, could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of us, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

### **Risks Related to Our Indebtedness**

***Despite our high indebtedness level, we and our subsidiaries still may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.***

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, some of which may be secured. Although the agreement governing our senior secured credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. In addition to the \$88.0 million which was available for borrowing under our revolving credit facility as of December 31, 2017, the terms of the senior secured credit facilities enable us to increase the amount available under the term loan and/or revolving credit facilities if we are able to obtain loan commitments from banks and satisfy certain other conditions. If new debt is added to our and our subsidiaries' existing debt levels, the related risks that we face would increase.

***If we are unable to comply with covenants in our debt instruments that limit our flexibility in operating our business, or obligate us to take action such as deliver financial reports, we may default under our debt instruments and our indebtedness may become due.***

The agreement governing the senior secured credit facilities contain, and any future indebtedness we incur may contain, various covenants that limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

As a result of these covenants, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs. In addition, the covenants in the senior secured credit facilities require us to maintain a maximum senior secured leverage ratio and also limit our capital expenditures. In addition, we are required to comply with certain non-monetary covenants, including the timely delivery of financial statements that fairly present, in all material respects in accordance with GAAP, our financial condition and results of operations.

A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions and, in the case of our revolving credit facility, permit the lenders to cease making loans to us. Upon the occurrence of an event of default under the senior secured credit facilities, the lenders could elect to declare all amounts outstanding under the senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those lenders could cause cross defaults under our other indebtedness. If we were unable to repay those amounts, the lenders under our senior secured credit facilities could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under the senior secured credit facilities. If the lenders under the senior secured credit facilities accelerate the repayment of borrowings, the proceeds from the sale or foreclosure upon such assets will first be used to repay debt under our senior secured credit facilities and we may not have sufficient assets to repay our unsecured indebtedness thereafter. As a result, our common stock could become worthless.

***We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business

and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

The risks referenced above are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

Our principal operations are conducted in Puerto Rico. Our principal executive offices are located at Cupey Center Building, Road 176, Kilometer 1.3, San Juan, Puerto Rico 00926.

We own one property in Costa Rica, in the province of San Jose, which is used by our Costa Rican subsidiary for its payment services business. We also lease space in 12 other locations across Latin America and the Caribbean, including our headquarters in San Juan, Puerto Rico and various data centers and office facilities to meet our sales and operating needs. We believe that our properties are in good operating condition and adequately serve our current business operations. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

#### **Item 3. Legal Proceedings**

We are defendants in various lawsuits or arbitration proceedings arising in the ordinary course of business. Management believes, based on the opinion of legal counsel and other factors, that the aggregated liabilities, if any, arising from such actions will not have a material adverse effect on the financial condition, results of operations and the cash flows of the Company.

#### **Item 4. Mine Safety Disclosures**

Not applicable.



## Part II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the NYSE under the symbol “EVTC”. The following table sets forth the high and low sales prices of our common stock as reported by the NYSE, for each full quarterly period within the two most recent fiscal years. As of January 31, 2018, the approximate number of record holders of our common stock was 247. The closing price as reported on the NYSE of our common stock on such date was \$15.65 per share.

	Price Range	
	High	Low
<b>2017</b>		
First Quarter	\$ 18.15	\$ 15.55
Second Quarter	17.30	14.85
Third Quarter	19.10	14.95
Fourth Quarter	16.20	13.00
<b>2016</b>		
First Quarter	16.63	11.27
Second Quarter	16.32	12.98
Third Quarter	17.62	15.13
Fourth Quarter	18.60	14.15

#### Dividends

Historically, we have paid a regular quarterly dividend on our common stock, subject to the declaration thereof by our Board each quarter. The following table provides a detail of dividend information for 2017 and 2016:

Declaration Date	Record Date	Payment Date	Dividend per share
February 17, 2016	February 29, 2016	March 17, 2016	0.10
May 11, 2016	May 23, 2016	June 10, 2016	0.10
July 28, 2016	August 9, 2016	September 2, 2016	0.10
October 27, 2016	November 14, 2016	December 2, 2016	0.10
February 17, 2017	March 1, 2017	March 20, 2017	0.10
April 27, 2017	May 8, 2017	June 9, 2017	0.10
July 25, 2017	August 7, 2017	September 8, 2017	0.10

On November 2, 2017, the Board voted to temporarily suspend the quarterly dividend on the Company's common stock due to the difficult operating environment in Puerto Rico in the aftermath of Hurricane Maria. The Board anticipates reviewing the dividend policy as conditions stabilize in Puerto Rico. Any declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board and will depend on many factors, including our financial condition, earnings, available cash, business opportunities, legal requirements, restrictions in our debt agreements and other contracts, capital requirements, level of indebtedness and other factors that our Board deems relevant. The covenants of our senior secured credit facilities may limit our ability to pay dividends on our common stock and limit the ability of our subsidiaries to pay dividends to us if we do not meet required performance metrics contained in our debt agreements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Obligations.”

We are a holding company and have no direct operations. We will only be able to pay dividends from our available cash on hand and funds received from our subsidiaries, Holdings and EVERTEC Group, whose ability to make any payments to us will depend upon many factors, including their operating results and cash flows. In addition, the senior secured credit facilities limit EVERTEC Group’s ability to pay distributions on its equity interests. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Obligations.”

## Issuer Purchases of Equity Securities

Period	Total number of shares	Average price paid	Total number of shares purchased as part of a publicly announced program (1)	Approximate dollar value of shares that may yet be purchased
	purchased	per share		under the program
3/1/2017-3/31/2017	228,289	\$ 16.480	228,289	
5/1/2017-5/31/2017	77,257	16.592	77,257	
6/1/2017-6/30/2017	159,694	16.423	159,694	
Total	465,240	\$ 16.479	465,240	\$ 72,345,478

- (1) On February 17, 2016, the Company announced that its Board of Directors approved an increase and extension to the current stock repurchase program, authorizing the purchase of up to \$120 million of the Company's common stock and extended the expiration to December 31, 2017. On November 2, 2017 the Company's Board of Directors approved an extension to the expiration date of the current stock repurchase program to December 31, 2020.

## Securities Authorized for Issuance under Equity Compensation Plans

On September 30, 2010, the board of directors of Holdings adopted the 2010 Plan. Holdings reserved 5,843,208 shares of its Class B Non-Voting Common Stock for issuance upon exercise and grants of stock options, restricted stock and other equity awards under the Plan. On April 17, 2012, in connection with the Reorganization, the Company assumed the 2010 Plan and all of the outstanding equity awards issued thereunder or subject thereto. As a result, each of the then outstanding stock options to purchase shares of Holdings' Class B Non-Voting Common Stock became a stock option to purchase the same number and class of shares of the Company's Class B Non-Voting Common Stock, in each case on the same terms (including exercise price) as the original stock option. In connection with our initial public offering in April 2013, all of the outstanding shares of the Company's Class B Non-Voting Common Stock and stock options to purchase shares of the Company's Class B Non-Voting Common Stock were converted into and deemed exercisable for, respectively, shares of our common stock on a one-to-one basis. Similarly, each of the then outstanding shares of restricted stock of Holdings was converted into the same number of shares of restricted stock of the Company.

In connection with our initial public offering, we adopted the 2013 Plan and reserved 5,956,882 shares of our Common Stock for issuance upon exercise and grants of stock options, restricted stock and other equity awards. We have filed a Form S-8 under the Securities Act covering 12,089,382 shares of our common stock reserved for issuance under the Equity Plans and certain options and restricted stock granted outside of the Equity Plans but subject to the terms and conditions of the 2010 Plan.

The following table summarizes equity compensation plans approved by security holders and equity compensation plans that were not approved by security holders as of December 31, 2017:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by security holders <sup>(1)</sup>	2,340,892	\$15.08	6,372,420
Equity compensation plans not approved by security holders	N/A	N/A	N/A

- (1) The Company's equity plans were approved by the two sole stockholder's prior to the Company's initial public offering, Apollo and Popular.

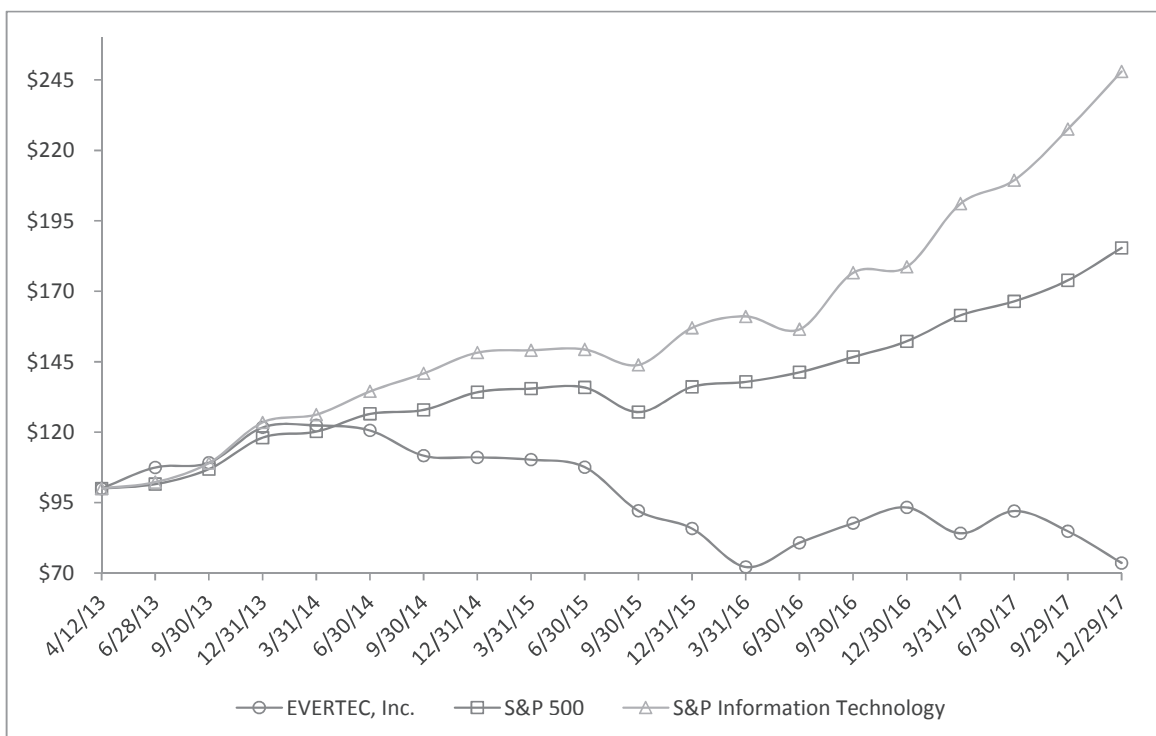
## Stock Performance Graph

The following Performance Graph shall not be deemed incorporated by reference and shall not constitute soliciting material or otherwise considered filed under the Securities Act of 1933 or the Exchange Act.

The following graph shows a comparison from April 12, 2013 (the date our common stock commenced trading on the NYSE) through December 31, 2017 of the cumulative total return for our common stock, the S&P 500 Index and the S&P Technology Index. The graph assumes that \$100 was invested on April 12, 2013 in our common stock and each index and that all dividends were reinvested.

Note that historical stock price performance is not necessarily indicative of future stock price performance.

### Comparison of fifty seven months cumulative total return of EVERTEC Inc.



## Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data as of the dates and for the periods indicated. The selected consolidated financial data as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 have been derived from the audited consolidated financial statements of EVERTEC, included in our Annual Reports on Form 10-K.

The results of operations for any period are not necessarily indicative of the results to be expected for any future period. The selected historical consolidated financial data set forth below should be read in conjunction with, and are qualified by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report on Form 10-K.

Year ended December 31,

(Dollar amounts in thousands, except per share data)

	2017	2016	2015	2014	2013
<b>Statements of Income Data:</b>					
<b>Revenues</b>	\$ 407,144	\$ 389,507	\$ 373,528	\$ 361,788	\$ 358,402
<b>Operating costs and expenses</b>					
Cost of revenues, exclusive of depreciation and amortization shown below	200,650	175,809	167,916	157,537	162,980
Selling, general and administrative expenses	56,161	46,986	37,278	41,276	38,810
Depreciation and amortization	64,250	59,567	64,974	65,988	70,366
Total operating costs and expenses	321,061	282,362	270,168	264,801	272,156
Income from operations	86,083	107,145	103,360	96,987	86,246
Interest income	716	377	495	328	236
Interest expense	(29,861)	(24,617)	(24,266)	(25,772)	(37,417)
Earnings (losses) of equity method investment	604	(52)	147	1,140	935
Other income (expenses), net	2,657	544	2,306	2,375	(75,682)
Income (loss) before income taxes	60,199	83,397	82,042	75,058	(25,682)
Income tax expense (benefit)	4,780	8,271	(3,335)	8,901	1,435
Net income (loss)	55,419	75,126	85,377	66,157	(27,117)
Less: Net income attributable to non-controlling interest	365	90	—	—	—
Net income (loss) attributable to EVERTEC, Inc.'s common stockholders	\$ 55,054	\$ 75,036	\$ 85,377	\$ 66,157	\$ (27,117)
Net income (loss) per common share—basic	\$ 0.76	\$ 1.01	\$ 1.11	\$ 0.84	\$ (0.34)
Net income (loss) per common share—diluted	\$ 0.76	\$ 1.01	\$ 1.11	\$ 0.84	\$ (0.34)
Cash dividends declared per common share <sup>(1)</sup>	\$ 0.30	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.20

(1) Adjusted to reflect the two for one stock split effective April 1, 2013.

December 31,

	2017	2016	2015	2014	2013
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$50,423	\$51,920	\$28,747	\$32,114	\$22,275
Total assets	902,788	885,662	863,654	885,321	918,863
Total long-term liabilities	607,596	648,324	662,939	691,085	705,872
Total debt	616,740	650,759	662,699	681,240	725,648
Total equity	147,976	108,175	98,214	94,840	87,972



## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) covers: (i) the results of operations for the years ended December 31, 2017, 2016 and 2015; and (ii) the financial condition as of December 31, 2017 and 2016. See Note 1 of the Notes to Audited Consolidated Financial Statements for additional information about the Company and the basis of presentation of our financial statements. You should read the following discussion and analysis in conjunction with the financial statements and related notes appearing elsewhere herein. This MD&A contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those indicated in the forward-looking statements. See “Forward-Looking Statements” for a discussion of the risks, uncertainties and assumptions associated with these statements.*

### Overview

EVERTEC is a leading full-service transaction processing business in Latin America, providing a broad range of merchant acquiring, payment services and business process management services. According to the August 2017 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. We serve 26 countries in the region from our base in Puerto Rico. We manage a system of electronic payment networks that process more than two billion transactions annually, and offer a comprehensive suite of services for core bank processing, cash processing and technology outsourcing. In addition, we own and operate the ATH network, one of the leading personal identification number (“PIN”) debit networks in Latin America. We serve a diversified customer base of leading financial institutions, merchants, corporations and government agencies with “mission-critical” technology solutions that enable them to issue, process and accept transactions securely. We believe our business is well-positioned to continue to expand across the fast-growing Latin American region.

We are differentiated, in part, by our diversified business model, which enables us to provide our varied customer base with a broad range of transaction-processing services from a single source across numerous channels and geographic markets. We believe this single-source capability provides several competitive advantages that will enable us to continue to penetrate our existing customer base with complementary new services, win new customers, develop new sales channels and enter new markets. We believe these competitive advantages include:

- Our ability to provide in one package a range of services that traditionally had to be sourced from different vendors;
- Our ability to serve customers with disparate operations in several geographies with integrated technology solutions that enable them to manage their business as one enterprise; and
- Our ability to capture and analyze data across the transaction processing value chain and use that data to provide value-added services that are differentiated from those offered by pure-play vendors that serve only one portion of the transaction processing value chain (such as only merchant acquiring or payment services).

Our broad suite of services spans the transaction processing value chain and includes a range of front-end customer-facing solutions such as the electronic capture and authorization of transactions at the point-of-sale, as well as back-end support services such as the clearing and settlement of transactions and account reconciliation for card issuers. These include: (i) merchant acquiring services, which enable point of sales (“POS”) and e-commerce merchants to accept and process electronic methods of payment such as debit, credit, prepaid and electronic benefit transfer (“EBT”) cards; (ii) payment services, which enable financial institutions and other issuers to manage, support and facilitate the processing for credit, debit, prepaid, automated teller machines (“ATM”) and EBT card programs; and (iii) business process management solutions, which provide “mission-critical” technology solutions such as core bank processing, as well as IT outsourcing and cash management services to financial institutions, corporations and governments. We provide these services through a highly scalable, end-to-end technology platform that we manage and operate in-house and that generates significant operating efficiencies that enable us to maximize profitability.

We sell and distribute our services primarily through a proprietary direct sales force with established customer relationships. We are also building a variety of indirect sales channels that enable us to leverage the distribution capabilities of partners in adjacent markets, including value-added resellers. We continue to pursue joint ventures and merchant acquiring alliances.

We benefit from an attractive business model, the hallmarks of which are recurring revenue, scalability, significant operating margins and low capital expenditure requirements. Our revenue is predominantly recurring in nature because of the mission-critical and embedded nature of the services we provide. In addition, we generally negotiate multi-year contracts with our customers. Our business model enables us to continue to grow our business organically without significant incremental capital expenditures.

## Separation from and Key Relationship with Popular

Prior to the Merger on September 30, 2010, EVERTEC Group was 100% owned by Popular, the largest financial institution in the Caribbean, and operated substantially as an independent entity within Popular. After the consummation of the Merger, Popular retained an approximately 49% indirect ownership interest in EVERTEC Group and is our largest customer. In connection with, and upon consummation of, the Merger, EVERTEC Group entered into a 15-year Master Services Agreement, and several related agreements with Popular. Under the terms of the Master Services Agreement, Popular agreed to continue to use EVERTEC services on an ongoing exclusive basis, for the duration of the agreement, on commercial terms consistent with those of our historical relationship. Additionally, Popular granted us a right of first refusal on the development of certain new financial technology products and services for the duration of the Master Services Agreement. As of December 31, 2017, Popular retained a 16.1% interest in EVERTEC.

## 2017 Developments

The Company's Board of Directors approved regular quarterly dividends of \$0.10 per common share in February, April, and July of 2017. On November 2, 2017, the Board voted to temporarily suspend the quarterly dividend on the Company's common stock due to the difficult operating environment in Puerto Rico. The Board anticipates reviewing the dividend policy as conditions stabilize in Puerto Rico.

On July 3, 2017, EVERTEC's main operating subsidiary, EVERTEC Group, and EVERTEC Panama, S.A. ("EVERTEC Panama") closed on the direct and indirect acquisition of 100% of the share capital of EFT Group S.A., a Chilean-based payment processing and software solutions company known commercially as "PayGroup", by entering into a share purchase agreement (*Contrato de Compraventa de Acciones*), by and among EVERTEC Group, EVERTEC Panama, Fondo de Inversión Privado Mater, Inversiones San Bernardo SpA, Asesorías e Inversiones Supernova SpA, Inversiones y Asesorías Bayona Limitada, Inversiones Hagerdorn y Morales Limitada, Christian Hagedorn Hirschfeld and Inversiones Vaimaca Limitada. The PayGroup acquisition expands the Company's presence in Latin America to eight new countries and increases the Company's payment solutions offerings. During the third quarter of 2017 Evertec Panama ceased being a shareholder in PayGroup and Evertec Group became the 100% owner of PayGroup.

In September 2017, Puerto Rico and the Caribbean, two of our principal markets, were severely impacted by Hurricane Irma and Hurricane Maria.

On November 2, 2017 the Company's Board of Directors approved an extension to the expiration date of the current stock repurchase program to December 31, 2020. In addition, on this same date the Board voted to temporarily suspend the quarterly dividend on the Company's common stock due to the difficult operating environment in Puerto Rico in the aftermath of Hurricane Maria. The Board anticipates reviewing the dividend policy as conditions stabilize in Puerto Rico.

## Factors and Trends Affecting the Results of Our Operations

The ongoing migration from cash and paper methods of payment to electronic payments continues to benefit the transaction-processing industry globally. We believe that the penetration of electronic payments in the markets in which we operate is significantly lower relative to the U.S. market, and that this ongoing shift will continue to generate substantial growth opportunities for our business. For example, currently the adoption of banking products, including electronic payments, in the Latin American and Caribbean region is lower relative to the mature U.S. and European markets. We believe that the unbanked and underbanked population in our markets will continue to shrink, and therefore drive incremental penetration and growth of electronic payments in Puerto Rico and other Latin American regions. We also benefit from the trend for financial institutions and government agencies to outsource technology systems and processes. Many medium- and small-size institutions in the Latin American markets in which we operate have outdated computer systems and updating these IT legacy systems is financially and logistically challenging, which presents a business opportunity for us.

Finally, our financial condition and results of operations are, in part, dependent on the economic and general conditions of the geographies in which we operate.

On June 30, 2016, the U.S. President signed into law PROMESA. PROMESA establishes a fiscal oversight and the Oversight Board comprised of seven voting members appointed by the President. The Oversight Board has broad budgetary and financial powers over Puerto Rico's budget, laws, financial plans and regulations, including the power to approve restructuring agreements with creditors, file petitions for restructuring and reform the electronic system for the tax collection. The Oversight Board will have ultimate authority in preparing the Puerto Rico government's budget and any issuance of future debt by the government and its instrumentalities. In addition, PROMESA imposes an automatic stay on all litigation against Puerto Rico

and its instrumentalities, as well as any other judicial or administrative actions or proceedings to enforce or collect claims against the Puerto Rico government. On May 1, 2017, the automatic stay expired. Promptly after the expiration of the stay, creditors of the Puerto Rico government filed various lawsuits involving defaults on more than \$70 billion of bonds issued by Puerto Rico, having failed to reach a negotiated settlement on such defaults with the Puerto Rico government during the period of the automatic stay. On May 3, 2017, the Oversight Board filed a voluntary petition of relief on behalf of the Commonwealth pursuant to Title III of PROMESA for the restructuring of the Commonwealth's debt. Subsequently, the Oversight Board filed voluntary petitions of relief pursuant to Title III of PROMESA on behalf certain public corporations and instrumentalities. Title III is an in-court debt restructuring proceeding similar to protections afforded debtors under Chapter 11 of the United States Code (the "Bankruptcy Code"); the Bankruptcy Code is not available to the Commonwealth or its instrumentalities.

As the solution to the Puerto Rican government's debt crisis remains unclear, we continue to carefully monitor our receivables with the government as well as monitor general economic trends to understand the impact the crisis has on the economy of Puerto Rico and our card payment volumes. To date our receivables with the Puerto Rican government and overall payment transaction volumes have not been significantly affected by the debt crisis, however we remain cautious.

In September 2017, Puerto Rico and the Caribbean, two of our principal markets, were severely impacted by Hurricane Irma and Hurricane Maria. As a result of these hurricanes, the islands' economies have been adversely affected. The destruction brought on by these hurricanes affected infrastructure and telecommunication services, necessary elements for electronic transacting. Electronic transacting primarily affects our Merchant Acquiring segment and Payments Services segments, including our ATH network in Puerto Rico. While our ATH network remained operational continuously, the lack of power, water and telecommunications limited merchants' ability to either open for business or transact electronically and, as a result, our revenue has decreased. Since the hurricanes, merchants have gradually reopened their businesses as power distribution has been restored, however it is unclear how many merchants will fail to reopen. Currently, our merchant mix reflects a greater percent of large merchants as compared to prior to the hurricanes. Consumer spending patterns have been erratic in the aftermath of the hurricanes. We earn less revenue per transaction from these merchants and this mix of merchants has negatively impacted our net revenue yield and margins. Businesses have gradually reopened and accepted payments and we have experienced an increase in transaction and sales volume, approaching prior year volumes, but there is uncertainty as to when or whether or not volumes will sustain pre-hurricane levels of growth. Cash use has also risen significantly due to the lack of ability to accept electronic payments and merchant steering. Additionally, it has been reported that a large number of residents have left Puerto Rico for the United States and that more residents may leave in the continuing aftermath of the hurricanes.

In addition to the macroeconomic trends described above, Management currently estimates that we will continue to experience a revenue attrition in Latin America of approximately \$5 million to \$8 million for previously disclosed migrations anticipated in 2018. The clients decisions, which were made prior to 2015, for these anticipated migrations were driven by a variety of historical factors, most importantly customer service experience. Management believes that these customer decisions are unlikely to change, however timing is subject to change based on customer's conversion schedules.

### **Critical Accounting Estimates**

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our financial statements, we are required to make estimates and assumptions about future events, and apply judgments that affect the reported amounts of certain assets and liabilities, and in some instances, the reported amounts of revenues and expenses during the period.

We base our assumptions, estimates, and judgments on historical experience, current events and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. However, because future events are inherently uncertain and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. A summary of significant accounting policies is included in Note 1 of the Notes to Audited Consolidated Financial Statements appearing elsewhere in this Annual Report on Form 10-K. We believe that the following accounting estimates are the most critical; require the most difficult, subjective or complex judgments; and thus result in estimates that are inherently uncertain.

#### *Revenue recognition*

The Company's revenue recognition policy follows the guidance from Accounting Standards Codification ("ASC") 605 Revenue Recognition; ASC 605-25, Revenue Recognition—Multiple Element Arrangements; and; ASC 985, Software, which provide guidance on the recognition, presentation, and disclosure of revenue in consolidated financial statements.

The Company recognizes revenue when the following four criteria are met: (i) persuasive evidence of an agreement exists, (ii) delivery and acceptance has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collection is reasonably assured. For multiple deliverable arrangements, EVERTEC evaluates each arrangement to determine if the elements or deliverables within the arrangement represent separate units of accounting pursuant to ASC 605-25. If the deliverables are determined to be separate units of accounting, revenues are recognized as units of accounting are delivered and the revenue recognition criteria are met. If the deliverables are not determined to be separate units of accounting, revenues for the delivered services are combined into one unit of accounting and recognized (i) over the life of the arrangement if all services are consistently delivered over such term, or if otherwise, (ii) at the time that all services and deliverables have been delivered. The selling price for each deliverable is based on vendor specific objective evidence (“VSOE”) if available, third party evidence (“TPE”) if VSOE is not available, or management best estimate of selling price (“BESP”) if neither VSOE nor TPE is available. EVERTEC establishes VSOE of selling price using the price charged when the same element is sold separately. EVERTEC bifurcates or allocates the arrangement consideration to each of the deliverables based on the relative selling price of each unit of accounting.

The Company has two main categories of revenues according to the type of transactions EVERTEC enters into with the Company’s customers: (a) transaction-based fees and (b) fixed fees and time and material.

#### *Transaction-based fees*

The Company provides services that generate transaction-based fees. Typically transaction-based fees depend on factors such as number of accounts or transactions processed. These factors typically consist of a fee per transaction or item processed, a percentage of dollar volume processed or a fee per account on file, or some combination thereof. Revenue derived from the transaction-based fee contracts are recognized when the underlying transaction is processed, which constitutes delivery of service.

Revenues from business contracts in the Company’s Merchant Acquiring segment are primarily comprised of discount fees charged to the merchants based on the sales amount of transactions processed. Revenues include a discount fee and membership fees charged to merchants and debit network fees as well as point-of-sale (“POS”) rental fees. Pursuant to the guidance from ASC 605-45-45, Revenue Recognition—Principal Agent Considerations, EVERTEC records Merchant Acquiring revenues net of interchange and assessments charged by the credit and debit card network associations and recognizes such revenues at the time of the sale (when a transaction is processed).

Payment services revenues are comprised of revenues related to providing access to the ATH network and other card networks to financial institutions, and related services. Payment services revenues also include revenues from card issuer processing services (such as credit and debit card processing, authorization and settlement, and fraud monitoring and control to debit or credit card issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions) and electronic benefit transfer (“EBT”) (which principally consists of services to the Puerto Rico government for the delivery of government benefits to participants). Revenues in EVERTEC’s Payment Services segments are primarily comprised of fees per transaction processed or per account on file, or a combination of both, and are recognized at the time transactions are processed or on a monthly basis for accounts on file.

Transaction-based fees within EVERTEC’s Business Solutions segment consist of revenues from business process management solutions including core bank processing, business process outsourcing, item and cash processing, and fulfillment. Transaction-based fee revenues generated by the Company’s core bank processing services are derived from fees based on various factors such as the number of accounts on file (e.g. savings or checking accounts, loans, etc.), and the number of transactions processed or registered users (e.g. for online banking services). For services dependent on the number of transactions processed, revenues are recognized as the underlying transactions are processed. For services dependent on the number of users or accounts on file, revenues are recognized on a monthly basis based on the number of accounts on file each month. Item and cash processing revenues are based upon the number of items (e.g. checks) processed and revenues are recognized when the underlying item is processed. Fulfillment services include technical and operational resources for producing and distributing variable print documents such as statements, bills, checks and benefits summaries. Fulfillment revenues are based upon the number pages for printing services and the number of envelopes processed for mailing services. Revenues are recognized as services are delivered based on a fee per page printed or envelope mailed, as applicable.

#### *Fixed fees and time and material*

The Company also provides services that generate a fixed fee per month or fees based on time and expenses incurred. These services are mostly provided in EVERTEC’s Business Solutions segment. Revenues are generated from EVERTEC’s core bank solutions, network hosting and management and IT consulting services.



In core bank solutions, the Company mostly provides access to applications and services such as back-up or recovery, hosting and maintenance that enable a bank to operate the related hosted services accessing the Company's IT infrastructure. These contracts generally contain multiple elements or deliverables which are evaluated by EVERTEC and revenues are recognized according to the applicable guidance. Revenue is derived from fixed fees charged for the use of hosted services and are recognized on a monthly basis as delivered. Set-up fees are billed to the customer when the service is rendered; however, they are deferred and recognized as revenues over the term of the arrangement or the expected period of the customer relationship, whichever is longer, as set-up services rarely provide value to the customer on a stand-alone basis and are interrelated with the service to be provided under the contract.

In network hosting and management, EVERTEC provides hosting services for network infrastructure at EVERTEC's facilities; automated monitoring services; maintenance of call centers; interactive voice response solutions, among other related services. Revenues are primarily derived from monthly fees as services are delivered. Set-up fees are billed up-front to the customer when the set-up service is rendered; however, they are deferred and recognized as revenues over the term of the arrangement or the expected period of the customer relationship, whichever is longer, as set-up services rarely provide value to the customer on a stand-alone basis and are interrelated with the service under the contract. There are some arrangements under this line of service category that may contain undelivered elements. In such cases, the undelivered elements are evaluated and recognized when the services are delivered or at the time that all deliverables under the contract have been delivered.

IT consulting services revenue primarily consists of time billings based upon the number of hours dedicated to each client. Revenue from time billings are recognized as services are delivered.

EVERTEC also charges members of the ATH network an annual membership fee; however, these fees are deferred and recognized as revenues on a straight-line basis over the year and recorded in the Company's Payment Services segments. In addition, occasionally EVERTEC is a reseller of hardware and software products and revenues from these resale transactions are recognized when such product is delivered and accepted by the client.

#### *Service level arrangements*

The Company's service contracts may include service level arrangements ("SLA") generally allowing the customer to receive a credit for part of the service fee when the Company has not provided the agreed level of services. The SLA performance obligation is committed on a monthly basis, thus SLA performance is monitored and assessed for compliance with arrangements on a monthly basis, including determination and accounting for its economic impact, if any.

#### *Goodwill and other intangible assets*

Goodwill represents the excess of the purchase price and related costs over the value assigned to net assets acquired. Goodwill is not amortized, but is tested for impairment at least annually, or more often if events or circumstances indicate there may be impairment.

The Company first assesses qualitative factors to determine whether it is necessary to perform the quantitative impairment test. If determined to be necessary, the quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). The Company may assess qualitative factors to determine whether it is more likely than not, that is, a likelihood of more than 50 percent that the fair value of the reporting unit is less than its carrying amount, including goodwill. The Company has an unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test. The Company may resume performing the qualitative assessment in any subsequent period. With the early adoption in December 2017 of the accounting standards update that simplifies the goodwill impairment test, the quantitative goodwill impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the Company determines to perform a quantitative impairment test, a third-party valuator may be engaged to prepare an independent valuation of each reporting unit. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Additionally, the Company shall consider the income tax effect from any tax-deductible goodwill on the carrying amount of the reporting unit, if applicable, when measuring the goodwill impairment loss. For the years ended December 31, 2017, 2016 and 2015, no impairment losses associated with goodwill were recognized.

Other identifiable intangible assets with a definitive useful lives are amortized using the straight-line method or accelerated methods. These intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Other identifiable intangible assets with a definitive useful lives include customer relationships, trademarks, software packages and a non-compete agreement. Customer relationships were valued using the excess earnings method under the income approach. Trademark assets were valued using the relief-from-royalty method under the income approach. Internally developed software packages, which include capitalized software development costs, are recorded at cost, while software packages acquired as part of a business combination were valued using the relief-from-royalty method under the income approach. The non-compete agreement was valued based on the estimated impact that theoretical competition would have on revenues and expenses.

#### *Share-based compensation*

The Company estimates the fair value of stock-based awards, on a contemporaneous basis, at the date they are granted using the Black-Scholes-Merton option pricing model for Tranche A options and the Monte Carlo simulation analysis for Tranche B and Tranche C options and market based restricted stock units (“RSUs”) using the following assumptions: (1) stock price; (2) risk-free rate; (3) expected volatility; (4) expected annual dividend yield and (5) expected term. The risk-free rate is based on the U.S. Constant Maturities Treasury Interest Rate as of the grant date or the yield of a 2-year or 3-year Treasury bond, as applicable. The expected volatility is based on a combination of historical volatility and implied volatility from publicly traded companies in the Company’s industry. The expected annual dividend yield is based on management’s expectations of future dividends as of the grant date and, in certain cases, assumes that those dividends will be reinvested over the performance period. The expected term for stock options granted under the 2010 Plan was based on the vesting time of the options. For the stock options granted under the 2013 Plan, the simplified method was used to estimate the expected term, given that the Company did not have appropriate exercise data on which to base the estimate nor is exercise data relating to employees of comparable companies easily obtainable. Performance and time based RSUs and restricted stock are valued based on the market price of the Company’s stock at the grant date.

Upon option exercise or restricted stock or RSUs release, participants may elect to “net share settle”. Rather than requiring the participant to deliver cash to satisfy the exercise price, for options exercise, and tax withholdings, the Company withholds a sufficient number of shares to cover these amounts and delivers the net shares to the participant.

#### *Income Tax*

Income taxes are accounted for under the asset and liability method. A temporary difference refers to a difference between the tax basis of an asset or liability, determined based on recognition and measurement requirements for tax positions, and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Deferred tax assets and liabilities represent the future effects on income taxes that result from temporary differences and carryforwards that exist at the end of a period. Deferred tax assets and liabilities are measured using enacted tax rates and provisions of the enacted tax law and are not discounted to reflect the time-value of money. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of income and comprehensive income in the period that includes the enactment date. A deferred tax valuation allowance is established if it is considered more likely than not that all or a portion of the deferred tax asset will not be realized.

The Company recognizes the benefit of uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement or disposition of the underlying issue with the taxing authority. Accordingly, the amount of benefit recognized in the consolidated financial statements may differ from the amount taken or expected to be taken in the tax return resulting in unrecognized tax benefits (“UTBs”). The Company recognizes the interest and penalties associated with UTBs as part of the provision for income taxes on its consolidated statements of income and comprehensive income. Accrued interest and penalties are included on the related tax liability line in the consolidated balance sheets.

All companies within EVERTEC are legal entities which file separate income tax returns.

#### **Recent Accounting Pronouncements**

For a description of recent accounting standards, see Note 2 of the Notes to Audited Consolidated Financial Statements included in this Annual Report on Form 10-K.

## Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share, as presented in this Annual Report on Form 10-K, are supplemental measures of our performance that are not required by, or presented in accordance with GAAP. They are not measurements of our financial performance under GAAP and should not be considered as alternatives to total revenues, net income or any other performance measures derived in accordance with GAAP or as alternatives to cash flows from operating activities as measures of our liquidity. Adjusted EBITDA at the segment level is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. For this reason Adjusted EBITDA, as it relates to our segments, is presented in conformity with Accounting Standards Codification 280, Segment Reporting, and is excluded from the definition of non-GAAP financial measures under the Securities and Exchange Commission's Regulation G and Item 10(e) of Regulation S-K.

For more information regarding EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share, including a quantitative reconciliation of EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share to the most directly comparable GAAP financial performance measure, which is net income, see “—Net Income Reconciliation to EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share” and “—Covenant Compliance” below.

## Results of Operations

	Year ended December 31,			Variance 2017 vs. 2016		Variance 2016 vs. 2015	
	2017	2016	2015				
<i>Dollar amounts in thousands</i>							
<b>Revenues</b>	\$407,144	\$389,507	\$373,528	\$ 17,637	5 %	\$ 15,979	4 %
<b>Operating costs and expenses</b>							
Cost of revenues, exclusive of depreciation and amortization shown below	200,650	175,809	167,916	24,841	14 %	7,893	5 %
Selling, general and administrative expenses	56,161	46,986	37,278	9,175	20 %	9,708	26 %
Depreciation and amortization	64,250	59,567	64,974	4,683	8 %	(5,407)	(8)%
Total operating costs and expenses	321,061	282,362	270,168	38,699	14 %	12,194	5 %
Income from operations	\$ 86,083	\$107,145	\$103,360	\$ (21,062)	(20)%	\$ 3,785	4 %

### Revenues

Total revenues in 2017 increased by \$17.6 million or 5% when compared with the prior year. The increase in revenues was driven by increases in ATH debit network transaction volumes and card processing volumes, revenue generated from the PayGroup acquisition, increased revenue from our Accuprint acquisition in the fourth quarter of 2016 and an increase in core banking revenue. Revenues in 2017 were negatively impacted by the two hurricanes that made landfall in Puerto Rico and the Caribbean in September of 2017. We estimate the hurricanes reduced revenues by approximately \$13 to \$14 million.

Revenues in 2016 increased by \$16.0 million or 4% when compared with 2015. The increase in revenue in 2016 was driven by the addition of the FirstBank of Puerto Rico (“FirstBank”) merchant portfolio in the fourth quarter of 2015, an increase in transactions processed over the ATH debit network and revenue related to the Processa acquisition and an increase in revenue from core banking activities related to an increase in volume and new services provided. These increases were partially offset by a decrease in revenues due to a delayed project amounting to approximately \$4.5 million and lower revenues from the Puerto Rico government lottery tax contract terminated in the fourth quarter of 2015.

### Cost of revenues

Cost of revenues in 2017 increased \$24.8 million or 14% when compared with the prior year. The increase in cost of revenue is primarily related to \$12.8 million in charges taken in connection with an exit activity for a third party software solution that is

no longer commercially viable and a \$5.0 million impairment loss related to a software asset under development. The remaining increase was primarily attributable to the PayGroup acquisition.

Cost of revenues in 2016 increased 5% to \$175.8 million when compared with 2015 and was primarily driven by a \$4.9 million increase in expenses for revenue sharing referral agreements with certain banks in Puerto Rico and increases in equipment expenses, professional fees and other operating taxes. These increases were partially offset by a \$4.5 million decrease in compensation expense as the prior year period included severance payments as part of voluntary termination offers extended to certain employees which included special termination benefits.

#### *Selling, general and administrative*

Selling, general and administrative expenses in 2017 increased \$9.2 million when compared with 2016. The increase is primarily related to an increase in share based compensation, expenses related to the PayGroup acquisition and an increase in payroll and other taxes in our Latin America operations.

Selling, general and administrative expenses increased by \$9.7 million in 2016 compared with 2015 primarily driven by a \$4.5 million increase in salaries and benefits including higher share based compensation, coupled with a \$3.0 million increase in professional fees mostly due to costs incurred in connection with the restatement of our 2015 financial results during 2016.

#### *Depreciation and amortization*

Depreciation and amortization expense increased by \$4.7 million in 2017 compared to 2016 mainly related to an increase in amortization expense related to intangible assets acquired as part of business combinations completed in the prior and current year.

Depreciation and amortization expense decreased by \$5.4 million or 8% in 2016 compared with 2015. The decrease resulted primarily from lower amortization of software packages related to software acquired as part of the Merger that became fully amortized during the third quarter of 2015.

#### *Non-operating income (expenses)*

<i>Dollar amounts in thousands</i>	Year ended December 31,			Variance 2017 vs. 2016		Variance 2016 vs. 2015
	2017	2016	2015			
Interest income	\$ 716	\$ 377	\$ 495	\$ 339	90 %	\$ (118) (24)%
Interest expense	(29,861)	(24,617)	(24,266)	(5,244)	21 %	(351) 1 %
Earnings (losses) of equity method investment	604	(52)	147	656	(1,262)%	(199) (135)%
Other income, net	2,657	544	2,306	2,113	388 %	(1,762) (76)%
Total non-operating expenses	<u>\$ (25,884)</u>	<u>\$ (23,748)</u>	<u>\$ (21,318)</u>	<u>(2,136)</u>	9 %	<u>(2,430)</u> 11 %

Total non-operating expenses in 2017 increased \$2.1 million or 9% when compared to 2016 . Interest expense increased by \$5.2 million primarily as a result of the Third Amendment (defined below) completed in the fourth quarter of 2016 coupled with an increased LIBOR and increased interest expense from the commencement of the fixed interest rate swap. This increase was partially offset by an increase in foreign exchange gains and an increase in earnings from our equity method investment.

Total non-operating expenses in 2016 increased \$2.4 million when compared with the prior year. The increase is driven by the \$1.5 million loss on extinguishment recorded as part of the debt refinancing transaction completed in the fourth quarter of 2016, which is included in Other income, net, coupled with a \$0.4 million increase in interest expense and a \$0.2 million decrease in earnings from our equity method investment in the Dominican Republic, Consorcio de Tarjetas Dominicanas, S.A. (“CONTADO”).



## Income tax expense (benefit)

<i>Dollar amounts in thousands</i>	Year ended December 31,			Variance 2017 vs. 2016		Variance 2016 vs. 2015	
	2017	2016	2015				
Income tax expense (benefit)	\$ 4,780	\$ 8,271	\$ (3,335)	(3,491)	(42)%	11,606	(348)%

Income tax expense in 2017 decreased by \$3.5 million to \$4.8 million. The effective tax rate in 2017 was approximately 8%. The decrease in income tax expense was mainly due to the reversal of a tax liability related to an uncertain tax position for which the statute of limitations expired during the third quarter of 2017.

Income tax expense for the year ended December 31, 2016 amounted to approximately \$8.3 million compared with an income tax benefit of \$3.3 million in 2015. The effective tax rate in 2016 was approximately 10%. The prior year tax benefit reflects the reversal of tax liability related to an uncertain tax position for which the statute of limitations expired during the third quarter of 2015.

## Segment Results of Operations

In December of 2017, as a result of the PayGroup acquisition, the Chief Operating Decision Maker ("CODM") completed an evaluation of the current Company structure and the information regularly reviewed for purposes of allocating resources and assessing performance. As a result of this evaluation, Management concluded that the operating segments are determined by the products and services the Company provides and the geographic regions in which the Company operates, resulting in four business segments: Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America (collectively "Payment Services segments"), Merchant Acquiring, and Business Solutions.

The Payment Services - Puerto Rico & Caribbean segment revenues are comprised of revenues related to providing access to the ATH debit network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions) and electronic benefit transfer ("EBT") (which principally consist of services to the government of Puerto Rico for the delivery of benefits to participants). For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services. For EBT services, revenues are primarily derived from the number of beneficiaries on file.

The Payment Services - Latin America segment revenues consist of revenues related to providing access to the ATH debit network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions), as well as, licensed software solutions for risk and fraud management and card payment processing. For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services.

The Merchant Acquiring segment consists of revenues from services that allow merchants to accept electronic methods of payment. In the Merchant Acquiring segment, revenues include a discount fee and membership fees charged to merchants, debit network fees and rental fees from POS devices and other equipment, net of credit card interchange and assessment fees charged by credit cards associations (such as VISA or MasterCard) or payment networks. The discount fee is generally a percentage of the transaction value. EVERTEC also charges merchants for other services that are unrelated to the number of transactions or the transaction value.

The Business Solutions segment consists of revenues from a full suite of business process management solutions in various product areas such as core bank processing, network hosting and management, IT professional services, business process outsourcing, item processing, cash processing, and fulfillment. Core bank processing and network services revenues are derived

in part from a recurrent fee and from fees based on the number of accounts on file (i.e. savings or checking accounts, loans, etc.) or computer resources utilized. Revenues from other processing services within the Business Solutions segment are generally volume-based and depend on factors such as the number of accounts processed. In addition, EVERTEC is a reseller of hardware and software products and these resale transactions are generally one-time transactions.

In addition to the four operating segments described above, Management identified certain functional cost areas that operate independently and do not constitute businesses in themselves. These units could neither be concluded as operating segments nor could they be combined with any other operating segments. Therefore, these units are aggregated and presented as “Corporate and Other” category in the financial statements alongside the operating segments. The Corporate and other category consists of corporate overhead expenses, intersegment eliminations, certain leveraged activities and other non-operating and miscellaneous expenses that are not included in the operating segments. The overhead and leveraged costs relate to activities such as:

- marketing,
- corporate finance and accounting,
- human resources,
- legal,
- risk management functions,
- internal audit,
- corporate debt related costs,
- non-operating depreciation and amortization expenses generated as a result of the Merger,
- intersegment revenues and expenses, and
- other non-recurring fees and expenses that are not considered when management evaluates financial performance at a segment level

The CODM reviews the operating segments separate financial information to assess performance and to allocate resources. Management evaluates the operating results of each of its operating segments based upon revenues and Adjusted EBITDA. Adjusted EBITDA, as it relates to operating segments, is presented in conformity with Accounting Standards Codification Topic 280, "Segment Reporting" given that it is reported to the CODM for purposes of allocating resources. Segment asset disclosure is not used by the CODM as a measure of segment performance since the segment evaluation is driven by revenues and adjusted EBITDA performance. As such, segment assets are not disclosed in the notes to the accompanying consolidated financial statements.

The following tables set forth information about the Company’s operations by its four business segments for the periods indicated below.

*Payment Services - Puerto Rico & Caribbean*

<i>Dollar amounts in thousands</i>	Year ended December 31,		
	2017	2016	2015
Revenues	\$101,687	\$99,680	\$99,311
Adjusted EBITDA	58,534	63,086	62,297

Payment Services - Puerto Rico & Caribbean revenues in 2017 increased \$2.0 million when compared with 2016. Revenue growth reflected increases in ATH debit network transaction volumes and card processing volumes. Adjusted EBITDA decreased \$4.6 million, mainly a result of the impairment charge taken related to a software asset under development and reduced revenues related to the hurricanes.

Payment Services - Puerto Rico & Caribbean revenues remained relatively flat in 2016 when compared to the prior year. Revenues in 2016 were impacted by an increase in transactions processed over the ATH debit network, partially offset by the shift in revenue for a customer contract change from payment services to merchant acquiring in the fourth quarter of 2015, a decrease in revenues due to a delayed project amounting to approximately \$4.5 million and lower revenues from the government lottery tax contract terminated in the fourth quarter of 2015. Adjusted EBITDA was impacted by the same factors described for revenues.

### Payment Services - Latin America

<i>Dollar amounts in thousands</i>	Year ended December 31,		
	2017	2016	2015
Revenues	\$62,702	\$47,162	\$37,523
Adjusted EBITDA	17,558	15,354	11,800

Payment Services - Latin America 2017 revenues increased \$15.5 million driven mainly by added revenues from the PayGroup acquisition. Adjusted EBITDA increased \$2.2 million mainly driven by increased transaction growth as well as contribution from our PayGroup acquisition at a lower margin, both of which were partially offset by customer attrition.

Payment Services - Latin America revenues in 2016 increased by \$9.6 million driven primarily by revenue from the Processa acquisition, and transaction and terminal rental growth while Adjusted EBITDA increased approximately \$3.5 million reflecting operating leverage on incremental revenues and the Processa contribution.

### Merchant Acquiring

<i>Dollar amounts in thousands</i>	Year ended December 31,		
	2017	2016	2015
Revenues	\$85,778	\$91,248	\$85,411
Adjusted EBITDA	37,497	41,629	45,447

Merchant acquiring segment revenue in 2017 decreased \$5.5 million. Merchant sales volume and revenue were negatively impacted by Hurricanes Irma and Maria in September 2017. The decrease was also impacted by the shift of revenue from Merchant Acquiring related to a client contract change in the second quarter of 2016. Adjusted EBITDA decreased by \$4.1 million mainly due to the factors above described for revenues coupled with a less favorable merchant mix and a lower average ticket, both of which reduced margins.

Merchant acquiring segment revenue in 2016 amounted to \$91.2 million, an increase when compared to the prior year, driven by the addition of the FirstBank merchant portfolio in the fourth quarter of 2015. Merchant acquiring segment Adjusted EBITDA decreased from \$45.4 million to \$41.6 million in 2016 primarily due to revenues at a lower margin from our FirstBank merchant portfolio, reduced margin contribution due to increased transactions at a lower ticket price and merchant mix shifts that reduced net revenue.

### Business Solutions

<i>Dollar amounts in thousands</i>	Year ended December 31,		
	2017	2016	2015
Revenues	\$189,077	\$184,276	\$179,532
Adjusted EBITDA	86,790	89,239	83,192

Business solutions revenue in 2017 increased to \$189.1 million primarily reflecting increased revenue from our Accuprint printing business acquisition and an increase in core banking revenue. Adjusted EBITDA decreased to \$86.8 million mainly as a result of higher internal charges related to higher support and maintenance hours for Business Solution applications, primarily for Banco Popular coupled with higher expenses related to infrastructure supporting the Business Solutions segment as we replaced obsolete assets.

Business solutions revenue in 2016 increased to \$184.3 million. The increase is primarily driven by revenues from core banking activities related to an increase in volume and new services provided. In addition, revenues grew modestly in network services, business process outsourcing and IT Consulting. This growth was partially offset by a decrease in revenue from cash and item processing services. Adjusted EBITDA increased primarily driven by the same factors explained for the increase in revenues.

## Liquidity and Capital Resources

### Liquidity

Our principal source of liquidity is cash generated from operations, and our primary liquidity requirements are the funding of capital expenditures and working capital needs. We also have a \$100.0 million revolving credit facility, of which \$88.0 million was available as of December 31, 2017.

At December 31, 2017, we had cash of \$50.4 million, of which \$30.0 million resides in our subsidiaries located outside of Puerto Rico for purposes of (i) funding the respective subsidiary's current business operations and (ii) funding potential future investment outside of Puerto Rico. During the second quarter of 2017, the Company repatriated capital and earnings from foreign subsidiaries in order to partially fund the acquisition of PayGroup. This acquisition expands our Latin American operations and increases the Company's foreign operations. This transaction resulted in a one-time tax on dividends from foreign operations of approximately \$1.3 million. This repatriation of earnings and capital is considered a one-time transaction specifically for the acquisition, and based on our liquidity forecast, we do not believe we will need to repatriate cash to fund the Puerto Rico operations or to meet debt-service obligations. However, if in the future we determine that we no longer need to maintain cash balances within our foreign subsidiaries, we may elect to distribute such cash to the Company in Puerto Rico. Distributions from the foreign subsidiaries to Puerto Rico may be subject to tax withholding and other tax consequences.

Our primary use of cash is for operating expenses, working capital requirements, capital expenditures, dividend payments, share repurchases, debt service, acquisitions and other transactions as opportunities present themselves.

Based on our current level of operations, we believe our cash flows from operations and the available senior secured Revolving Credit Facility will be adequate to meet our liquidity needs for the next twelve months. However, our ability to fund future operating expenses, dividend payments, capital expenditures, mergers and acquisitions, and our ability to make scheduled payments of interest, to pay principal on or refinance our indebtedness and to satisfy any other of our present or future debt obligations will depend on our future operating performance, which will be affected by general economic, financial and other factors beyond our control.

### Comparison of the years ended December 31, 2017 and 2016

The following table presents our cash flows from operations for the years ended December 31, 2017 and 2016:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,	
	2017	2016
Cash provided by operating activities	\$ 145,786	\$ 168,054
Cash used in investing activities	(78,100)	(54,083)
Cash used in financing activities	(69,183)	(90,798)
(Decrease) increase in cash	\$ (1,497)	\$ 23,173

Net cash provided by operating activities for the year ended December 31, 2017 was \$145.8 million, a decrease of \$22.3 million compared with 2016. The decrease in cash provided by operating activities was primarily driven by a decrease in net income.

Net cash used in investing activities increased by \$24.0 million to \$78.1 million. The increase was mainly attributable to the completion of the purchase of PayGroup during the third quarter of 2017.

Net cash used in financing activities for the year ended December 31, 2017 amounted to \$69.2 million, a decrease of \$21.6 million when compared with the prior year. The decrease is driven by less cash used for stock repurchases and dividend payments.



*Comparison of the years ended December 31, 2016 and 2015*

The following table presents our cash flows from operations for the years ended December 31, 2016 and 2015:

	Years ended December 31,	
	2016	2015
<i>(Dollar amounts in thousands)</i>		
Cash provided by operating activities	\$ 168,054	\$ 162,419
Cash used in investing activities	(54,083)	(53,068)
Cash used in financing activities	(90,798)	(112,718)
Increase (decrease) in cash	<u>\$ 23,173</u>	<u>\$ (3,367)</u>

Net cash provided by operating activities for the year ended December 31, 2016 was \$168.1 million, an increase of \$5.6 million compared with 2015. The increase was driven by less cash used to pay accounts payable and accrued liabilities and an increase in unearned income.

Net cash used in investing activities amounted to \$54.1 million, primarily driven by additions to software amounting to \$23.8 million, acquisitions of property and equipment of \$18.5 million and the completion of the Processa and the Accuprint purchase transactions for \$15.6 million in cash.

Net cash used in financing activities for the year ended December 31, 2016 amounted to \$90.8 million, a decrease of \$21.9 million when compared with the prior year. The decrease is driven by less cash used in the repurchase of common stock, coupled with an increase in cash provided by short-term borrowings partially offset by cash paid during the year for amendments made to the Company's debt agreement, credit amendment fees of \$3.6 million and debt issue costs of \$4.8 million.

*Capital Resources*

Our principal capital expenditures are for hardware and computer software (purchased and internally developed), additions to property and equipment and acquisitions. We invested approximately \$33.5 million, \$42.3 million, and \$47.0 million on capital expenditures for hardware and computer software and property and equipment for the years ended December 31, 2017, 2016 and 2015, respectively. In terms of acquisitions, in 2017, we completed the purchase of PayGroup for \$42.8 million, while in the 2016, we completed the purchase of Processa for \$5.9 million and Accuprint for \$9.7 million. Capital expenditures are expected to be funded by cash flow from operations and, if necessary, borrowings under our Revolving Facility.

*Dividend Payments*

Historically, we have paid a regular quarterly dividend on our common stock, subject to the declaration thereof by our Board each quarter. On November 2, 2017, the Board voted to temporarily suspend the quarterly dividend on the Company's common stock due to the difficult operating environment in Puerto Rico in the aftermath of Hurricane Maria. The Board anticipates reviewing the dividend policy as conditions stabilize in Puerto Rico. Any declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board and will depend on many factors, including our financial condition, earnings, available cash, business opportunities, legal requirements, restrictions in our debt agreements and other contracts, capital requirements, level of indebtedness and other factors that our Board deems relevant. Refer to the table below for details regarding our dividends in 2017 and 2016:

Declaration Date	Record Date	Payment Date	Dividend per share
February 17, 2016	February 29, 2016	March 17, 2016	0.10
May 11, 2016	May 23, 2016	June 10, 2016	0.10
July 28, 2016	August 9, 2016	September 2, 2016	0.10
October 27, 2016	November 14, 2016	December 2, 2016	0.10
February 17, 2017	March 1, 2017	March 20, 2017	0.10
April 27, 2017	May 8, 2017	June 9, 2017	0.10
July 25, 2017	August 7, 2017	September 8, 2017	0.10

## *Stock Repurchase*

During 2017, the Company repurchased 465,240 shares of the Company's common stock at a cost of \$7.7 million. The Company funded such repurchase with cash on hand and borrowings under the existing revolving credit facility.

During 2016, the Company repurchased 2,504,427 shares of the Company's common stock at a cost of \$39.9 million. The Company funded such repurchase with cash on hand and borrowings under the existing revolving credit facility.

During 2015, the Company repurchased 3,012,826 shares of the Company's common stock at a cost of \$54.9 million. The Company funded such repurchase with cash on hand and borrowings under the existing revolving credit facility.

Repurchases may be accomplished through open market transactions, privately negotiated transactions, accelerated share repurchase programs and other means.

## **Financial Obligations**

### *Senior Secured Credit Facilities*

On April 17, 2013, EVERTEC Group entered into a credit agreement (the "2013 Credit Agreement") governing the senior secured credit facilities, consisting of a \$300.0 million term loan A facility (the "Term A Loan"), a \$400.0 million term loan B facility (the "Term B Loan", together with the Term A Loan, the "Senior Secured term loans") and a \$100.0 million revolving credit facility (the "Revolving Facility").

During 2016, the Company entered into two separate amendments to the 2013 Credit Agreement. In the second quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver to the outstanding Credit Agreement (the "Second Amendment"). The Company paid each lender that consented to the amendment a fee equal to 0.50% of the aggregate principal amount of outstanding term loans and revolving commitments held by such lender. The credit amendment fees paid during the second quarter of 2016 amounted to \$3.6 million. In the fourth quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a third amendment (the "Third Amendment") to the 2013 Credit Agreement. The Third Amendment extends the maturity of (a) approximately \$219 million of EVERTEC Group's existing approximately \$250 million of Term A loan facility to January 17, 2020 (the "2020 Term A loan") and (b) \$65 million of EVERTEC Group's existing \$100 million of revolving credit facility to January 17, 2020. The remaining approximately \$30 million of Term A loan (the "2018 Term A loan") and the \$35 million of revolving credit facility that were not extended will remain in place and mature as originally scheduled on April 17, 2018. The Term B loan facility will remain in place and mature as originally scheduled on April 17, 2020.

Under the terms of the Third Amendment, the 2018 Term A Loan amortizes on a basis of 1.875% of the original principal amount beginning in the third quarter of 2016 and during each of the next three quarters, and 2.50% of the original principal amount during each of the final three quarters, with the balance payable on the final maturity date. The 2020 Term A Loan amortizes on a basis of 1.50% of the original principal amount beginning in the fourth quarter of 2016 and during each of the next five quarters, 1.875% of the original principal amount during each of the four subsequent quarters, and 2.50% of the original principal amount during each of the final three quarters, with the balance payable on the final maturity date. Principal payments for the Term B Loan were not changed by the Third Amendment and continues to require payments on the last business day of each quarter equal to 0.250% of the original principal amount and the remaining outstanding principal amount on the maturity of the Term B Loan.

The applicable margin under the 2013 Credit Agreement is based on, at EVERTEC Group's option, (i) with respect to any 2018 Term A Loan, 2.50% per annum in the case of any LIBOR Loan and 1.50% per annum in the case of any Alternate Base Rate ("ABR"), as defined in the 2013 Credit Agreement, subject to reduction based on achievement of specific first lien secured leverage ratios, (ii) with respect to any 2020 Term A Loan, 2.50% per annum in the case of any LIBOR Loan and 1.50% per annum in the case of any ABR Loan, (iii) with respect to any Term B Loan, 2.75% per annum in the case of any LIBOR Loan and 1.75% per annum in the case of any ABR Loan subject to reduction based on achievement of specific first lien secured leverage ratios, and (iv) with respect to any revolving credit facility, (A) 2.50% per annum in the case of any LIBOR Loan and (B) 1.50% per annum in the case of any ABR Loan.

The revolving credit facility interest rate is calculated the same as the 2020 Term A Loan rate and has a "commitment fee" payable one business day after the last business day of each quarter calculated based on the daily unused commitment during the preceding quarter. The commitment fee for the unused portion of this facility ranges from 0.125% to 0.375% and is based on EVERTEC Group's first lien secured net leverage ratio.

All loans may be prepaid without premium or penalty.

The unpaid principal balance at December 31, 2017 of the 2018 Term A Loan, the 2020 Term A Loan and the Term B Loan was \$26.9 million, \$202.9 million and \$382.0 million, respectively. The additional borrowing capacity for the Revolving Facility loan at December 31, 2017 was \$88.0 million.

#### *Notes payable*

In December 2014, June 2015 and May 2016, EVERTEC Group entered into non-interest bearing financing agreements amounting to \$4.6 million, \$1.1 million, and \$0.7 million, respectively, and in October 2016 entered into an interest bearing agreement of \$1.1 million, to purchase software. As of December 31, 2017 and December 31, 2016, the outstanding principal balance of the notes payable is \$1.0 million and \$3.4 million, respectively. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

#### *Interest Rate Swap*

As of December 31, 2017, the Company has the following interest rate swap agreement converting a portion of the interest rate exposure on the Company's Term B Loan from variable to fixed:

Effective date	Maturity Date	Notional Amount	Variable Rate	Fixed Rate
January 2017	April 2020	\$200 million	1-month LIBOR	1.9225%

The Company has accounted for this transaction as a cash flow hedge. The fair value of the Company's derivative instrument is determined using a standard valuation model. The significant inputs used in this model are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2 within the fair value hierarchy. Inputs used in this standard valuation model for derivative instruments include the applicable forward rates and discount rates. The discount rates are based on the historical LIBOR Swap rates.

As of December 31, 2017 and December 31, 2016, the carrying amount of the derivative on the Company's balance sheets is as follows:

<i>(Dollar amounts in thousands)</i>	December 31, 2017	December 31, 2016
Other long-term assets	\$ 214	\$ —
Other long-term liabilities	—	1,964

During the year ended December 31, 2017, the Company reclassified losses of \$1.6 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify \$0.9 million from accumulated other comprehensive loss into income through interest expense over the next 12 months.

The cash flow hedge is considered highly effective and no impact on earnings is expected due to hedge ineffectiveness.

#### *Covenant Compliance*

The credit facilities contain various restrictive covenants. The Term A Loan and the revolving facility (subject to certain exceptions) require EVERTEC Group to maintain on a quarterly basis a specified maximum senior secured leverage ratio of up to 4.75 to 1.00 as defined in the third amendment to the 2013 Credit Agreement (total first lien senior secured debt to Adjusted EBITDA) until September 30, 2018 and 4.25 to 1.00 for any fiscal quarter ending thereafter. In addition, the 2013 Credit Agreement, among other things: (a) limits EVERTEC Group's ability and the ability of its subsidiaries to incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments and enter into certain transactions with affiliates; (b) restricts EVERTEC Group's ability to enter into agreements that would restrict the ability of its subsidiaries to pay dividends or make certain payments to its parent company; and (c) places restrictions on EVERTEC Group's ability and the ability of its subsidiaries to merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of their assets. However, all of the covenants in these agreements are subject to significant exceptions. As of December 31, 2017, the senior secured leverage ratio was 3.34 to 1.00. As of the date of filing of this Form 10-K no event has occurred that constitutes an Event of Default or Default.

In this Annual Report on Form 10-K, we refer to the term “Adjusted EBITDA” to mean EBITDA as so defined and calculated for purposes of determining compliance with the senior secured leverage ratio based on the financial information for the last twelve months at the end of each quarter.

*Net Income Reconciliation to EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share (Non-GAAP Measures)*

We define “EBITDA” as earnings before interest, taxes, depreciation and amortization. We define “Adjusted EBITDA” as EBITDA further adjusted to exclude unusual items and other adjustments described below. Adjusted EBITDA by segment is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. For this reason Adjusted EBITDA, as it relates to our segments, is presented in conformity with Accounting Standards Codification 280, Segment Reporting, and is excluded from the definition of non-GAAP financial measures under the Securities and Exchange Commission’s Regulation G and Item 10(e) of Regulation S-K. We define “Adjusted Net Income” as net income adjusted to exclude unusual items and other adjustments described below. We define “Adjusted Earnings per common share” as Adjusted Net Income divided by diluted shares outstanding.

We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of ourselves and other companies in our industry. In addition, our presentation of Adjusted EBITDA is substantially consistent with the equivalent measurements that are contained in the senior secured credit facilities in testing EVERTEC Group’s compliance with covenants therein such as the senior secured leverage ratio. We use Adjusted Net Income to measure our overall profitability because we believe better reflects our comparable operating performance by excluding the impact of the non-cash amortization and depreciation that was created as a result of the Merger. In addition, in evaluating EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share, you should be aware that in the future we may incur expenses such as those excluded in calculating them. Further, our presentation of these measures should not be construed as an inference that our future operating results will not be affected by unusual or nonrecurring items.

Some of the limitations of EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted earnings per common share are as follows:

- they do not reflect cash outlays for capital expenditures or future contractual commitments;
- they do not reflect changes in, or cash requirements for, working capital;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements;
- in the case of EBITDA and Adjusted EBITDA, they do not reflect interest expense, or the cash requirements necessary to service interest, or principal payments, on indebtedness;
- in the case of EBITDA and Adjusted EBITDA, they do not reflect income tax expense or the cash necessary to pay income taxes; and
- other companies, including other companies in our industry, may not use EBITDA, Adjusted EBITDA, Adjusted Net Income, and Adjusted Earnings per common share or may calculate EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share differently than as presented in this Report, limiting their usefulness as a comparative measure.

EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share are not measurements of liquidity or financial performance under GAAP. You should not consider EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share as alternatives to cash flows from operating activities or any other performance measures determined in accordance with GAAP, as an indicator of cash flows, as a measure of liquidity or as an alternative to operating or net income determined in accordance with GAAP.

A reconciliation of net income to EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share is provided below:



Year Ended December 31, 2017

(Dollar amounts in thousands)

<b>Net income</b>	\$	55,419
Income tax expense		4,780
Interest expense, net		29,145
Depreciation and amortization		64,250
<b>EBITDA</b>		<u>153,594</u>
Equity income <sup>(1)</sup>		(604)
Compensation and benefits <sup>(2)</sup>		9,755
Transaction, refinancing and other fees <sup>(3)</sup>		2,500
Exit activity <sup>(4)</sup>		12,783
<b>Adjusted EBITDA</b>		<u>178,028</u>
Operating depreciation and amortization <sup>(5)</sup>		(30,585)
Cash interest expense, net <sup>(6)</sup>		(24,660)
Income tax expense <sup>(7)</sup>		(15,100)
Non-controlling interest <sup>(8)</sup>		(581)
<b>Adjusted net income</b>	\$	<u><u>107,102</u></u>
<b>Net income per common share (GAAP):</b>		
Diluted	\$	0.76
<b>Adjusted Earnings per common share (Non-GAAP):</b>		
Diluted	\$	1.47
<b>Shares used in computing adjusted earnings per common share:</b>		
Diluted		72,872,188

- 1) Represents the elimination of non-cash equity earnings from our 19.99% equity investment in Dominican Republic, Consorcio de Tarjetas Dominicanas, S.A. ("CONTADO").
- 2) Primarily represents share-based compensation and other compensation expense.
- 3) Represents fees and expenses associated with corporate transactions as defined in the Credit Agreement, recorded as part of selling, general and administrative expense and cost of revenues, as well as relief contributions related to the Hurricanes.
- 4) Impairment charge and contractual fee accrual for a third party software solution that was determined to be commercially unviable.
- 5) Represents operating depreciation and amortization expense, which excludes amounts generated as a result of the Merger and other from purchase accounting intangibles generated from acquisitions.
- 6) Represents interest expense, less interest income, as they appear on our consolidated statements of income and comprehensive income, adjusted to exclude non-cash amortization of the debt issue costs, premium and accretion of discount.
- 7) Represents income tax expense calculated on adjusted pre-tax income using the applicable GAAP tax rate.
- 8) Represents the 35% non-controlling equity interest in Processa, net of amortization for intangibles created as part of the purchase.

## Contractual Obligations

The Company's contractual obligations as of December 31, 2017 are as follows:

<i>(Dollar amounts in thousands)</i>	Payment due by periods				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt <sup>(1)</sup>	\$ 662,480	\$ 70,039	\$ 592,441	\$ —	\$ —
Operating leases <sup>(2)</sup>	17,872	7,482	10,390	—	—
Short-term borrowings <sup>(3)</sup>	12,180	12,180	—	—	—
Other long-term liabilities	1,374	631	743	—	—
Total	<u>\$ 693,906</u>	<u>\$ 90,332</u>	<u>\$ 603,574</u>	<u>\$ —</u>	<u>\$ —</u>

- (1) Long-term debt includes principal balance of \$624.8 million and the payments of cash interest (based on interest rates as of December 31, 2017 for variable rate debt) and aggregate principal amount of the senior secured term loan facilities, as well as commitments fees related to the unused portion of our senior secured revolving credit facility, as required under the terms of the long-term debt agreements.
- (2) Includes certain facilities and equipment under operating leases. See Note 22 of the Notes to Audited Consolidated Financial Statements for additional information regarding operating lease obligations.
- (3) Excludes the payments of cash interest related to the outstanding portion of the senior secured revolving credit facility as of December 31, 2017.

## Off Balance Sheet Arrangements

In the ordinary course of business the Company may enter into commercial commitments. As of December 31, 2017, the Company did not have any off balance sheet items.

## Seasonality

Our payment businesses generally experience moderate increased activity during the traditional holiday shopping periods and around other nationally recognized holidays, which follow consumer spending patterns.

## Effect of Inflation

While inflationary increases in certain inputs costs, such as occupancy, labor and benefits, and general administrative costs, have an impact on our operating results, inflation has had minimal net impact on our operating results during the last three years as overall inflation has been partially offset by increased margins on incremental revenue and cost reduction actions. We cannot assure you, however, that we will not be affected by general inflation in the future.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks arising from our normal business activities. These market risks principally involve the possibility of change in interest rates that will adversely affect the value of our financial assets and liabilities or future cash flows and earnings. Market risk is the potential loss arising from adverse changes in market rates and prices.

### *Interest rate risks*

We issued floating-rate debt which is subject to fluctuations in interest rates. Our senior secured credit facilities accrue interest at variable rates and only the Term B Loan is subject to floors or minimum rates. A 100 basis point increase in interest rates over our floor(s) on our debt balances outstanding as of December 31, 2017, under the senior secured credit facilities would increase our annual interest expense by approximately \$4.1 million. The impact on future interest expense as a result of future changes in interest rates will depend largely on the gross amount of our borrowings at that time.

In December 2015, we entered into an interest rate swap agreement with a notional amount of \$200 million, which represents approximately 32% of our outstanding debt. Under this agreement, that began on January 1, 2017, we will receive a rate equal

to the LIBOR rate applicable to our Term B loan, and pay a fixed rate equal to 1.9225%. The net effect of the swap agreement is to fix the interest rate on \$200 million of our Term B loan at approximately 4.5%, which began on January 1, 2017 and will end when the Term B loan matures, in April 2020.

The interest rate swap exposes us to credit risk in the event that the counterparty to the swap agreement does not or cannot meet its obligations. The notional amount is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The loss would be limited to the amount that would have been received, if any, over the remaining life of the swap. The counterparty to the swap is a major US based financial institution and we expect the counterparty to be able to perform its obligations under the swap. We use derivative financial instruments for hedging purposes only and not for trading or speculative purposes

See Note 12 of the Notes to Audited Consolidated Financial Statements appearing elsewhere in this Annual Report on Form 10-K for additional information related to the senior secured credit facilities.

#### *Foreign exchange risk*

We conduct business in certain countries in Latin America. Some of this business is conducted in the countries' local currencies. The resulting foreign currency translation adjustments, from operations for which the functional currency is other than the U.S. dollar, are reported in accumulated other comprehensive loss in the audited consolidated balance sheet, except for highly inflationary environments in which the effects would be included in other operating income in the consolidated statements of income and comprehensive income. At December 31, 2017, the Company had \$11.1 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared to an unfavorable foreign currency translation adjustment of \$10.4 million at December 31, 2016.

## Item 8. Financial Statements and Supplementary Data

The Audited Consolidated Financial Statements, together with EVERTEC's independent registered public accounting firms reports, are included herein beginning on page F-1 of this Annual Report on Form 10-K.

### Selected Quarterly Financial Data

	Quarters ended,			
<i>(Dollar amounts in thousands, except per share data)</i>	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Revenues	\$ 101,280	\$ 103,511	\$ 102,725	\$ 99,628
Operating costs and expenses	70,688	73,517	93,917	82,939
Income from operations	30,592	29,994	8,808	16,689
Non-operating expenses	(5,434)	(5,712)	(7,506)	(7,232)
Income before income taxes	25,158	24,282	1,302	9,457
Income tax expense (benefit)	2,020	4,068	(4,840)	3,532
Net income	\$ 23,138	\$ 20,214	\$ 6,142	\$ 5,925
Net income attributable to EVERTEC, Inc.'s common stockholders	\$ 23,029	\$ 20,089	\$ 6,102	\$ 5,834
Net income per common share - basic	\$ 0.32	\$ 0.28	\$ 0.08	\$ 0.08
Net income per common share - diluted	\$ 0.31	\$ 0.27	\$ 0.08	\$ 0.08

	Quarters ended,			
<i>(Dollar amounts in thousands, except per share data)</i>	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Revenues	\$ 95,479	\$ 97,672	\$ 94,467	\$ 101,889
Operating costs and expenses	68,913	69,480	67,460	76,509
Income from operations	26,566	28,192	27,007	25,380
Non-operating expenses	(5,523)	(5,157)	(5,657)	(7,411)
Income before income taxes	21,043	23,035	21,350	17,969
Income tax expense	1,876	2,801	1,639	1,955
Net income	\$ 19,167	\$ 20,234	\$ 19,711	\$ 16,014
Net income attributable to EVERTEC, Inc.'s common stockholders	\$ 19,148	\$ 20,235	\$ 19,680	\$ 15,972
Net income per common share - basic	\$ 0.26	\$ 0.27	\$ 0.27	\$ 0.22
Net income per common share - diluted	\$ 0.26	\$ 0.27	\$ 0.26	\$ 0.22

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

The Company, under the direction of the Chief Executive Officer and the Chief Financial Officer, has established disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2017, the Company's disclosure controls and procedures are effective.

#### Changes in Internal Control Over Financial Reporting



There were no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by the Company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the firm; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the firm's assets that could have a material effect on our financial statements.

The Company's management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria established in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2017 was effective. As permitted by the SEC staff's Frequently Asked Question 3 on Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports (revised September 24, 2007), our management excluded PayGroup, which was acquired on July 3, 2017, from our assessment of internal control over financial reporting effectiveness as of December 31, 2017. PayGroup represented approximately 6% of consolidated total assets and approximately 3% of consolidated total revenues, included in our Consolidated Financial Statements as of and for the year ended December 31, 2017.

Deloitte & Touche, LLP, an independent registered public accounting firm, has audited the consolidated financial statements as of and for the year ended December 31, 2017, included in this Form 10-K and, as part of the audit, has issued a report, included as part of Item 8 of this Form 10-K, on the effectiveness of our internal control over financial reporting as of December 31, 2017.

### **Item 9B. Other Information**

None.

### **Part III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by Item 10 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2017 fiscal year, and is incorporated herein by reference.

#### **Item 11. Executive Compensation**

The information required by Item 11 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2017 fiscal year, and is incorporated herein by reference.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by Item 12 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2017 fiscal year, and is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Party Transactions and Director Independence**

The information required by Item 13 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2017 fiscal year, and is incorporated herein by reference.

#### **Item 14. Principal Accounting Fees and Services**

The information required by Item 14 will be included in EVERTEC's proxy statement, to be filed pursuant to Regulation 14 A within 120 days after the end of the 2017 fiscal year, and is incorporated herein by reference.

### **Part IV**

## 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,

EVERTEC, Inc.

Date: February 28, 2018

By: /s/ Morgan M. Schuessler, Jr.

Morgan M. Schuessler, Jr.

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>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Morgan M. Schuessler, Jr.</u> Morgan M. Schuessler, Jr.	Chief Executive Officer (Principal Executive Officer)	February 28, 2018
<u>/s/ Peter J.S. Smith</u> Peter J.S. Smith	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2018
<u>/s/ Frank G. D'Angelo</u> Frank G. D'Angelo	Chairman of the Board	February 28, 2018
<u>/s/ Teresita Loubriel</u> Teresita Loubriel	Director	February 28, 2018
<u>/s/ Alan H. Schumacher</u> Alan H. Schumacher	Director	February 28, 2018
<u>/s/ Thomas W. Swidarski</u> Thomas W. Swidarski	Director	February 28, 2018
<u>/s/ Jorge A. Junquera</u> Jorge A. Junquera	Director	February 28, 2018
<u>/s/ Nestor O. Rivera</u> Nestor O. Rivera	Director	February 28, 2018
<u>/s/ Olga M. Botero</u> Olga M. Botero	Director	February 28, 2018
<u>/s/ Brian J. Smith</u> Brian J. Smith	Director	February 28, 2018

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

### Audited Consolidated Financial Statements

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of EVERTEC, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of EVERTEC, Inc. and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income and comprehensive income, shareholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2018, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

San Juan, Puerto Rico  
February 28, 2018  
Stamp No. E308482  
affixed to original

We have served as the Company’s auditor since 2015.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of EVERTEC, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of EVERTEC, Inc. and subsidiaries (the “Company”) as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated February 28, 2018, expressed an unqualified opinion on those financial statements.

As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at PayGroup, which was acquired on July 3, 2017, and whose financial statements constitute 6% of consolidated total assets and 3% of consolidated total revenues as of and for the year ended December 31, 2017. Accordingly, our audit did not include the internal control over financial reporting at PayGroup.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP  
San Juan, Puerto Rico  
February 28, 2018  
Stamp No. E308483  
affixed to original

**EVERTEC, Inc. Consolidated Balance Sheets**  
**(Dollar amounts in thousands, except share data)**

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 50,423	\$ 51,920
Restricted cash	9,944	8,112
Accounts receivable, net	83,328	77,803
Prepaid expenses and other assets	25,011	20,430
Total current assets	168,706	158,265
Investment in equity investee	13,073	12,252
Property and equipment, net	37,924	38,930
Goodwill	398,575	370,986
Other intangible assets, net	279,961	299,119
Other long-term assets	4,549	6,110
Total assets	<u>\$ 902,788</u>	<u>\$ 885,662</u>
<b>Liabilities and stockholders' equity</b>		
Current Liabilities:		
Accrued liabilities	\$ 38,451	\$ 34,243
Accounts payable	41,135	40,845
Unearned income	7,737	4,531
Income tax payable	1,406	1,755
Current portion of long-term debt	46,487	19,789
Short-term borrowings	12,000	28,000
Total current liabilities	147,216	129,163
Long-term debt	557,251	599,667
Deferred tax liability	13,820	14,978
Unearned income—long-term	23,486	17,303
Other long-term liabilities	13,039	16,376
Total liabilities	754,812	777,487
Commitments and contingencies (Note 22)		
Stockholders' equity		
Preferred stock, par value \$0.01; 2,000,000 shares authorized; none issued	—	—
Common stock, par value \$0.01; 206,000,000 shares authorized; 72,393,933 shares issued and outstanding at December 31, 2017 (December 31, 2016 - 72,635,032)	723	726
Additional paid-in capital	5,350	—
Accumulated earnings	148,887	116,341
Accumulated other comprehensive loss, net of tax	(10,848)	(12,391)
Total EVERTEC, Inc. stockholders' equity	144,112	104,676
Non-controlling interest	3,864	3,499
Total equity	147,976	108,175
Total liabilities and equity	<u>\$ 902,788</u>	<u>\$ 885,662</u>

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

**EVERTEC, Inc. Consolidated Statements of Income and Comprehensive Income**  
(Dollar amounts in thousands, except per share data)

	Years ended December 31,		
	2017	2016	2015
<b>Revenues (affiliates Note 21)</b>	\$ 407,144	\$ 389,507	\$ 373,528
<b>Operating costs and expenses</b>			
Cost of revenues, exclusive of depreciation and amortization shown below	200,650	175,809	167,916
Selling, general and administrative expenses	56,161	46,986	37,278
Depreciation and amortization	64,250	59,567	64,974
Total operating costs and expenses	321,061	282,362	270,168
Income from operations	86,083	107,145	103,360
<b>Non-operating income (expenses)</b>			
Interest income	716	377	495
Interest expense	(29,861)	(24,617)	(24,266)
Earnings (losses) of equity method investment	604	(52)	147
Other income, net	2,657	544	2,306
Total non-operating expenses	(25,884)	(23,748)	(21,318)
<b>Income before income taxes</b>	60,199	83,397	82,042
Income tax expense (benefit)	4,780	8,271	(3,335)
Net income	55,419	75,126	85,377
Less: Net income attributable to non-controlling interest	365	90	—
Net income attributable to EVERTEC, Inc.'s common stockholders	55,054	75,036	85,377
Other comprehensive income (loss), net of tax of \$122, \$176 and \$8			
Foreign currency translation adjustments	(635)	(3,360)	(545)
Gain (loss) on cash flow hedge	2,178	(1,449)	(515)
<b>Total comprehensive income attributable to EVERTEC, Inc.'s common stockholders</b>	<b>\$ 56,597</b>	<b>\$ 70,227</b>	<b>\$ 84,317</b>
<b>Net income per common share - basic attributable to EVERTEC, Inc.'s common stockholders</b>	<b>\$ 0.76</b>	<b>\$ 1.01</b>	<b>\$ 1.11</b>
<b>Net income per common share - diluted attributable to EVERTEC, Inc.'s common stockholders</b>	<b>\$ 0.76</b>	<b>\$ 1.01</b>	<b>\$ 1.11</b>
<b>Cash dividends declared per share</b>	<b>\$ 0.30</b>	<b>\$ 0.40</b>	<b>\$ 0.40</b>

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



**EVERTEC, Inc. Consolidated Statements of Changes in Stockholders' Equity**  
(Dollar amounts in thousands, except share data)

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Non- Controlling Interest	Total Stockholders' Equity
<b>Balance at December 31, 2014</b>	77,893,144	\$ 779	\$ 59,740	\$ 40,843	\$ (6,522)	\$ —	\$ 94,840
Share-based compensation recognized	—	—	5,204	—	—	—	5,204
Restricted stock grants and units delivered, net of cashless exercise	107,892	1	(307)	—	—	—	(306)
Repurchase of common stock	(3,012,826)	(30)	(54,919)	—	—	—	(54,949)
Net income	—	—	—	85,377	—	—	85,377
Cash dividends declared on common stock	—	—	—	(30,892)	—	—	(30,892)
Other comprehensive loss	—	—	—	—	(1,060)	—	(1,060)
<b>Balance at December 31, 2015</b>	74,988,210	750	9,718	95,328	(7,582)	—	98,214
Share-based compensation recognized	—	—	6,408	—	—	—	6,408
Repurchase of common stock	(2,504,427)	(25)	(15,594)	(24,327)	—	—	(39,946)
Stock options exercised, net of cashless exercise	8,393	—	(79)	—	—	—	(79)
Restricted stock grants and units delivered, net of cashless exercise	142,856	1	(471)	—	—	—	(470)
Net income	—	—	—	75,036	—	90	75,126
Non-controlling interest on acquisition	—	—	—	—	—	3,409	3,409
Cash dividend declared on common stock	—	—	—	(29,696)	—	—	(29,696)
Dividend reversal for forfeited options	—	—	18	—	—	—	18
Other comprehensive loss	—	—	—	—	(4,809)	—	(4,809)
<b>Balance at December 31, 2016</b>	72,635,032	726	—	116,341	(12,391)	3,499	108,175
Cumulative adjustment from implementation of ASU 2016-09	—	—	—	4,203	—	—	4,203
Share-based compensation recognized	—	—	9,642	—	—	—	9,642
Repurchase of common stock	(465,240)	(5)	(2,702)	(4,964)	—	—	(7,671)
Restricted stock grants and units delivered, net of cashless exercise	215,343	2	(1,499)	—	—	—	(1,497)
Stock options exercised, net of cashless exercise	8,798	—	(91)	—	—	—	(91)
Net income	—	—	—	55,054	—	365	55,419
Cash dividends declared on common stock	—	—	—	(21,747)	—	—	(21,747)
Other comprehensive income	—	—	—	—	1,543	—	1,543
<b>Balance at December 31, 2017</b>	72,393,933	\$ 723	\$ 5,350	\$ 148,887	\$ (10,848)	\$ 3,864	\$ 147,976

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

**EVERTEC, Inc. Consolidated Statements of Cash Flows**  
**(Dollar amounts in thousands)**

	Years ended December 31,		
	2017	2016	2015
<b>Cash flows from operating activities</b>			
Net income	\$ 55,419	\$ 75,126	\$ 85,377
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	64,250	59,567	64,974
Amortization of debt issue costs and accretion of discount	5,128	4,334	3,329
Loss on extinguishment of debt	—	1,476	—
Provision for doubtful accounts and sundry losses	843	1,990	2,130
Deferred tax benefit	(4,306)	(4,594)	(3,090)
Share-based compensation	9,642	6,408	5,204
Loss on impairment of software	11,441	2,277	—
Loss on disposition of property and equipment and other intangibles	430	453	143
(Earnings) losses of equity method investment	(604)	52	(147)
(Increase) decrease in assets:			
Accounts receivable	(2,099)	(2,583)	(4,482)
Prepaid expenses and other assets	(4,048)	(1,426)	(146)
Other long-term assets	1,654	(1,790)	(70)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(870)	14,594	15,947
Income tax payable	(349)	405	(606)
Unearned income	8,444	8,018	2,207
Other long-term liabilities	811	3,747	(8,351)
Total adjustments	90,367	92,928	77,042
Net cash provided by operating activities	145,786	168,054	162,419
<b>Cash flows from investing activities</b>			
Net (increase) decrease in restricted cash	(1,832)	3,705	(6,100)
Additions to software and purchase of customer relationship	(22,174)	(23,819)	(25,960)
Acquisitions, net of cash acquired	(42,836)	(15,600)	—
Property and equipment acquired	(11,290)	(18,450)	(21,022)
Proceeds from sales of property and equipment	32	81	14
Net cash used in investing activities	(78,100)	(54,083)	(53,068)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of long-term debt	—	75,763	—
Debt issuance costs	—	(4,830)	—
Net (decrease) increase in short-term borrowings	(16,000)	11,000	(6,000)
Repayments of borrowings for purchase of equipment and software	(2,373)	(2,213)	(1,542)
Dividends paid	(21,762)	(29,696)	(30,921)
Withholding taxes paid on share-based compensation	(1,588)	(548)	(306)
Repurchase of common stock	(7,671)	(39,946)	(54,949)
Repayment of long-term debt	(19,789)	(96,741)	(19,000)
Credit amendment fees	—	(3,587)	—
Net cash used in financing activities	(69,183)	(90,798)	(112,718)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,497)</b>	<b>23,173</b>	<b>(3,367)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>51,920</b>	<b>28,747</b>	<b>32,114</b>
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 50,423</b>	<b>\$ 51,920</b>	<b>\$ 28,747</b>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 25,379	\$ 22,535	\$ 21,497
Cash paid for income taxes	9,930	8,697	5,682
<b>Supplemental disclosure of non-cash activities:</b>			
Payable due to vendor related to property and equipment and software acquired	1,037	3,302	3,638

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

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## Note 1—The Company and Summary of Significant Accounting Policies

### The Company

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) and its subsidiaries (collectively the “Company,” or “EVERTEC”) is a leading full-service transaction processing business in Latin America and the Caribbean. The Company is based in Puerto Rico and provides a broad range of merchant acquiring, payment services and business process management services across 26 countries in the region. EVERTEC owns and operates the ATH network, one of the leading automated teller machine (“ATM”) and personal identification number (“PIN”) debit networks in Latin America. In addition, EVERTEC provides a comprehensive suite of services for core bank processing, cash processing and technology outsourcing in the regions the Company serves. EVERTEC serves a broad and diversified customer base of leading financial institutions, merchants, corporations and government agencies with solutions that are essential to their operations, enabling them to issue, process and accept transactions securely.

### Initial Public Offering and Other Public Offerings

On April 17, 2013, the Company completed its initial public offering of 28,789,943 shares of common stock at a price to the public of \$20.00 per share. On September 18, 2013 and December 13, 2013 the Company completed a public offerings of 23,000,000 and 15,233,273 shares, respectively, of the Company’s common stock by Apollo Global Management, LLC (“Apollo”) and Popular, Inc. (“Popular”), and current and former employees. After the completion of the offerings, Popular owned approximately 11.7 million shares of EVERTEC's common stock, or 16.1% as of December 31, 2017, and Apollo no longer owns any of the Company’s common stock.

### Basis of Presentation

The consolidated financial statements of EVERTEC have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the accompanying consolidated financial statements, prepared in accordance with GAAP, contain all adjustments, all of which are normal and recurring in nature, necessary for a fair presentation.

A summary of the most significant accounting policies used in preparing the accompanying consolidated financial statements is as follows:

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of the Company, which are presented in accordance with GAAP. The Company consolidates all entities that are controlled by ownership of a majority voting interest. Intercompany accounts and transactions are eliminated in the consolidated financial statements.

### Use of Estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

### Revenue Recognition

The Company’s revenue recognition policy follows the guidance from Accounting Standards Codification (“ASC”) 605 Revenue Recognition; ASC 605-25, Revenue Recognition—Multiple Element Arrangements; and; ASC 985, Software, which provide guidance on the recognition, presentation, and disclosure of revenue in consolidated financial statements. The Company recognizes revenue when the following four criteria are met: (i) persuasive evidence of an agreement exists, (ii) delivery and acceptance has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collection is reasonably assured. For multiple deliverable arrangements, EVERTEC evaluates each arrangement to determine if the elements or deliverables within the arrangement represent separate units of accounting pursuant to ASC 605-25. If the deliverables are determined to be separate units of accounting, revenues are recognized as units of accounting are delivered and the revenue recognition criteria are met. If the deliverables are not determined to be separate units of accounting, revenues for the delivered services are combined into one unit of accounting and recognized (i) over the life of the arrangement if all



services are consistently delivered over such term, or if otherwise, (ii) at the time that all services and deliverables have been delivered. The selling price for each deliverable is based on vendor specific objective evidence (“VSOE”) if available, third party evidence (“TPE”) if VSOE is not available, or management best estimate of selling price (“BESP”) if neither VSOE nor TPE is available. EVERTEC establishes VSOE of selling price using the price charged when the same element is sold separately. EVERTEC bifurcates or allocates the arrangement consideration to each of the deliverables based on the relative selling price of each unit of accounting.

The Company has two main categories of revenues according to the type of transactions EVERTEC enters into with the Company’s customers: (a) transaction-based fees and (b) fixed fees and time and material.

*Transaction-based fees*

The Company provides services that generate transaction-based fees. Typically transaction-based fees depend on factors such as number of accounts or transactions processed. These factors typically consist of a fee per transaction or item processed, a percentage of dollar volume processed or a fee per account on file, or some combination thereof. Revenue derived from the transaction-based fee contracts are recognized when the underlying transaction is processed, which constitutes delivery of service.

Revenues from business contracts in the Company’s Merchant Acquiring segment are primarily comprised of discount fees charged to the merchants based on the sales amount of transactions processed. Revenues include a discount fee and membership fees charged to merchants and debit network fees as well as point-of-sale (“POS”) rental fees. Pursuant to the guidance from ASC 605-45-45, Revenue Recognition—Principal Agent Considerations, EVERTEC records Merchant Acquiring revenues net of interchange and assessments charged by the credit and debit card network associations and recognizes such revenues at the time of the sale (when a transaction is processed).

Payment services revenues are comprised of revenues related to providing access to the ATH network and other card networks to financial institutions, and related services. Payment services revenues also include revenues from card issuer processing services (such as credit and debit card processing, authorization and settlement, and fraud monitoring and control to debit or credit card issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions) and electronic benefit transfer (“EBT”) (which principally consists of services to the Puerto Rico government for the delivery of government benefits to participants). Revenues in EVERTEC’s Payment Services segments are primarily comprised of fees per transaction processed or per account on file, or a combination of both, and are recognized at the time transactions are processed or on a monthly basis for accounts on file.

Transaction-based fees within EVERTEC’s Business Solutions segment consist of revenues from business process management solutions including core bank processing, business process outsourcing, item and cash processing, and fulfillment. Transaction-based fee revenues generated by the Company’s core bank processing services are derived from fees based on various factors such as the number of accounts on file (e.g. savings or checking accounts, loans, etc.), and the number of transactions processed or registered users (e.g. for online banking services). For services dependent on the number of transactions processed, revenues are recognized as the underlying transactions are processed. For services dependent on the number of users or accounts on file, revenues are recognized on a monthly basis based on the number of accounts on file each month. Item and cash processing revenues are based upon the number of items (e.g. checks) processed and revenues are recognized when the underlying item is processed. Fulfillment services include technical and operational resources for producing and distributing variable print documents such as statements, bills, checks and benefits summaries. Fulfillment revenues are based upon the number pages for printing services and the number of envelopes processed for mailing services. Revenues are recognized as services are delivered based on a fee per page printed or envelope mailed, as applicable.

*Fixed fees and time and material*

The Company also provides services that generate a fixed fee per month or fees based on time and expenses incurred. These services are mostly provided in EVERTEC’s Business Solutions segment. Revenues are generated from EVERTEC’s core bank solutions, network hosting and management and IT consulting services.

In core bank solutions, the Company mostly provides access to applications and services such as back-up or recovery, hosting and maintenance that enable a bank to operate the related hosted services accessing the Company’s IT infrastructure. These contracts generally contain multiple elements or deliverables which are evaluated by EVERTEC and revenues are recognized according to the applicable guidance. Revenue is derived from fixed fees charged for the use of hosted services and are

recognized on a monthly basis as delivered. Set-up fees are billed to the customer when the service is rendered; however, they are deferred and recognized as revenues over the term of the arrangement or the expected period of the customer relationship, whichever is longer, as set-up services rarely provide value to the customer on a stand-alone basis and are interrelated with the service to be provided under the contract.

In network hosting and management, EVERTEC provides hosting services for network infrastructure at EVERTEC's facilities; automated monitoring services; maintenance of call centers; interactive voice response solutions, among other related services. Revenues are primarily derived from monthly fees as services are delivered. Set-up fees are billed up-front to the customer when the set-up service is rendered; however, they are deferred and recognized as revenues over the term of the arrangement or the expected period of the customer relationship, whichever is longer, as set-up services rarely provide value to the customer on a stand-alone basis and are interrelated with the service under the contract. There are some arrangements under this line of service category that may contain undelivered elements. In such cases, the undelivered elements are evaluated and recognized when the services are delivered or at the time that all deliverables under the contract have been delivered.

IT consulting services revenue primarily consists of time billings based upon the number of hours dedicated to each client. Revenue from time billings are recognized as services are delivered.

EVERTEC also charges members of the ATH network an annual membership fee; however, these fees are deferred and recognized as revenues on a straight-line basis over the year and recorded in the Company's Payment Services segments. In addition, occasionally EVERTEC is a reseller of hardware and software products and revenues from these resale transactions are recognized when such product is delivered and accepted by the client.

#### *Service level arrangements*

The Company's service contracts may include service level arrangements ("SLA") generally allowing the customer to receive a credit for part of the service fee when the Company has not provided the agreed level of services. The SLA performance obligation is committed on a monthly basis, thus SLA performance is monitored and assessed for compliance with arrangements on a monthly basis, including determination and accounting for its economic impact, if any.

#### **Investment in Equity Investee**

The Company accounts for investments using the equity method of accounting if the investment provides the Company the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of an investor of between 20 percent and 50 percent, although other factors are considered in determining whether the equity method of accounting is appropriate. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net income or losses as they occur. The Company's share of investee earnings or losses is recorded, net of taxes, within earnings of equity method investment caption in the consolidated statements of income and comprehensive income. The Company's consolidated revenues include fees for services provided to an investee accounted for under the equity method. Additionally, the Company's interest in the net assets of its equity method investee is reflected in the consolidated balance sheets. On the acquisition of the investment any difference between the cost of the investment and the amount of the underlying equity in net assets of an investee is required to be accounted as if the investee were a consolidated subsidiary. If the difference is assigned to depreciable or amortizable assets or liabilities, then the difference should be amortized or accreted in connection with the equity earnings based on the Company's proportionate share of the investee's net income or loss. If the investor is unable to relate the difference to specific accounts of the investee, the difference should be considered to be goodwill.

The Company considers whether the fair value of its equity method investment has declined below its carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considered any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and the overall health of the investee's industry), then the Company would record a write-down to estimated fair value.

#### **Property and Equipment**

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method and expensed over their estimated useful lives. Amortization of leasehold improvements is computed over the terms of the respective leases, including renewal options considered by management to be

reasonably assured of being exercised, or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred.

### **Impairment on Long-lived Assets**

Long-lived assets to be held and used, and long-lived assets to be disposed of, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

### **Capitalization of Software**

EVERTEC Group LLC (“EVERTEC Group”), EVERTEC’s main operating subsidiary, develops software that is used in providing processing services to customers. Capitalized software includes purchased software and internally-developed software and is recognized as software packages within the other intangible assets line item in the consolidated balance sheets. Capitalization of internally developed software occurs only after the preliminary project stage is complete and technological feasibility has been achieved, and management’s estimation that the likelihood of successful development and implementation reaches a provable level. Tasks that are generally capitalized are as follows: (a) system design of a chosen path including software configuration and software interfaces; (b) employee costs directly associated with the internal-use computer software project; (c) software development (coding) and software and system testing and verification; (d) system installation; and (e) enhancements that add function and are considered permanent. These tasks are capitalized and amortized using the straight line method over its estimated useful life, which range from three to ten years and is included in depreciation and amortization in the consolidated statements of income and comprehensive income.

The Company capitalizes interest costs incurred in the development of software. The amount of interest capitalized is an allocation of the interest cost incurred during the period required to substantially complete the asset. The interest rate for capitalization purposes is based on a weighted average rate on the Company’s outstanding borrowing. For the years ended December 31, 2017, 2016 and 2015, interest cost capitalized amounted to approximately \$0.8 million, \$0.4 million and \$0.3 million, respectively.

### **Software and Maintenance Contracts**

Software and maintenance contracts are recorded at cost. Amortization of software and maintenance contracts is computed using the straight-line method and expensed over their estimated useful lives which range from one to five years and are recognized in cost of revenues in the consolidated statements of income and comprehensive income.

Software and maintenance contracts are recognized as prepaid expenses and other assets or within other long-term assets depending on their remaining useful lives.

### **Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price and related costs over the value assigned to net assets acquired. Goodwill is not amortized, but is tested for impairment at least annually, or more often if events or circumstances indicate there may be impairment.

The Company first assesses qualitative factors to determine whether it is necessary to perform the quantitative impairment test. If determined to be necessary, the quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). The Company may assess qualitative factors to determine whether it is more likely than not, that is, a likelihood of more than 50 percent that the fair value of the reporting unit is less than its carrying amount, including goodwill. The Company has an unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test. The Company may resume performing the qualitative assessment in any subsequent period. With the early adoption in December 2017 of the accounting standards update that simplifies the goodwill impairment test, the quantitative goodwill impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the Company determines to perform a quantitative impairment test, a third-party valuator may be engaged to prepare an independent valuation of each reporting unit. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Additionally, the Company shall consider the income tax effect from any tax-

deductible goodwill on the carrying amount of the reporting unit, if applicable, when measuring the goodwill impairment loss. For the years ended December 31, 2017, 2016 and 2015, no impairment losses associated with goodwill were recognized.

Other identifiable intangible assets with a definitive useful lives are amortized using the straight-line method or accelerated methods. These intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Other identifiable intangible assets with a definitive useful lives include customer relationships, trademarks, software packages and a non-compete agreement. Customer relationships were valued using the excess earnings method under the income approach. Trademark assets were valued using the relief-from-royalty method under the income approach. Internally developed software packages, which include capitalized software development costs, are recorded at cost, while software packages acquired as part of a business combination were valued using the relief-from-royalty method under the income approach. The non-compete agreement was valued based on the estimated impact that theoretical competition would have on revenues and expenses.

### **Derivative Instruments and Hedging Activities**

The Company uses derivative financial instruments to enhance its ability to manage its exposure to certain financial and market risks. On the date the derivative instrument contract is entered into, the Company may designate the derivative as (1) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (“fair value” hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow” hedge), or (3) as a “standalone” derivative instrument, including economic hedges that the Company has not formally documented as a fair value or cash flow hedge. Changes in the fair value of a derivative that qualifies for cash flow hedge accounting are recognized in Other Comprehensive Income. Amounts accumulated in other comprehensive income are reclassified to earnings when the related cash outflow affects earnings. Changes in the fair value of a derivative instrument that is highly effective and that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that is attributable to the hedged risk (including gains or losses on firm commitments), are recorded in current-period earnings. Similarly, the changes in the fair value of stand-alone derivative instruments or derivatives not qualifying or designated for hedge accounting are reported in current-period earnings. The Company recognizes all derivative financial instruments in the Consolidated Balance Sheets as assets or liabilities at fair value. The Company does not enter into derivative financial instruments for speculative purposes.

### **Income Tax**

Income taxes are accounted for under the asset and liability method. A temporary difference refers to a difference between the tax basis of an asset or liability, determined based on recognition and measurement requirements for tax positions, and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Deferred tax assets and liabilities represent the future effects on income taxes that result from temporary differences and carryforwards that exist at the end of a period. Deferred tax assets and liabilities are measured using enacted tax rates and provisions of the enacted tax law and are not discounted to reflect the time-value of money. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of income and comprehensive income in the period that includes the enactment date. A deferred tax valuation allowance is established if it is considered more likely than not that all or a portion of the deferred tax asset will not be realized.

The Company recognizes the benefit of uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement or disposition of the underlying issue with the taxing authority. Accordingly, the amount of benefit recognized in the consolidated financial statements may differ from the amount taken or expected to be taken in the tax return resulting in unrecognized tax benefits (“UTBs”). The Company recognizes the interest and penalties associated with UTBs as part of the provision for income taxes on its consolidated statements of income and comprehensive income. Accrued interest and penalties are included on the related tax liability line in the consolidated balance sheets.

All companies within EVERTEC are legal entities which file separate income tax returns.

### **Cash and cash equivalents**

Cash includes cash on hand and in banks and certificates of deposits with original maturities of three months or less.

### **Restricted Cash**

Restricted cash represents cash received on deposits from participating institutions of the ATH network that has been segregated for the development of the ATH brand and cash maintained as collateral for a credit facility with Popular. Also, restricted cash includes certain cash collected from the Ticketpop business and a reserve account for payment and transaction processing services to merchants. The restrictions of these accounts are based on contractual provisions entered into with third parties. This cash is maintained in separate accounts at a financial institution in Puerto Rico.

### **Allowance for Doubtful Accounts**

An allowance for doubtful accounts is provided for based on the estimated uncollectible amounts of the related receivables. The estimate is primarily based on a review of the current status of specific accounts receivable. Receivables are considered past due if full payment is not received by the contractual date. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted.

### **Foreign Currency Translation**

Assets and liabilities denominated in foreign currencies are translated to U.S. dollars using prevailing rates of exchange at the end of the period. Revenues, expenses, gains and losses are translated using weighted average rates for the period. The resulting foreign currency translation adjustment from operations for which the functional currency is other than the U.S. dollar is reported in accumulated other comprehensive loss. Gains and losses on transactions denominated in currencies other than the functional currencies are included in determining net income for the period in which exchange rates change.

### **Share-based Compensation**

The Company estimates the fair value of stock-based awards, on a contemporaneous basis, at the date they are granted using the Black-Scholes-Merton option pricing model for Tranche A options and the Monte Carlo simulation analysis for Tranche B and Tranche C options and market based restricted stock units ("RSUs") using the following assumptions: (1) stock price; (2) risk-free rate; (3) expected volatility; (4) expected annual dividend yield and (5) expected term. The risk-free rate is based on the U.S. Constant Maturities Treasury Interest Rate as of the grant date or the yield of a 2-year or 3-year Treasury bond, as applicable. The expected volatility is based on a combination of historical volatility and implied volatility from publicly traded companies in the Company's industry. The expected annual dividend yield is based on management's expectations of future dividends as of the grant date and, in certain cases, assumes that those dividends will be reinvested over the performance period. The expected term for stock options granted under the 2010 Plan was based on the vesting time of the options. For the stock options granted under the 2013 Plan, the simplified method was used to estimate the expected term, given that the Company did not have appropriate exercise data on which to base the estimate nor is exercise data relating to employees of comparable companies easily obtainable. Performance and time based RSUs and restricted stock are valued based on the market price of the Company's stock at the grant date.

Upon option exercise or restricted stock or RSUs release, participants may elect to "net share settle". Rather than requiring the participant to deliver cash to satisfy the exercise price, for options exercise, and tax withholdings, the Company withholds a sufficient number of shares to cover these amounts and delivers the net shares to the participant.

### **Net Income Per Common Share**

Basic net income per common share is determined by dividing net income by the weighted-average number of common shares outstanding during the period.

Diluted net income per common share assumes the issuance of all potentially dilutive share equivalents using the treasury stock method. For stock options and RSUs it is assumed that the proceeds will be used to buy back shares. For stock options, such proceeds equal the average unrecognized compensation plus exercise price. For unvested restricted share units, the proceeds equal the average unrecognized compensation.



**Note 2—Recent Accounting Pronouncements**

*Recently adopted accounting pronouncements*

In March 2016, the Financial Accounting Standards Board (“FASB”) issued updated guidance for accounting for employee share based payments. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company has adopted this guidance with the following effects on its Consolidated Financial Statements:

- All excess tax benefits and tax deficiencies should be recognized as income tax expense. This guidance was adopted on a modified retrospective basis with a \$4.2 million cumulative impact on retained earnings and will be applied prospectively to all excess tax benefits and tax deficiencies resulting from settlements after the date of adoption. Additionally, for purposes of the diluted share count calculation for the Company's earnings per share, which is performed under the treasury stock method, the Company is no longer including excess tax benefits.
- Excess tax benefits should be classified along with other income tax cash flows as an operating activity. This guidance was adopted with no impact on the Consolidated Statement of Cash Flows and will be applied prospectively to all excess tax benefits resulting from settlements after the date of adoption.
- An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. The Company has elected to account for forfeitures when they occur.
- The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. The Company has adopted this guidance with no impact on its Consolidated Financial Statements given that withholdings are calculated using actual statutory withholding tables.
- Cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The Company adopted this guidance with no impact on its Consolidated Statement of Cash Flows as the Company currently classifies statutory withholding taxes paid on share-based compensation as a financing activity.

In January 2017, the FASB issued updated guidance to simplify the test for goodwill impairment. The amendments in this Update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The Company selected to early adopt this guidance for the goodwill impairment test performed as part of the reallocation of goodwill in connection with the Company's change in operating segments.

*Recently issued accounting pronouncements*

The FASB has issued the following accounting pronouncements and guidance relevant to the Company's operations:

In February 2017, the FASB issued updated guidance clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. The amendments in this Update clarify the scope of the FASB's recently established guidance on nonfinancial asset derecognition (ASC 610-20) as well as the accounting for partial sales of nonfinancial assets. This Update conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements, if any.

In May 2017, the FASB issued updated guidance to clarify the scope of modifications under share based compensation accounting. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The amendments in this update should be applied prospectively to an award modified on or after the adoption date. The Company will apply this guidance to future changes in terms and conditions of share-based payment awards.

In August 2017, the FASB issued updated guidance to improve accounting for hedging activities. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to

both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported and also include certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of the update. All transition requirements and elections should be applied to hedging relationships existing (that is, hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised or the entity has not removed the designation of the hedging relationship) on the date of adoption. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption (that is, the initial application date). The Company is currently evaluating the impact the adoption of this guidance will have on its financial statements.

*Accounting pronouncements issued prior to 2017 and not yet adopted*

During 2014, the FASB issued new guidance for revenue from contracts with customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and also includes changes in the accounting for customer contract acquisition costs and fulfillment costs. During 2016, the FASB issued several additional updates that amended the proposed guidance. These new standards will replace most existing revenue recognition guidance in GAAP, and are effective for public reporting companies for interim and annual periods beginning after December 15, 2017. The standards permit two methods of adoption: retrospectively to each prior reporting period presented (the full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective transition method). Management has determined to apply the new standards retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2018. Management has completed its quantitative impact analysis and detailed contract reviews in order to determine the new standards impact on the Company's consolidated results of operations and financial condition. Based on work performed, Management believes the new standards will have an impact in the following areas:

- Where the Company charges upfront fees for implementation or set-up activities, including fees charged in preproduction periods, the period over which these fees will be recognized may in some cases be shorter than our current practice.
- The Company may have certain contracts with an implicit price concession. The Company may enter into such implicit price concessions subsequent to the contract inception with the expectation of accepting less than the contractual amount of consideration in exchange for goods or services. Price concessions reduce the transaction price to reflect the consideration that the Company expects to be entitled to after the concession is provided.
- Revenue for certain professional services that are recognized upon completion of the services were evaluated under the new standards and determined that the revenue should be recognized over time.
- Required enhancements to current disclosures around revenue recognition.

Based on the quantitative impact analysis, the transition adjustment calculation upon adoption of the standards was not material to retained earnings. The Company has implemented appropriate changes to its business processes, systems and controls to support recognition and disclosures under the new standards.

During 2016, the FASB issued updated guidance for financial reporting about leasing transactions. The amendments in this Update require a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. In addition, the Update requires that both financing and operating leases be recognized on the balance sheet. The guidance also requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The Company expects to adopt this guidance in the period required by the Update and continues to evaluate the impact that this Update will have on its consolidated financial statements.

During 2016, the FASB issued updated guidance for the measurement of credit losses on financial instruments. The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset or assets to present the net carrying value at the amount expected to be

## EVERTEC, Inc. Notes to Consolidated Financial Statements

collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The Company expects to adopt this guidance in the fiscal period required by this Update and continues to evaluate if the adoption will have an impact on the consolidated financial statements.

### Note 3 – Business Combination

On July 3, 2017, EVERTEC's main operating subsidiary, EVERTEC Group, and EVERTEC Panama, S.A. ("EVERTEC Panama") closed on the direct and indirect acquisition of 100% of the share capital of PayGroup, by entering into a share purchase agreement (*Contrato de Compraventa de Acciones*), by and among EVERTEC Group, EVERTEC Panama, Fondo de Inversión Privado Mater, Inversiones San Bernardo SpA, Asesorías e Inversiones Supernova SpA, Inversiones y Asesorías Bayona Limitada, Inversiones Hagerdorn y Morales Limitada, Christian Hagedorn Hitschfeld and Inversiones Vaimaca Limitada. The PayGroup acquisition expands the Company's presence in Latin America to eight new countries and increases the Company's payment solutions offerings. During the third quarter of 2017, EVERTEC Panama ceased being a shareholder in PayGroup and EVERTEC Group became 100% owner of PayGroup.

The Company accounted for this transaction as a business combination. The following table details the fair value of assets acquired and liabilities assumed from the PayGroup acquisition:

<i>(In thousands)</i>	<b>Assets/Liabilities (at fair value)</b>
Cash and cash equivalents	\$ 1,834
Accounts Receivable	3,778
Prepaid expenses and other assets	535
Property and equipment	1,082
Long-term deferred tax asset	834
Goodwill	26,931
Other intangible assets	19,340
Other long-term assets	499
Total assets acquired	<u>54,833</u>
Accrued liabilities	2,092
Accounts payable	1,965
Unearned income	946
Long-term debt	1,141
Long-term deferred tax liability	2,904
Other long-term liabilities	1,115
Total liabilities assumed	<u>\$ 10,163</u>

The following table details the major groups of intangible assets acquired and the weighted average amortization period for these assets:

<i>(Dollar amounts in thousands)</i>	<b>Amount</b>	<b>Weighted Average Life</b>
Customer Relationships	\$ 9,440	12
Trademark or tradenames	1,760	14
Software packages	8,140	10
Total	<u>\$ 19,340</u>	<u>15</u>

## EVERTEC, Inc. Notes to Consolidated Financial Statements

Refer to Note 9 *Goodwill* for detail of goodwill allocated by operating segments. The goodwill is primarily attributed to increased synergies. None of the goodwill is deductible for income tax purposes.

Revenues and earnings from the PayGroup acquisition were insignificant for the year ended December 31, 2017. Pro forma results of operations have not been presented because the effect of this business combination is not material to the consolidated financial condition and results of operations.

The Company completed two acquisitions in 2016 that were not significant, individually or in the aggregate, a 65% equity interest in Processa, S.A.S, a Colombian payment processing company for \$6.4 million, including a customer relationship of \$3.1 million, and Accuprint, Inc, a data management and printing services company for \$9.7 million, including a customer relationship of \$9.1 million. In connection with the Accuprint, Inc purchase, the Company recorded a contingent liability of \$1.1 million. The results of operations and financial position of these entities are included in the Consolidated Financial Statements from and after the date of acquisition.

### Note 4—Cash and cash equivalents

At December 31, 2017 and 2016, the Company's cash and cash equivalents amounted to \$50.4 million and \$51.9 million, respectively, which are deposited in deposit accounts within financial institutions. Of the total cash balance at December 31, 2017 and 2016, \$30.0 million and \$35.5 million, respectively, resides in subsidiaries located outside of Puerto Rico. Cash deposited in an affiliate financial institution amounted to \$19.6 million and \$7.8 million as of December 31, 2017 and 2016, respectively.

### Note 5—Accounts Receivable, Net

Accounts receivable, net consisted of the following:

<i>(Dollar amounts in thousands)</i>	December 31,	
	2017	2016
Trade	\$ 57,740	\$ 52,663
Due from affiliates, net	18,089	20,971
Settlement assets	8,949	5,938
Other	321	144
Less: allowance for doubtful accounts	(1,771)	(1,913)
Accounts receivable, net	\$ 83,328	\$ 77,803

The Company records settlement assets that result from timing differences in the Company's settlement processes with merchants, financial institutions, and credit card associations related to merchant and card transaction processing. The amounts are generally collected or paid the following business day.

### Note 6—Prepaid Expenses and Other Assets

Prepaid expenses and other assets consisted of the following:

<i>(Dollar amounts in thousands)</i>	December 31,	
	2017	2016
Software licenses and maintenance contracts	\$ 7,008	\$ 8,302
Deferred project costs	3,223	3,113
Guarantee deposits	4,870	3,396
Insurance	1,244	1,272
Prepaid income taxes	1,875	1,362
Taxes other than income	1,551	1,358
Postage	3,068	296
Other	2,172	1,331
Prepaid expenses and other assets	\$ 25,011	\$ 20,430

**Note 7—Investment in Equity Investee**

Consortio de Tarjetas Dominicanas, S.A. (“CONTADO”) is the largest merchant acquirer and ATM network in the Dominican Republic. The Company uses the equity method of accounting to account for its equity interest in CONTADO. As a result of the acquisition in 2011 of CONTADO’s 19.99% equity interest, the Company calculated an excess cost of the investment in CONTADO over the amount of underlying equity in net assets of approximately \$9.0 million, which was mainly attributed to customer relationships, trademark and goodwill intangibles. The Company’s excess basis allocated to amortizable assets is recognized on a straight-line basis over the lives of the appropriate intangibles. Amortization expense for each of the years ended December 31, 2017, 2016 and 2015 amounted to approximately \$0.2 million, \$0.3 million and \$0.3 million, respectively, and was recorded within earnings of equity method investment in the consolidated statements of income and comprehensive income. The Company recognized \$0.6 million, \$(0.1) million and \$0.1 million as equity in CONTADO’s net income, net of amortization, in the consolidated statements of income and comprehensive income for the years ended December 31, 2017, 2016 and 2015, respectively. No dividends were received during 2017, 2016 or 2015.

CONTADO fiscal year ends December 31 and is reported in the consolidated statements of income and comprehensive income for the period subsequent to the acquisition date on a one month lag. No significant events occurred in CONTADO’s operations subsequent to November 30, 2017 that would have materially affected the Company’s reported results.

**Note 8—Property and Equipment, Net**

Property and equipment, net consisted of the following:

<i>(Dollar amounts in thousands)</i>	Useful life in years	December 31,	
		2017	2016
Buildings	30	\$ 1,531	\$ 1,559
Data processing equipment	3 - 5	103,426	105,052
Furniture and equipment	3 - 20	232	7,311
Leasehold improvements	5 -10	2,190	3,057
		107,379	116,979
Less—accumulated depreciation and amortization		(70,793)	(79,431)
Depreciable assets, net		36,586	37,548
Land		1,338	1,382
Property and equipment, net		\$ 37,924	\$ 38,930

Depreciation and amortization expense related to property and equipment was \$14.7 million, \$14.2 million and \$15.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.



**Note 9—Goodwill**

In connection with the change in operating segments in December 2017, the Company reallocated goodwill associated with the operating segments based on their relative fair value. The changes in the carrying amount of goodwill, allocated by operating segments, were as follows (See Note 23):

<i>(Dollar amounts in thousands)</i>	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Balance at December 31, 2015	\$ 160,972	\$ 22,524	\$ 138,121	\$ 46,516	\$ 368,133
Goodwill attributable to acquisition	—	4,991	—	—	4,991
Foreign currency translation adjustments	—	(1,799)	—	(339)	(2,138)
Balance at December 31, 2016	160,972	25,716	138,121	46,177	370,986
Goodwill attributable to acquisition	—	26,931	—	—	26,931
Adjustment to goodwill from prior year acquisition	—	1,099	—	—	1,099
Foreign currency translation adjustments	—	(87)	—	(354)	(441)
Balance at December 31, 2017	<u>\$ 160,972</u>	<u>\$ 53,659</u>	<u>\$ 138,121</u>	<u>\$ 45,823</u>	<u>\$ 398,575</u>

Goodwill is tested for impairment on an annual basis, or more often if events or changes in circumstances indicate there may be impairment. The Company first assesses qualitative factors to determine whether it is necessary to perform the quantitative impairment test. If determined to be necessary, the quantitative impairment test is used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any).

In August of 2017, the Company used the qualitative assessment option. Using this process, the Company first assessed whether it was “more likely than not” that the fair value of a reporting unit was less than its carrying amount. The Company conducted a qualitative assessment of each reporting unit’s fair value as of August 31, 2017. As part of the Company’s qualitative assessment, Management considered the results of the Company’s 2015 quantitative impairment test as well as current market conditions and changes in the carrying amount of the Company’s reporting units that occurred subsequent to the 2015 impairment test. Based on the results of this qualitative assessment, the Company concluded that the fair value of each of the Company’s reporting units continued to exceed their respective carrying amounts and concluded that it was not necessary to conduct the quantitative goodwill impairment test. In September 2017, subsequent to the annual impairment test, Puerto Rico and the Caribbean were hit by hurricanes Irma and Maria, significantly damaging the islands’ infrastructure and communications networks, affecting the ability to transact electronically. As a result, revenues from the Company’s Merchant Acquiring segment and Payment Services - Puerto Rico & Caribbean segment (previously Payment Processing segment) were impacted. Given the severity of the hurricanes, Management analyzed the effects of the event subsequent to its August 31, 2017 analysis. Based on this analysis Management concluded that it was not more likely than not that the fair value of the reporting units was reduced below its carrying amount and that the fair value of each of the Company’s reporting units continued to exceed their respective carrying amounts.

In connection with the goodwill reallocation described above, the Company reperformed its qualitative analysis at November 30, 2017, and concluded that it was not more likely than not that the fair value of the reporting units affected by the reallocation was less than its carrying amount. Subsequent to the change in operating segments, the Company performed a quantitative analysis for the reporting units affected by the reallocation that indicated that the estimated fair value of the reporting units exceeded their carrying value. Accordingly, no impairment losses for the period were recognized. The annual impairment test will continue to be in August.

For 2016, the Company used a qualitative assessment for the goodwill impairment test and concluded that it was more likely than not that the fair value of the reporting units continued to exceed their carrying value.

**Note 10—Other Intangible Assets, Net**

The carrying amount of other intangible assets consisted of the following:

*(Dollar amounts in thousands)*

	Useful life in years	December 31, 2017		
		Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	\$ 344,175	\$ (168,134)	\$ 176,041
Trademark	2 - 15	41,594	(25,241)	16,353
Software packages	3 -10	195,262	(136,907)	58,355
Non-compete agreement	15	56,539	(27,327)	29,212
Other intangible assets, net		<u>\$ 637,570</u>	<u>\$ (357,609)</u>	<u>\$ 279,961</u>

*(Dollar amounts in thousands)*

	Useful life in years	December 31, 2016		
		Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	\$ 334,455	\$ (141,829)	\$ 192,626
Trademark	10 - 15	39,950	(21,650)	18,300
Software packages	3 -10	176,267	(121,055)	55,212
Non-compete agreement	15	56,539	(23,558)	32,981
Other intangible assets, net		<u>\$ 607,211</u>	<u>\$ (308,092)</u>	<u>\$ 299,119</u>

Amortization expense related to intangibles, including software packages, was \$49.5 million, \$45.4 million and \$49.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. Amortization expense related to software packages was \$15.9 million, \$14.3 million and \$20.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. The estimated amortization expenses of balances outstanding at December 31, 2017 for the next five years are as follows:

*(Dollar amounts in thousands)*

2018	\$ 46,204
2019	42,334
2020	37,180
2021	33,393
2022	31,823

During the third quarter of 2017, the Company recognized an impairment charge of \$6.5 million through cost of revenues for a third party software solution that is no longer commercially viable. In connection with this exit activity, the Company accrued \$5.3 million for ongoing contractual fees, also through cost of revenues and recognized maintenance expense of \$1.0 million. Both the liability and the impairment charge affected the Company's Merchant Acquiring segment and Payment Services segments. In the fourth quarter of 2017, the Company recognized an impairment loss related to a multi-year software development project that was impacted by delays caused by the hurricane and projected increased costs with a third party vendor, amounting to \$5.0 million through cost of revenues and is in the Company's Payment Services - Puerto Rico & Caribbean segment. The fair value of the impaired assets was determined using discounted cash flow models.

**Note 11—Other Long-Term Assets**

As of December 31, 2017, other long-term assets included \$1.0 million related to deferred debt-issuance costs related to the revolving credit facility, \$1.6 million related to the long-term portion of certain software and maintenance contracts, \$0.7 million relating to the long-term portion of certain lease receivables, deferred tax asset of \$1.0 million and a derivative asset of \$0.2 million.

**EVERTEC, Inc. Notes to Consolidated Financial Statements**

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As of December 31, 2016, other long-term assets included \$1.9 million related to deferred debt-issuance costs related to the revolving credit facility, \$2.3 million related to the long-term portion of certain software and maintenance contracts, deferred tax asset of \$0.8 million and \$1.1 million relating to the long-term portion of certain lease receivables.

**Note 12—Debt and Short-Term Borrowings**

Total debt was as follows:

<i>(Dollar amounts in thousands)</i>	December 31,	
	2017	2016
Senior Secured Credit Facility (2018 Term A) due on April 17, 2018 paying interest at a variable interest rate (London InterBank Offered Rate (“LIBOR”) plus applicable margin <sup>(1)(3)</sup> )	\$ 26,690	\$ 28,721
Senior Secured Credit Facility (2020 Term A) due on January 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin <sup>(3)(4)</sup> )	200,653	212,661
Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin <sup>(2)(3)</sup> )	376,395	378,074
Senior Secured Revolving Credit Facility <sup>(6)</sup>	12,000	28,000
Note Payable due on October 1, 2017 <sup>(3)</sup>	—	1,524
Note Payable due on July 31, 2017 <sup>(3)</sup>	—	357
Note Payable due on August 31, 2019 <sup>(5)</sup>	584	890
Note Payable due on April 30, 2021 <sup>(3)</sup>	418	532
Total debt	\$ 616,740	\$ 650,759

(1) Applicable margin of 2.25% at December 31, 2017 and December 31, 2016.

(2) Subject to a minimum rate (“LIBOR floor”) of 0.75% plus applicable margin of 2.50% at December 31, 2017 and December 31, 2016.

(3) Net of unaccreted discount and unamortized debt issue costs, as applicable.

(4) Applicable margin of 2.50% at December 31, 2017 and December 31, 2016.

(5) Fixed interest rate of 7.50%.

(6) Applicable margin of 2.50% at December 31, 2017 and December 31, 2016.

The following table presents contractual principal payments for the next five years:

<i>(Dollar amounts in thousands)</i>	
2018	\$ 58,950
2019	24,952
2020	540,820
2021	45
2022	—

*Senior Secured Credit Facilities*

On April 17, 2013, EVERTEC Group entered into a credit agreement (the “2013 Credit Agreement”) governing the senior secured credit facilities, consisting of a \$300.0 million term loan A facility (the “Term A Loan”), a \$400.0 million term loan B facility (the “Term B Loan”, together with the Term A Loan, the “Senior Secured term loans”) and a \$100.0 million revolving credit facility (the “Revolving Facility”).

During 2016, the Company entered into two separate amendments to the 2013 Credit Agreement. In the second quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver to the outstanding Credit Agreement (the “Second Amendment”). The Company paid each lender that consented to the amendment a fee equal to 0.50% of the aggregate principal amount of outstanding term loans and revolving commitments held by such lender. The credit amendment fees paid during the second quarter of 2016 amounted to \$3.6 million.

In the fourth quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a third amendment (the “Third Amendment”) to the 2013 Credit Agreement. The Third Amendment extends the maturity of (a) approximately \$219 million of EVERTEC Group’s existing approximately \$250 million of Term A loan facility to January 17, 2020 (the “2020 Term A loan”) and (b) \$65 million of EVERTEC Group’s existing \$100 million of revolving credit facility to January 17, 2020. The remaining approximately \$30 million of Term A loan (the “2018 Term A loan”) and the

\$35 million of revolving credit facility that were not extended will remain in place and mature as originally scheduled on April 17, 2018. The Term B loan facility will remain in place and mature as originally scheduled on April 17, 2020.

Under the terms of the Third Amendment, the 2018 Term A Loan amortizes on a basis of 1.875% of the original principal amount beginning in the third quarter of 2016 and during each of the next three quarters, and 2.50% of the original principal amount during each of the final three quarters, with the balance payable on the final maturity date. The 2020 Term A Loan amortizes on a basis of 1.50% of the original principal amount beginning in the fourth quarter of 2016 and during each of the next five quarters, 1.875% of the original principal amount during each of the four subsequent quarters, and 2.50% of the original principal amount during each of the final three quarters, with the balance payable on the final maturity date. Principal payments for the Term B Loan were not changed by the Third Amendment and continues to require payments on the last business day of each quarter equal to 0.250% of the original principal amount and the remaining outstanding principal amount on the maturity of the Term B Loan.

The applicable margin under the 2013 Credit Agreement is based on, at EVERTEC Group's option, (i) with respect to any 2018 Term A Loan, 2.50% per annum in the case of any LIBOR Loan and 1.50% per annum in the case of any Alternate Base Rate ("ABR"), as defined in the 2013 Credit Agreement, subject to reduction based on achievement of specific first lien secured leverage ratios, (ii) with respect to any 2020 Term A Loan, 2.50% per annum in the case of any LIBOR Loan and 1.50% per annum in the case of any ABR Loan, (iii) with respect to any Term B Loan, 2.75% per annum in the case of any LIBOR Loan and 1.75% per annum in the case of any ABR Loan subject to reduction based on achievement of specific first lien secured leverage ratios, and (iv) with respect to any revolving credit facility, (A) 2.50% per annum in the case of any LIBOR Loan and (B) 1.50% per annum in the case of any ABR Loan.

The revolving credit facility interest rate is calculated the same as the 2020 Term A Loan rate and has a "commitment fee" payable one business day after the last business day of each quarter calculated based on the daily unused commitment during the preceding quarter. The commitment fee for the unused portion of this facility ranges from 0.125% to 0.375% and is based on EVERTEC Group's first lien secured net leverage ratio.

All loans may be prepaid without premium or penalty.

The senior secured credit facilities contain various restrictive covenants. As a result of the Third Amendment, the Term A Loan and the revolving credit facility (subject to certain exceptions) require the Company to maintain on a quarterly basis a specified maximum senior secured leverage ratio of up to 4.75 to 1.00 as defined in the 2013 Credit Agreement (total first lien secured debt to adjusted EBITDA per the 2013 Credit Agreement) until September 30, 2018 and 4.25 to 1.00 for any fiscal quarter ending thereafter. In addition, substantially all of the Company's assets are pledged to secure the Company's obligations under the 2013 Credit Agreement and, among other things, the 2013 Credit Agreement: (a) limits the Company's ability and the ability of the Company's subsidiaries to incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments, as all net assets are restricted, and enter into certain transactions with affiliates; (b) restricts the Company's ability to enter into agreements that would restrict the ability of the Company's subsidiaries to pay dividends or make certain payments to EVERTEC; and (c) places restrictions on the Company's ability and the ability of the Company's subsidiaries to merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of the Company's assets.

The unpaid principal balance at December 31, 2017 of the 2018 Term A Loan, the 2020 Term A Loan and the Term B Loan was \$26.9 million, \$202.9 million and \$382.0 million, respectively. The additional borrowing capacity for the Revolving Facility loan at December 31, 2017 was \$88.0 million.

#### *Notes payable*

In December 2014, June 2015 and May 2016, EVERTEC Group entered into non-interest bearing financing agreements amounting to \$4.6 million, \$1.1 million, and \$0.7 million, respectively, and in October 2016 entered into an interest bearing agreement of \$1.1 million, to purchase software. As of December 31, 2017 and December 31, 2016, the outstanding principal balance of the notes payable is \$1.0 million and \$3.4 million, respectively. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.



## EVERTEC, Inc. Notes to Consolidated Financial Statements

### Interest Rate Swap

At December 31, 2017 and 2016, the Company has the following interest rate swap agreement converting a portion of the interest rate exposure on the Company's Term B Loan from variable to fixed:

Effective date	Maturity Date	Notional Amount	Variable Rate	Fixed Rate
January 2017	April 2020	\$200 million	1-month LIBOR	1.9225%

The Company has accounted for this transaction as a cash flow hedge. The fair value of the Company's derivative instrument is determined using a standard valuation model. The significant inputs used in this model are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2 within the fair value hierarchy. Inputs used in this standard valuation model for derivative instruments include the applicable forward rates and discount rates. The discount rates are based on the historical LIBOR Swap rates.

As of December 31, 2017 and December 31, 2016, the carrying amount of the derivative on the Company's balance sheets is as follows:

<i>(Dollar amounts in thousands)</i>	December 31, 2017	December 31, 2016
Other long-term assets	\$ 214	\$ —
Other long-term liabilities	—	1,964

During the year ended December 31, 2017, the Company reclassified losses of \$1.6 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify \$0.9 million from accumulated other comprehensive loss into income through interest expense over the next 12 months. Refer to Note 13 for tabular disclosure of the fair value of the derivative and to Note 15 for tabular disclosure of gains recorded on cash flow hedging activities.

The cash flow hedge is considered highly effective and no impact on earnings is expected due to hedge ineffectiveness.

### Note 13—Financial Instruments and Fair Value Measurements

#### Recurring Fair Value Measurements

Fair value measurement provisions establish a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These provisions describe three levels of input that may be used to measure fair value:

**Level 1:** Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

**Level 2:** Inputs, other than quoted prices included in Level 1, which are observable for the asset or liability through corroboration with market data at the measurement date.

**Level 3:** Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The Company uses observable inputs when available. Fair value is based upon quoted market prices when available. If market prices are not available, the Company may employ models that mostly use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. The Company limits valuation adjustments to those deemed necessary to ensure that the financial instrument's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment.

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value estimates are made at a specific point in

## EVERTEC, Inc. Notes to Consolidated Financial Statements

time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

The following table summarizes fair value measurements by level at December 31, 2017 and 2016, for assets and liabilities measured at fair value on a recurring basis:

<i>(Dollar amounts in thousands)</i>	Level 1		Level 2		Level 3		Total
<b>December 31, 2017</b>							
Financial asset:							
Interest rate swap	\$	—	\$	214	\$	—	\$ 214
<b>December 31, 2016</b>							
Financial liability:							
Interest rate swap	\$	—	\$	1,964	\$	—	\$ 1,964

### Derivative Instruments

The fair value of the Company's derivative instrument is determined using a standard valuation model. The significant inputs used in these models are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2. Inputs used in these standard valuation models for derivative instruments include the applicable forward rates and discount rates. The discount rates are based on the historical LIBOR Swap rates.

The following table presents the carrying value, as applicable, and estimated fair values for financial instruments at December 31, 2017 and 2016:

<i>(Dollar amounts in thousands)</i>	December 31,			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Interest rate swap	\$ 214	\$ 214	\$ —	\$ —
Financial liabilities:				
Interest rate swap	—	—	1,964	1,964
Senior Secured Term B Loan	376,395	370,540	378,074	383,491
2018 Term A Loan	26,690	26,027	28,721	29,268
2020 Term A Loan	200,653	196,584	212,661	213,872

The fair value of the senior secured term loans at December 31, 2017 and 2016 was obtained using the prices provided by third party service providers. Their pricing is based on various inputs such as: market quotes, recent trading activity in a non-active market or imputed prices. Also, the pricing may include the use of an algorithm that could take into account movement in the general high yield market, among other variants.

The senior secured term loans, which are not measured at fair value in the balance sheets, if measured, would be categorized as Level 3 in the fair value hierarchy.

There were no transfers in or out of Level 3 during the years ended December 31, 2017, 2016 and 2015.

### Note 14—Other Long Term Liabilities

As of December 31, 2017, other long-term liabilities mainly consists of unrecognized tax benefit liabilities and the long-term portion of notes payables of \$13.0 million.

As of December 31, 2016, other long-term liabilities mainly consists of unrecognized tax benefit liabilities and the long-term portion of notes payables of \$14.4 million and derivative liability of \$2.0 million.

**Note 15—Equity**

The Company is authorized to issue up to 206,000,000 shares of common stock of \$0.01 par value. At December 31, 2017 and 2016, the Company had 72,393,933 and 72,635,032 shares outstanding, respectively. The Company is also authorized to issue 2,000,000 shares of \$0.01 par value preferred stock. As of December 31, 2017, no shares of preferred stock have been issued.

*Stock Repurchase*

In 2017, 2016 and 2015, the Company repurchased a total of 0.5 million, 2.5 million and 3.0 million shares, respectively, at a cost of \$7.7 million, \$39.9 million and \$54.9 million. The Company funded such repurchases with cash on hand and borrowings to the existing revolving credit facility. As of December 31, 2017, 2016 and 2015, the repurchased shares were permanently retired.

*Dividends*

Historically, the Company paid a regular quarterly dividend on the Company's common stock, subject to the declaration thereof each quarter by the Company's Board of Directors (the "Board"). On November 2, 2017, the Board voted to temporarily suspend the quarterly dividend on the Company's common stock due to the difficult operating environment in Puerto Rico. The Board anticipates reviewing the dividend policy as conditions stabilize in Puerto Rico. Future dividend declarations are subject to Board of Directors' approval and may be adjusted based on business needs or as market conditions change.

The Company's dividend activity in 2017 and 2016 was as follows:

Declaration Date	Record Date	Payment Date	Dividend per share
February 17, 2016	February 29, 2016	March 17, 2016	0.10
May 11, 2016	May 23, 2016	June 10, 2016	0.10
July 28, 2016	August 9, 2016	September 2, 2016	0.10
October 27, 2016	November 14, 2016	December 2, 2016	0.10
February 17, 2017	March 1, 2017	March 20, 2017	0.10
April 27, 2017	May 8, 2017	June 9, 2017	0.10
July 25, 2017	August 7, 2017	September 8, 2017	0.10

*Accumulated Other Comprehensive income*

The following table provides a summary of the changes in the balances comprising accumulated other comprehensive loss for the years ended December 31, 2017 and 2016:

	Foreign Currency Translation Adjustments	Cash Flow Hedge	Total
Balance—December 31, 2015	\$ (7,067)	\$ (515)	\$ (7,582)
Other comprehensive loss before reclassifications	(3,360)	(1,449)	(4,809)
Balance—December 31, 2016	(10,427)	(1,964)	(12,391)
Other comprehensive (loss) income before reclassifications	(635)	580	(55)
Effective portion reclassified to Net Income	\$ —	\$ 1,598	1,598
Balance—December 31, 2017	\$ (11,062)	\$ 214	\$ (10,848)

**Note 16—Share-based Compensation**

*Long-term Incentive Plan ("LTIP")*

In the first quarter of 2015, 2016 and 2017, the Compensation Committee of the Board of Directors approved grants of restricted stock units ("RSUs") to executives and certain employees pursuant to the 2015 LTIP, 2016 LTIP and 2017 LTIP, respectively, all under the terms of our 2013 Equity Incentive Plan. Additionally, in the fourth quarter of 2017, a special

retention grant to certain executives and employees of the Company was approved. Under the LTIPs, the Company granted restricted stock units to eligible participants as time-based awards and/or performance-based awards.

The vesting of the RSUs is dependent upon service, market, and/or performance conditions as defined in the grants. Employees that received time-based awards with service conditions are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the employee is providing services to the Company on the vesting date. Time-based awards granted in the first quarter of each year vest over a period of three years in substantially equal installments commencing on the start of the fiscal year during which the RSUs were granted or on the grant date and ending on January 1 of each year for the 2015 LTIP, on February 19 of each year for the 2016 LTIP and on February 24 of each year for the 2017 LTIP. The award granted in the fourth quarter of 2017 vests 40% in the second year and 60% in the third year.

Employees that received awards with market conditions under the 2015 and 2016 LTIPs are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the Company's total shareholder return ("TSR") target relative to a specified group of industry peer companies is achieved. Employees that received awards with performance conditions are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the Cumulative Annual Growth Rate ("CAGR") of Diluted EPS target over three years is achieved for the 2015 LTIP. For the 2016 LTIP, the CAGR EPS RSUs was based on the Company's actual one-year diluted EPS measured over the period commencing on January 1, 2016 and ending on December 31, 2016, relative to the goals set by the Compensation Committee. The shares earned according to the plan are further subject to a two-year service vesting period. For the performance-based awards under the 2017 LTIP, the Compensation Committee established Adjusted EBITDA as the primary performance measure while maintaining focus on total shareholder return through the use of a market-based TSR performance modifier. The TSR modifier adjusts the shares earned based on the core Adjusted EBITDA performance upwards or downwards (+/- 25%) based on the Company's relative TSR at the end of the three-year performance period as compared to the companies in the Russell 2000 Index. The Adjusted EBITDA performance measure will be calculated for the one-year period commencing on January 1, 2017 and ending on December 31, 2017, relative to the goals set by the Compensation Committee for this same period. The shares earned will be subject to a further two-year service vesting period.

Performance and market-based awards vest at the end of the performance period that commenced on January 1, 2015 for the 2015 LTIP, February 19, 2016 for the 2016 LTIP and February 24, 2017 for the 2017 LTIP. The periods end respectively on January 1, 2018 for the 2015 LTIP, February 19, 2019 for the 2016 LTIP and February 24, 2020 for the 2017 LTIP. Awards are forfeited if the employee voluntarily ceases to be employed by the Company prior to vesting.

The following table summarizes the stock options activity for the years ended December 31, 2017, 2016 and 2015:

	Shares	Weighted-average exercise prices
Outstanding at December 31, 2014	316,000	\$ 19.56
Expired	(50,000)	23.36
Forfeitures	(126,000)	18.81
Outstanding at December 31, 2015	140,000	18.88
Forfeitures	(33,333)	24.01
Exercised	(20,000)	6.04
Expired	(66,667)	21.01
Outstanding at December 31, 2016	20,000	6.04
Exercised <sup>(1)</sup>	(20,000)	6.04
Outstanding at December 31, 2017	—	—
Exercisable at December 31, 2017	—	\$ —

(1) The total intrinsic value of options exercised during the year amounted to \$0.2 million.

## EVERTEC, Inc. Notes to Consolidated Financial Statements

The following table presents information about fully vested stock options that were outstanding for the years ended December 31, 2017, 2016 and 2015:

	Years ended December 31,					
	2017		2016		2015	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Vested stock options <sup>(1)(2)(3)</sup>	—	\$ —	—	\$ —	33,333	\$ 24.01

- (1) For December 31, 2015 there is no intrinsic value for vested stock options as the options are out-of-the-money.  
(2) The weighted average contractual term of fully vested options is 8.16 years as of December 31, 2015.  
(3) The fair value of vested stock options at December 31, 2015 amounted to \$1.4 million.

The following table summarizes the nonvested restricted shares and RSUs activity for the years ended December 31, 2017, 2016 and 2015:

Nonvested restricted shares and RSUs	Shares	Weighted-average grant date fair value
Nonvested at December 31, 2014	23,252	\$ 22.04
Granted	596,238	22.24
Vested	(94,550)	21.33
Forfeited	(33,214)	23.61
Nonvested at December 31, 2015	491,726	22.32
Granted	907,320	12.02
Vested	(154,820)	20.97
Forfeited	(31,862)	18.61
Nonvested at December 31, 2016	1,212,364	14.88
Granted	1,584,241	15.37
Vested	(315,953)	15.30
Forfeited	(139,760)	16.06
Nonvested at December 31, 2017	2,340,892	\$ 15.08

Share-based compensation recognized was as follows:

	Years ended December 31,		
	2017	2016	2015
<i>(Dollar amounts in thousands)</i>			
Share-based compensation recognized, net			
Stock options	\$ 6	\$ 60	\$ 192
Restricted shares and RSUs	9,636	6,355	5,010

The maximum unrecognized cost for restricted stock units was \$23.0 million as of December 31, 2017. The cost is expected to be recognized over a weighted average period of 2.26 years.

### Note 17—Employee Benefit Plan

EVERTEC, Inc. Puerto Rico Savings and Investment plan (“the EVERTEC Savings Plan”) was established in 2010, as a defined contribution savings plan qualified under section 1165(e) of the Puerto Rico Internal Revenue Code. Investments in the plan are participant directed, and employer matching contributions are determined based on specific provisions of the EVERTEC Savings Plan. Employees are fully vested in the employer’s contributions after five years of service. For the years ended December 31, 2017, 2016 and 2015, the costs incurred under the plan amounted to approximately \$0.7 million, \$0.7 million and \$0.8 million, respectively.



**Note 18—Total Other Income, net**

For the year ended December 31, 2017, other income, net is primarily comprised of \$2.6 million in foreign currency transaction gains.

For the year ended December 31, 2016, other income, net is primarily comprised of \$1.9 million in foreign currency transaction gains and a \$1.5 million loss on extinguishment of debt.

For the year ended December 31, 2015, other income, net is primarily comprised of \$1.2 million in foreign currency transaction gains, \$0.2 million in gains related to adjustments made to software indemnification assets during the year, \$0.4 million in sales rebates granted to EVERTEC and a \$0.2 million gain related to certain refurbished POS machines.

**Note 19—Income Tax**

On April 17, 2012, EVERTEC Group and Holdings were converted from a Puerto Rico corporation into Puerto Rico limited liability companies to benefit from changes to the Puerto Rico Income Tax Code allowing limited liability companies to be treated as partnerships that are pass-through entities for Puerto Rico tax purposes. As a result of these conversions and subsequent elections to be treated as partnerships, EVERTEC Group’s and Holding’s taxable income flows through to EVERTEC, Inc.

EVERTEC Group, Holdings and EVERTEC, Inc. entered into a Tax Payment Agreement pursuant to which EVERTEC Group is obligated to make certain payments to Holdings or EVERTEC, Inc. for taxable periods or portions thereof occurring on or after April 17, 2012 (the “Effective Date”). Under the Tax Payment Agreement, EVERTEC Group will make payments with respect to any and all taxes (including estimated taxes) imposed under the laws of Puerto Rico, the United States of America and any other jurisdiction or any political (including municipal) subdivision or authority or agency in Puerto Rico, the United States of America or such other jurisdiction, that would have been imposed on EVERTEC Group if EVERTEC Group had been a corporation for tax purposes of that jurisdiction, together with all interest and penalties with respect thereto (“Taxes”), reduced by taking into account any applicable net operating losses or other tax attributes of Holdings or EVERTEC, Inc. that reduce Holdings’ or EVERTEC, Inc.’s taxes in such period. The Tax Payment Agreement provides that the payments thereunder shall not exceed the net amount of Taxes that Holdings and EVERTEC, Inc. actually owe to the appropriate taxing authority for a taxable period. Further, the Tax Payment Agreement provides that if Holdings or EVERTEC, Inc. receives a tax refund attributable to any taxable period or portion thereof occurring on or after the Effective Date, EVERTEC, Inc. shall be required to recalculate the payment for such period required to be made by EVERTEC Group to Holdings or EVERTEC, Inc. If the payment, as recalculated, is less than the amount of the payment EVERTEC Group already made to Holdings or EVERTEC, Inc. in respect of such period, Holdings or EVERTEC, Inc. shall promptly make a payment to EVERTEC Group in the amount of such difference.

The components of income tax expense (benefit) consisted of the following:

	Years ended December 31,		
	2017	2016	2015
<i>(Dollar amounts in thousands)</i>			
Current tax provision (benefit)	\$ 9,086	\$ 12,865	\$ (245)
Deferred tax benefit	(4,306)	(4,594)	(3,090)
Income tax expense (benefit)	<u>\$ 4,780</u>	<u>\$ 8,271</u>	<u>\$ (3,335)</u>

## EVERTEC, Inc. Notes to Consolidated Financial Statements

The Company conducts operations in Puerto Rico and certain countries throughout the Caribbean and Latin America. As a result, the income tax expense (benefit) includes the effect of taxes paid to the Puerto Rico government as well as foreign jurisdictions. The following table presents the segregation of income tax expense (benefit) based on location of operations:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2017	2016	2015
<b>Income before income tax provision</b>			
Puerto Rico	\$ 47,347	\$ 70,899	\$ 73,327
United States	3,089	2,670	1,879
Foreign countries	9,763	9,828	6,836
Total income before income tax provision	<u>\$ 60,199</u>	<u>\$ 83,397</u>	<u>\$ 82,042</u>
<b>Current tax provision (benefit)</b>			
Puerto Rico	\$ 1,892	\$ 7,072	\$ (3,500)
United States	292	567	413
Foreign countries	6,902	5,226	2,842
Total current tax provision (benefit)	<u>\$ 9,086</u>	<u>\$ 12,865</u>	<u>\$ (245)</u>
<b>Deferred tax benefit</b>			
Puerto Rico	\$ (3,176)	\$ (2,874)	\$ (2,169)
United States	(184)	(259)	(114)
Foreign countries	(946)	(1,461)	(807)
Total deferred tax benefit	<u>\$ (4,306)</u>	<u>\$ (4,594)</u>	<u>\$ (3,090)</u>

Taxes payable to foreign countries by EVERTEC's subsidiaries will be paid by such subsidiary and the corresponding liability and expense will be presented in EVERTEC's consolidated financial statements.

As of December 31, 2017, the Company has \$35.3 million of unremitted earnings from foreign subsidiaries. The Company has not recognized a deferred tax liability on undistributed earnings for the Company's foreign subsidiaries because these earnings are intended to be indefinitely reinvested. The amount of the unrecognized deferred tax liability depends on judgment required to analyze the withholding tax due, the applicable tax law and factual circumstances in effect at the time of any such distributions, therefore, EVERTEC believes it is not practicable at this time to reliably determine the amount of unrecognized deferred tax liability related to the Company's undistributed earnings. If circumstances change and it becomes apparent that some or all of the undistributed earnings of a subsidiary will be remitted and income taxes have not been recognized by the parent entity, the parent entity shall accrue as an expense of the current period income taxes attributable to that remittance.

On June 27, 2017 the Company received a one-time repatriation of cash from a foreign subsidiary of \$8.9 million to partially fund the acquisition of PayGroup. This distribution was subject to withholding at source of 15% in the country of origin and accordingly the Company recognized current foreign income tax expense of \$1.3 million. No Puerto Rico income tax expense was recorded in connection with this distribution because of the availability to credit foreign taxes paid. The Company believes that this one time repatriation of existing funds from a foreign subsidiary does not prohibit applying the indefinite reinvestment exception to the remaining undistributed earnings because Management has sufficient evidence of specific plans to continue reinvesting the foreign subsidiary's undistributed earnings.

On October 19, 2012, EVERTEC Group was granted an additional tax exemption under the Tax Incentive Act No. 73 of 2008. Under this grant, EVERTEC Group will benefit from a preferential income tax rate on industrial development income, as well as from tax exemptions with respect to its municipal and property tax obligations for certain activities derived from its data processing operations in Puerto Rico. The grant has a term of 15 years effective as of January 1, 2012 with respect to income tax obligations and January 1, 2013 with respect to municipal and property tax obligations.

The grant establishes a base taxable income amount with respect to EVERTEC Group's industrial development income, which amount will continue to be subject to the ordinary income tax rate under existing law. Applicable taxable income in excess of the established base taxable income amount will be subject to a preferential rate of 4%. The base taxable income amount will be ratably reduced to zero by the fourth taxable year at which point all of EVERTEC Group's applicable industrial development income will be taxed at the preferential rate of 4% for the remaining period of the grant.

## EVERTEC, Inc. Notes to Consolidated Financial Statements

The grant contains customary commitments, conditions and representations that EVERTEC Group will be required to comply with in order to maintain the grant. The more significant commitments include: (i) maintaining at least 750 employees in EVERTEC Group's Puerto Rico data processing operations during 2012 and at least 700 employees for the remaining years of the grant, (ii) investing at least \$200.0 million in building, machinery, equipment or computer programs to be used in Puerto Rico during the effective term of the grant (to be made over four year capital investment cycles in \$50.0 million increments); and (iii) 80% of EVERTEC Group employees must be residents of Puerto Rico. Failure to meet the requirements could result, among other things, in reductions in the benefits of the grant or revocation of the grant in its entirety, which could result in EVERTEC, Inc. paying additional taxes or other payments relative to what such parties would be required to pay if the full benefits of the grant are available.

On October 11, 2011, the Puerto Rico Government approved a grant under Tax Incentive Law No. 73 of 2008, retroactively to December 1, 2009. Under this grant, activities derived from consulting and data processing services provided outside Puerto Rico are subject to a preferred rate that declines gradually from 7% to 4% by December 1, 2013. After this date, the rate remains at 4% until its expiration in November 1, 2024.

In addition, EVERTEC Group has a base tax rate of 7% on income derived from certain development and installation service in excess of a determined income for a 10-year period from January 1, 2008. The Company filed an application for extension of the grant together with the required supplementary documentation with the Puerto Rico Industrial Development Company in November of 2017.

The following table presents the components of the Company's deferred tax assets and liabilities:

<i>(Dollar amounts in thousands)</i>	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Deferred tax assets ("DTA")</b>		
Allowance for doubtful accounts	\$ 195	\$ 265
Unearned income	3,136	2,023
Investment in equity subsidiary	447	385
Alternative minimum tax	51	176
Share-based compensation	1,208	697
Debt Issuance Costs	69	127
General Reserves	505	474
Derivative Liability	—	172
Accrual of contract maintenance cost	472	—
Impairment of asset	425	—
Other temporary assets	1,754	704
Total gross deferred tax assets	8,262	5,023
<b>Deferred tax liabilities ("DTL")</b>		
Deferred compensation	1,617	1,458
Difference between the assigned values and the tax basis of assets and liabilities recognized in purchase	19,124	17,738
Other temporary liabilities	353	—
Total gross deferred tax liabilities	21,094	19,196
Deferred tax liability, net	\$ (12,832)	\$ (14,173)

Pursuant to the provision of the PR Code, net operating losses ("NOL") can be carried forward for a period of seven, ten or twelve taxable years, depending on the taxable year generated. Act 72 of May 29, 2015, limited the amount of NOLs deduction to 80% for regular tax and 70% for AMT for the taxable year ended December 31, 2017. At December 31, 2017, the Company no longer has NOL carryforwards for tax purposes.

The Company recognizes the benefit of uncertain tax positions ("UTPs") only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty

## EVERTEC, Inc. Notes to Consolidated Financial Statements

percent likelihood of being realized upon ultimate settlement. During the third quarter of 2017, the Company decreased a previously recorded potential liability for uncertain tax positions by \$4.5 million, as a result of the expiration of the statute of limitations.

The following is a tabular reconciliation of the total amounts of UTPs:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2017	2016	2015
Balance, beginning of year	\$ 12,219	\$ 12,847	\$ 19,859
Gross increases—tax positions in prior period	—	—	53
Gross decreases—tax positions in prior period	—	(345)	—
Lapse of statute of limitations	(3,071)	(283)	(7,065)
Balance, end of year	\$ 9,148	\$ 12,219	\$ 12,847

As of December 31, 2017, 2016 and 2015, approximately \$9.1 million, \$12.2 million and \$12.2 million, respectively, would affect the Company's effective income tax rate, if recognized.

The Company recognizes interest and penalties related to UTB as part of income tax expense. During the years ended December 31, 2017, 2016 and 2015, the Company recognized an income tax benefit of \$0.8 million, an income tax expense of \$0.7 million and an income tax benefit of \$2.0 million, respectively, related to interest and penalties. The amount accrued for interest and penalties at December 31, 2017 and 2016 was \$1.2 million, and \$2.0 million, respectively. The Company anticipates changes to the UTBs within the next 12 months to be primarily related to interest. The Company believes it has sufficient accruals for contingent tax liabilities.

In connection with tax return examinations, contingencies can arise that generally result from different interpretations of tax laws and regulations as they pertain to the amount, timing or inclusion of revenues and expenses in taxable income, or the ability to utilize tax credits to reduce income taxes payable. While it is probable, based on the potential outcome of the Company's Puerto Rico and foreign tax examinations or the expiration of the statute of limitations for specific jurisdictions, that the liability for UTBs may increase or decrease within the next twelve months, the Company does not expect any such change would have a material effect on our financial condition, results of operations or cash flow.

The Company and its subsidiaries are subject to Puerto Rico income tax as well as income tax of multiple foreign jurisdictions. A significant majority of the income tax is from Puerto Rico with a statute of limitations of four years after filing the income tax returns; therefore, the income tax returns for 2013, 2014, 2015, and 2016 are currently open for examination.

The income tax expense differs from the amount computed by applying the Puerto Rico statutory income tax rate to the income (loss) before income taxes as a result of the following:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2017	2016	2015
Computed income tax at statutory rates	\$ 23,477	\$ 32,525	\$ 31,996
Benefit of net tax-exempt interest income	(56)	(52)	(284)
Differences in tax rates due to multiple jurisdictions	2,353	32	37
Tax (benefit) expense due to a change in estimate	(334)	258	(201)
Effect of income subject to tax-exemption grant	(16,832)	(24,866)	(23,375)
Unrecognized tax (benefit) expense	(3,828)	373	(11,626)
Effect of disallowed operating losses in foreign entities	—	—	103
Other	—	1	15
Income tax expense (benefit)	\$ 4,780	\$ 8,271	\$ (3,335)

**Note 20—Net Income Per Common Share**

The reconciliation of the numerator and the denominator of the earnings per common share is as follows:

<i>(Dollar amounts in thousands, except share and per share data)</i>	Years ended December 31,		
	2017	2016	2015
Net income	\$ 55,054	\$ 75,036	\$ 85,377
Less: non-forfeitable dividends on restricted stock	10	12	9
Net income available to common shareholders	\$ 55,044	\$ 75,024	\$ 85,368
Weighted average common shares outstanding	72,479,807	74,132,863	77,066,459
Weighted average potential dilutive common shares <sup>(1)</sup>	392,381	340,506	114,664
Weighted average common shares outstanding—assuming dilution	72,872,188	74,473,369	77,181,123
Net income per common share—basic	\$ 0.76	\$ 1.01	\$ 1.11
Net income per common share—diluted	\$ 0.76	\$ 1.01	\$ 1.11

- (1) Potential common shares consist of common stock issuable under the assumed exercise of stock options and RSUs awards using the treasury stock method.

Refer to Note 15 for a detail of dividends declared and paid during 2017 and 2016.

**Note 21—Related Party Transactions**

The following table presents the Company's transactions with related parties for each of the periods presented below:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2017	2016	2015
<b>Total revenues</b> <sup>(1)(2)</sup>	\$ 177,213	\$ 176,473	\$ 169,433
<b>Cost of revenues</b>	\$ 2,929	\$ 2,180	\$ 1,701
<b>Rent and other fees</b>	\$ 7,803	\$ 8,110	\$ 7,880
<b>Interest earned from and charged by affiliate</b>			
Interest income	\$ 154	\$ 211	\$ 206

- (1) Total revenues from Popular as a percentage of revenues were 43%, 45% and 45% for each of the periods presented above.
- (2) Includes revenues generated from investee accounted for under the equity method of \$1.8 million, \$2.1 million and \$2.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.



## EVERTEC, Inc. Notes to Consolidated Financial Statements

At December 31, 2017 and 2016, the Company had the following balances arising from transactions with related parties:

<i>(Dollar amounts in thousands)</i>	December 31,	
	2017	2016
Cash and restricted cash deposits in affiliated bank	\$ 23,227	\$ 15,918
Other due/to from affiliate		
Accounts receivable	\$ 18,073	\$ 21,461
Prepaid expenses and other assets	\$ 1,216	\$ 699
Other long-term assets	\$ 288	\$ 554
Accounts payable	\$ 5,827	\$ 6,300
Unearned income	\$ 19,768	\$ 14,383

The balance of cash and restricted cash deposits in an affiliated bank was included within the cash and restricted cash line items in the accompanying consolidated balance sheets. Due from affiliates mainly included the amounts outstanding related to processing and information technology services billed to Popular subsidiaries according to the terms of the Master Services Agreement (“MSA”) under which EVERTEC Group has a contract to provide such services for at least 15 years on an exclusive basis for the duration of the agreement on commercial terms consistent with historical pricing practices among the parties. This amount was included in the accounts receivable, net in the consolidated balance sheets.

### Note 22—Commitments and Contingencies

The Company leases certain facilities and equipment under operating leases. Most leases contain renewal options for varying periods. Future minimum rental payments on such operating leases at December 31, 2017 are as follows:

<i>(Dollar amounts in thousands)</i>	Unrelated parties	Related party	Minimum future rentals to related parties
2018	\$ 478	\$ 7,004	\$ 7,482
2019	139	7,228	7,367
2020	21	2,397	2,418
2021	—	605	605
2022 and thereafter	—	—	—
	\$ 638	\$ 17,234	\$ 17,872

Certain lease agreements contain provisions for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is recorded as a deferred rent obligation.

Rent expense of office facilities and real estate for the years ended December 31, 2017, 2016 and 2015 amounted to \$8.3 million, \$8.2 million and \$8.1 million, respectively. Also, rent expense for telecommunications and other equipment for the years ended December 31, 2017, 2016 and 2015 amounted to \$6.0 million, \$6.2 million and \$5.4 million, respectively.

EVERTEC is a defendant in a number of legal proceedings arising in the ordinary course of business. Based on the opinion of legal counsel, management believes that the final disposition of these matters will not have a material adverse effect on the business, results of operations or financial condition of the Company. The Company has identified certain claims in which a loss may be incurred, but in the aggregate the loss would be minimal. For other claims, where the proceedings are in an initial phase, the Company is unable to estimate the range of possible loss for such legal proceedings. However, the Company at this time believes that any loss related to these latter claims will not be material.

**Note 23—Segment Information**

In December of 2017, as a result of the PayGroup acquisition, the Chief Operating Decision Maker ("CODM") completed an evaluation of the current Company structure and the information regularly reviewed for purposes of allocating resources and assessing performance. As a result of this evaluation, Management concluded that the operating segments are determined by the products and services the Company provides and the geographic regions in which the Company operates, resulting in four business segments: Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America (collectively "Payment Services segments"), Merchant Acquiring, and Business Solutions.

The Payment Services - Puerto Rico & Caribbean segment revenues are comprised of revenues related to providing access to the ATH debit network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions) and electronic benefit transfer ("EBT") (which principally consist of services to the government of Puerto Rico for the delivery of benefits to participants). For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services. For EBT services, revenues are primarily derived from the number of beneficiaries on file.

The Payment Services - Latin America segment revenues consist of revenues related to providing access to the ATH debit network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions), as well as, licensed software solutions for risk and fraud management and card payment processing. For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services.

The Merchant Acquiring segment consists of revenues from services that allow merchants to accept electronic methods of payment. In the Merchant Acquiring segment, revenues include a discount fee and membership fees charged to merchants, debit network fees and rental fees from POS devices and other equipment, net of credit card interchange and assessment fees charged by credit cards associations (such as VISA or MasterCard) or payment networks. The discount fee is generally a percentage of the transaction value. EVERTEC also charge merchants for other services that are unrelated to the number of transactions or the transaction value.

The Business Solutions segment consists of revenues from a full suite of business process management solutions in various product areas such as core bank processing, network hosting and management, IT professional services, business process outsourcing, item processing, cash processing, and fulfillment. Core bank processing and network services revenues are derived in part from a recurrent fee and from fees based on the number of accounts on file (i.e. savings or checking accounts, loans, etc.) or computer resources utilized. Revenues from other processing services within the Business Solutions segment are generally volume-based and depend on factors such as the number of accounts processed. In addition, EVERTEC is a reseller of hardware and software products and these resale transactions are generally one-time transactions.

In addition to the four operating segments described above, Management identified certain functional cost areas that operate independently and do not constitute businesses in themselves. These units could neither be concluded as operating segments nor could they be combined with any other operating segments. Therefore, these units are aggregated and presented as "Corporate and Other" category in the financial statements alongside the operating segments. The Corporate and other category consists of corporate overhead expenses, intersegment eliminations, certain leveraged activities and other non-operating and miscellaneous expenses that are not included in the operating segments. The overhead and leveraged costs relate to activities such as:

- marketing,
- corporate finance and accounting,
- human resources,

## EVERTEC, Inc. Notes to Consolidated Financial Statements

- legal,
- risk management functions,
- internal audit,
- corporate debt related costs,
- non-operating depreciation and amortization expenses generated as a result of the Merger,
- intersegment revenues and expenses, and
- other non-recurring fees and expenses that are not considered when management evaluates financial performance at a segment level

The CODM reviews the operating segments separate financial information to assess performance and to allocate resources. Management evaluates the operating results of each of its operating segments based upon revenues and Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). Adjusted EBITDA is defined as EBITDA further adjusted to exclude unusual items and other adjustments. Adjusted EBITDA, as it relates to operating segments, is presented in conformity with Accounting Standards Codification Topic 280, "Segment Reporting" given that it is reported to the CODM for purposes of allocating resources. Segment asset disclosure is not used by the CODM as a measure of segment performance since the segment evaluation is driven by revenues and adjusted EBITDA performance. As such, segment assets are not disclosed in the notes to the accompanying consolidated financial statements.

The following tables set forth information about the Company's operations by its four business segments for the periods indicated below. Historical information has been conformed to the updated presentation.

	December 31, 2017					
<i>(Dollar amounts in thousands)</i>	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other <sup>(1)</sup>	Total
Revenues	\$ 101,687	\$ 62,702	\$ 85,778	\$ 189,077	\$ (32,100)	\$ 407,144
Operating costs and expenses	57,463	66,786	57,574	119,761	19,477	321,061
Depreciation and amortization	8,993	8,880	2,254	15,774	28,349	64,250
Non-operating income (expenses)	2,229	8,726	1	13	(7,708)	3,261
EBITDA	55,446	13,522	30,459	85,103	(30,936)	153,594
Compensation and benefits <sup>(2)</sup>	589	816	573	1,687	6,090	9,755
Transaction, refinancing, exit activity and other fees <sup>(3)</sup>	2,499	3,220	6,465	—	2,495	14,679
Adjusted EBITDA	<u>\$ 58,534</u>	<u>\$ 17,558</u>	<u>\$ 37,497</u>	<u>\$ 86,790</u>	<u>\$ (22,351)</u>	<u>\$ 178,028</u>

- (1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$32.1 million processing fee from Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.
- (2) Primarily represents share-based compensation and other compensation expense and severance payments.
- (3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement and an impairment charge and contractual fee accrual for a third party software solution that was determined to be commercially unviable.

**EVERTEC, Inc. Notes to Consolidated Financial Statements**
**December 31, 2016**

<i>(Dollar amounts in thousands)</i>	<b>Payment Services - Puerto Rico &amp; Caribbean</b>	<b>Payment Services - Latin America</b>	<b>Merchant Acquiring, net</b>	<b>Business Solutions</b>	<b>Corporate and Other <sup>(1)</sup></b>	<b>Total</b>
Revenues	\$ 99,680	\$ 47,162	\$ 91,248	\$ 184,276	\$ (32,859)	\$ 389,507
Operating costs and expenses	49,128	45,304	52,771	113,082	22,077	282,362
Depreciation and amortization	7,597	7,285	2,672	13,783	28,230	59,567
Non-operating income (expenses)	2,238	5,584	—	24	(7,354)	492
EBITDA	60,387	14,727	41,149	85,001	(34,060)	167,204
Compensation and benefits <sup>(2)</sup>	637	627	480	1,961	6,777	10,482
Transaction, refinancing, exit activity and other fees <sup>(3)</sup>	2,062	—	—	2,277	5,650	9,989
Adjusted EBITDA	<u>\$ 63,086</u>	<u>\$ 15,354</u>	<u>\$ 41,629</u>	<u>\$ 89,239</u>	<u>\$ (21,633)</u>	<u>\$ 187,675</u>

- (1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$32.9 million processing fee from Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.
- (2) Primarily represents share-based compensation and other compensation expense and severance payments.
- (3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement and consulting, audit and legal expenses incurred as part of the prior year restatement of financial results, certain fees paid to resolve a software maintenance contract matter, fees paid in connection with the debt refinancing and a software impairment charge.

**December 31, 2015**

<i>(Dollar amounts in thousands)</i>	<b>Payment Services - Puerto Rico &amp; Caribbean</b>	<b>Payment Services - Latin America</b>	<b>Merchant Acquiring, net</b>	<b>Business Solutions</b>	<b>Corporate and Other <sup>(1)</sup></b>	<b>Total</b>
Revenues	\$ 99,311	\$ 37,523	\$ 85,411	\$ 179,532	\$ (28,249)	\$ 373,528
Operating costs and expenses	48,853	35,790	42,804	117,079	25,642	270,168
Depreciation and amortization	7,488	5,766	1,438	16,128	34,154	64,974
Non-operating income (expenses)	2,909	4,147	—	428	(5,031)	2,453
EBITDA	60,855	11,646	44,045	79,009	(24,768)	170,787
Compensation and benefits <sup>(2)</sup>	1,420	132	1,361	4,044	5,280	12,237
Transaction, refinancing, exit activity and other fees <sup>(3)</sup>	22	22	41	139	2,928	3,152
Adjusted EBITDA	<u>\$ 62,297</u>	<u>\$ 11,800</u>	<u>\$ 45,447</u>	<u>\$ 83,192</u>	<u>\$ (16,560)</u>	<u>\$ 186,176</u>

- (1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$28.2 million processing fee from Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.
- (2) Primarily represents share-based compensation and other compensation expense and severance payments.
- (3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement and reimbursements received for certain software maintenance expenses as part of the Merger.

## EVERTEC, Inc. Notes to Consolidated Financial Statements

The reconciliation of EBITDA to consolidated net income is as follows:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2017	2016	2015
Total EBITDA	\$ 153,594	\$ 167,204	\$ 170,787
Less:			
Income tax expense (benefit)	4,780	8,271	(3,335)
Interest expense, net	29,145	24,240	23,771
Depreciation and amortization	64,250	59,567	64,974
Net Income	\$ 55,419	\$ 75,126	\$ 85,377

The geographic segment information below is classified based on the geographic location of the Company's subsidiaries:

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2017	2016	2015
Revenues <sup>(1)</sup>			
Puerto Rico	\$ 329,533	\$ 326,073	\$ 322,457
Caribbean	14,909	16,272	13,551
Latin America	62,702	47,162	37,520
Total revenues	\$ 407,144	\$ 389,507	\$ 373,528

(1) Revenues are based on subsidiaries' country of domicile.

### *Major customers*

For the years ended December 31, 2017, 2016 and 2015, the Company had one major customer which accounted for approximately \$175.4 million or 43%, \$174.4 million or 45%, and \$167.3 million or 45%, respectively, of total revenues. See Note 21.

The Company's next largest customer, the Government of Puerto Rico, consolidating all individual agencies and public corporations, represented 7%, 7% and 9% of the Company's total revenues for the years ended December 31, 2017, 2016 and 2015, respectively.

### **Note 24—Subsequent Events**

The Company has performed an evaluation of all events occurring subsequent to December 31, 2017; Management has determined that there are no events occurring in this period that require disclosure in or adjustment to the accompanying financial statements.



Schedule I

EVERTEC, Inc. Condensed Financial Statements  
Parent Company Only

Condensed Balance Sheets

<i>(Dollar amounts in thousands)</i>	December 31,	
	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 1,679	\$ 3,278
Prepaid expenses and other assets	24	377
Prepaid income tax	1,594	21
Total current assets	3,297	3,676
Investment in subsidiaries, at equity	155,666	126,227
Total assets	\$ 158,963	\$ 129,903
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accrued liabilities	\$ 224	\$ 1,697
Accounts payable	359	79
Total current liabilities	583	1,776
Deferred tax liability, net	8,660	11,641
Other long-term liabilities	5,608	11,810
Total liabilities	14,851	25,227
Stockholders' equity:		
Common stock	723	726
Additional paid-in capital	5,350	—
Accumulated earnings	148,887	116,341
Accumulated other comprehensive loss, net of tax	(10,848)	(12,391)
Total stockholders' equity	144,112	104,676
Total liabilities and stockholders' equity	\$ 158,963	\$ 129,903

Condensed Statements of Income and Comprehensive Income

<i>(Dollar amounts in thousands)</i>	Years ended December 31,		
	2017	2016	2015
<b>Non-operating income (expenses)</b>			
Equity in earnings of subsidiaries	\$ 49,162	\$ 75,373	\$ 81,161
Interest income	301	244	232
Other expenses	(1,428)	(1,351)	(1,686)
<b>Income before income taxes</b>	48,035	74,266	79,707
Income tax benefit	(7,019)	(770)	(5,670)
Net income	55,054	75,036	85,377
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	(635)	(3,360)	(545)
Gain (loss) on cash flow hedge	2,178	(1,449)	(515)
<b>Total comprehensive income</b>	\$ 56,597	\$ 70,227	\$ 84,317

**Schedule I****Condensed Statements of Cash Flows**

	Years ended December 31,		
	2017	2016	2015
<i>(Dollar amounts in thousands)</i>			
<b>Cash flows from operating activities</b>	\$ 29,422	\$ 71,795	\$ 86,237
<b>Cash flows from financing activities</b>			
Dividends paid	(21,762)	(29,696)	(30,921)
Repurchase of common stock	(7,671)	(39,946)	(54,949)
Withholding taxes paid on share-based compensation	(1,588)	(548)	(306)
Net cash used in financing activities	(31,021)	(70,190)	(86,176)
<b>Net increase in cash</b>	(1,599)	1,605	61
Cash at beginning of the period	3,278	1,673	1,612
Cash at end of the period	\$ 1,679	\$ 3,278	\$ 1,673

## shareholder information

Corporate Headquarters - Puerto Rico  
Road #176 km 1.3 Cupey Bajo  
Río Piedras, Puerto Rico 00926

PO Box 364527  
San Juan, Puerto Rico 00936-4527  
t. 787.759.9999 f. 787.250.7356  
www.evertecinc.com

## form 10-k

Evertec, Inc. has filed with the U.S. Securities and Exchange Commission (SEC) an Annual Report on Form 10-K for the year ended December 31, 2017. The company's Annual Report and other SEC filings may be accessed at www.sec.gov or at www.evertecinc.com, Investor Relations section, SEC Filings link.

## investor relations

Kay Sharpton,  
Vice President of Investor Relations  
t. 787.773.5442  
ksharp@evertecinc.com

## annual meeting of stockholders

The Annual Meeting of Stockholders will be held on May 24, 2018 at 9:00 a.m. AST at the Condado Vanderbilt Hotel, Dorado Room 1055 Ashford Ave. San Juan, Puerto Rico, 00907

## independent registered public accounting firm

Deloitte & Touche LLP  
350 Chardón Ave., Ste 700  
San Juan, Puerto Rico 00918-2140  
t. 787.282.5300 - www.deloitte.com

## transfer agent and registrar

Computershare  
PO Box 43078 - Providence, RI 02940-3078  
t. 800.568.3476 - www.computershare.com

## common stock listing

The company's common stock is listed on the New York Stock Exchange (NYSE) under the symbol EVTC.

## board of directors and board committees

**Frank G. D'Angelo,**  
Chairman of the Board



**Morgan M. Schuessler, Jr.,**  
President and Chief Executive Officer

**Olga Botero,**  
Director



**Jorge A. Junquera,**  
Director



**Teresita Loubriel,**  
Director



**Néstor O. Rivera,**  
Director



**Alan H. Schumacher,**  
Director



**Brian J. Smith,**  
Director



**Thomas W. Swidarski,**  
Director



## executive officers

**Morgan M. Schuessler, Jr.,**  
President and Chief Executive Officer

**Peter J. S. Smith,**  
Chief Financial Officer and Treasurer

**Paola Pérez,**  
Executive Vice President - Human Resources

**Carlos J. Ramírez,**  
Executive Vice President - Puerto Rico Sales

**Luis A. Rodríguez,**  
General Counsel and Executive Vice President  
Corporate Development

**Guillermo Rospigliosi,**  
Executive Vice President,  
Product, Marketing and Innovation

**Philip E. Steurer,**  
Executive Vice President,  
Chief Operating Officer

**Miguel Vizcarrondo,**  
Executive Vice President, Payment Processing  
Puerto Rico and Caribbean, Business Solutions and  
Merchant Acquiring

### Committee key:



Audit



Compensation



Information  
Technology



Nominating  
and Corporate  
Governance



Denote  
Committee Chair

