OFG BANCORP
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

Incorporated in the Commonwealth of Puerto Rico, IRS Employer Identification No. 66-0538893

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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 x 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 x No

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

Large Accelerated Filer Accelerated Filer ý Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

Number of shares outstanding of the registrant's common stock, as of the latest practicable date:

43,913,719 common shares ($1.00 par value per share) outstanding as of July 31, 2016

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

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

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

- additional credit defaults or a restructuring by the Commonwealth of Puerto Rico or any of its agencies, municipalities or instrumentalities;
- possible legislative, tax or regulatory changes;
- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in

Puerto Rico;

- competition in the financial services industry;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in interest rates, as well as the magnitude of such changes;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the industry regulations on the Company's businesses, business practices and cost of operations;
- the performance of the securities markets; and
- additional Federal Deposit Insurance Corporation ("FDIC") assessments.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; increased competition; the Company's ability to grow its core businesses; decisions to downsize, sell or close units or otherwise change the Company's business mix; and management's ability to identify and manage these and other risks.

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

ITEM 1. *FINANCIAL STATEMENTS*

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015

ASSETS	
Cash and cash equivalents:	
Cash and due from banks	$
Money market investments	
Total cash and cash equivalents	
Restricted cash	
Investments:	
Trading securities, at fair value, with amortized cost of $667 (December 31, 2015 - $667)	
Investment securities available-for-sale, at fair value, with amortized cost of $645,298 (December 31, 2015 - $955,646)	
Investment securities held-to-maturity, at amortized cost, with fair value of $643,530 (December 31, 2015 - $614,679)	
Federal Home Loan Bank (FHLB) stock, at cost	
Other investments	
Total investments	
Loans:	
Mortgage loans held-for-sale, at lower of cost or fair value	
Loans held for investment, net of allowance for loan and lease losses of $162,216 (December 31, 2015 - $234,131)	
Total loans	
Other assets:	
FDIC indemnification asset	
Foreclosed real estate	
Accrued interest receivable	
Deferred tax asset, net	
Premises and equipment, net	
Customers' liability on acceptances	
Servicing assets	
Derivative assets	
Goodwill	
Other assets	
Total assets	$
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Demand deposits	$
Savings accounts	
Time deposits	
Total deposits	
Borrowings:	
Securities sold under agreements to repurchase	
Advances from FHLB	
Subordinated capital notes	
Other borrowings	
Total borrowings	

Other liabilities:
Derivative liabilities
Acceptances executed and outstanding
Accrued expenses and other liabilities
Total liabilities
Commitments and contingencies (See Note 19)
Stockholders' equity:
Preferred stock; 10,000,000 shares authorized;
1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D issued and outstanding, (December 31, 2015 - 1,340,000 shares; 1,380,000 shares; and 960,000 shares) $25 liquidation value
84,000 shares of Series C issued and outstanding (December 31, 2015 - 84,000 shares); $1,000 liquidation value
Common stock, $1 par value; 100,000,000 shares authorized; 52,625,869 shares issued:
43,913,719 shares outstanding (December 31, 2015 - 52,625,869; 43,867,909)
Additional paid-in capital
Legal surplus
Retained earnings
Treasury stock, at cost, 8,712,150 shares (December 31, 2015 - 8,757,960 shares)
Accumulated other comprehensive income, net of tax of -$456 (December 31, 2015 $1,182)
Total stockholders' equity
Total liabilities and stockholders' equity $

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)		(In thousands, except per share data)	
Interest income:				
Loans	$ 79,675	$ 90,504	$ 160,827	$ 187,987
Mortgage-backed securities	7,220	7,998	16,217	16,587
Investment securities and other	1,013	911	2,170	1,840
Total interest income	**87,908**	**99,413**	**179,214**	**206,414**
Interest expense:				
Deposits	7,367	6,604	14,491	13,708
Securities sold under agreements to repurchase	4,258	7,394	10,358	14,558
Advances from FHLB and other borrowings	2,098	2,248	4,337	4,483
Subordinated capital notes	873	875	1,741	1,738
Total interest expense	**14,596**	**17,121**	**30,927**	**34,487**
Net interest income	**73,312**	**82,292**	**148,287**	**171,927**
Provision for loan and lease losses, net	14,445	15,539	28,234	57,732
Net interest income after provision for loan and lease losses	**58,867**	**66,753**	**120,053**	**114,195**
Non-interest income:				
Banking service revenue	10,219	10,212	20,337	20,417
Wealth management revenue	7,041	7,285	13,193	14,440
Mortgage banking activities	1,024	1,862	1,879	3,725
Total banking and financial service revenues	**18,284**	**19,359**	**35,409**	**38,582**
FDIC shared-loss expense, net	(3,420)	(23,245)	(7,449)	(36,329)
Net gain (loss) on:				
Sale of securities	211	-	12,207	2,572
Derivatives	(10)	77	(13)	(13)
Early extinguishment of debt	-	-	(12,000)	-
Other non-interest income (loss)	90	(847)	504	(2,587)
Total non-interest income (loss), net	**15,155**	**(4,656)**	**28,658**	**2,225**
Non-interest expense:				
Compensation and employee benefits	18,531	19,260	38,815	39,440
Professional and service fees	3,511	4,143	7,138	8,324
Occupancy and equipment	8,107	8,883	15,929	17,519
Insurance	3,155	2,251	6,305	4,204
Electronic banking charges	4,947	5,851	10,536	11,218
Information technology expenses	1,606	1,543	3,262	2,997
Advertising, business promotion, and strategic initiatives	1,343	1,558	2,786	3,186
Foreclosure, repossession and other real estate expenses	5,164	10,337	7,971	15,783
Loan servicing and clearing expenses	1,926	2,594	4,007	4,947

Taxes, other than payroll and income taxes		2,330		2,703		5,001		4,182
Communication		581		770		1,400		1,460
Printing, postage, stationary and supplies		600		582		1,325		1,219
Director and investor relations		301		289		579		583
Other		1,723		3,673		3,628		5,707
Total non-interest expense		**53,825**		**64,437**		**108,682**		**120,769**
Income (loss) before income taxes		**20,197**		**(2,340)**		**40,029**		**(4,349)**
Income tax expense		5,858		769		11,519		1,748
Net income (loss)		**14,339**		**(3,109)**		**28,510**		**(6,097)**
Less: dividends on preferred stock		(3,466)		(3,466)		(6,931)		(6,931)
Net income (loss) available to common shareholders	**$**	**10,873**	**$**	**(6,575)**	**$**	**21,579**	**$**	**(13,028)**
Earnings (loss) per common share:								
Basic	**$**	**0.25**	**$**	**(0.15)**	**$**	**0.49**		**(0.29)**
Diluted	**$**	**0.25**	**$**	**(0.15)**	**$**	**0.49**		**(0.29)**
Average common shares outstanding and equivalents		**51,095**		**51,774**		**51,081**		**51,876**
Cash dividends per share of common stock	**$**	**0.06**	**$**	**0.10**	**$**	**0.12**		**0.20**

See notes to unaudited consolidated financial statements

2

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Net income (loss)	**$ 14,339**	**$ (3,109)**	**$ 28,510**	**$ (6,097)**
Other comprehensive income (loss) before tax:				
Unrealized gain (loss) on securities available-for-sale	3,719	(12,916)	12,364	(5,541)
Realized gain on investment securities included in net income (loss)	(211)	-	(12,207)	(2,572)
Unrealized gain on cash flow hedges	663	2,016	652	2,071
Other comprehensive income (loss) before taxes	**4,171**	**(10,900)**	**809**	**(6,042)**
Income tax effect	(650)	877	999	632
Other comprehensive income (loss) after taxes	**3,521**	**(10,023)**	**1,808**	**(5,410)**
Comprehensive income (loss)	**$ 17,860**	**$ (13,132)**	**$ 30,318**	**$ (11,507)**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

	Six-Month Period Ended June 30,	
	2016	2015
	(In thousands)	
Preferred stock:		
Balance at beginning of period	$ 176,000	$ 176,000
Balance at end of period	**176,000**	**176,000**
Common stock:		
Balance at beginning of period	52,626	52,626
Balance at end of period	**52,626**	**52,626**
Additional paid-in capital:		
Balance at beginning of period	540,512	539,311
Stock-based compensation expense	698	794
Lapsed restricted stock units	(505)	(436)
Balance at end of period	**540,705**	**539,669**
Legal surplus:		
Balance at beginning of period	70,435	70,467
Transfer from (to) retained earnings	2,830	(533)
Balance at end of period	**73,265**	**69,934**
Retained earnings:		
Balance at beginning of period	148,886	181,152
Net income (loss)	28,510	(6,097)
Cash dividends declared on common stock	(5,272)	(8,920)
Cash dividends declared on preferred stock	(6,931)	(6,931)
Transfer (to) from legal surplus	(2,830)	533
Balance at end of period	**162,363**	**159,737**
Treasury stock:		
Balance at beginning of period	(105,379)	(97,070)
Stock repurchased	-	(4,238)
Lapsed restricted stock units	505	640
Balance at end of period	**(104,874)**	**(100,668)**
Accumulated other comprehensive income, net of tax:		
Balance at beginning of period	13,997	19,711
Other comprehensive income (loss), net of tax	1,808	(5,410)
Balance at end of period	**15,805**	**14,301**
Total stockholders' equity	**$ 915,890**	**$ 911,599**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

	Six-Month Period Ended June 30,	
	2016	**2015**
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ **28,510**	$ **(6,097)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred loan origination fees, net of costs	1,977	1,813
Amortization of fair value premiums, net of discounts, on acquired loans	39	2,766
Amortization of investment securities premiums, net of accretion of discounts	4,356	5,931
Amortization of core deposit and customer relationship intangibles	839	953
Amortization of fair value premiums on acquired deposits	189	478
FDIC shared-loss expense, net	7,449	36,329
Depreciation and amortization of premises and equipment	5,025	5,930
Deferred income tax expense (benefit), net	3,543	(1,316)
Provision for loan and lease losses, net	28,234	57,732
Stock-based compensation	698	794
(Gain) loss on:		
Sale of securities	(12,207)	(2,572)
Sale of mortgage loans held-for-sale	(809)	(2,010)
Derivatives	88	(113)
Early extinguishment of debt	12,000	-
Foreclosed real estate	7,287	(706)
Sale of other repossessed assets	(1,235)	3,427
Sale of premises and equipment	13	10
Originations of loans held-for-sale	(90,052)	(111,433)
Proceeds from sale of loans held-for-sale	32,212	46,678
Net (increase) decrease in:		
Trading securities	(60)	808
Accrued interest receivable	628	2,091
Servicing assets	(477)	1,216
Other assets	(4,872)	(19,813)
Net increase (decrease) in:		
Accrued interest on deposits and borrowings	(373)	(608)
Accrued expenses and other liabilities	8,253	24,219
Net cash provided by operating activities	**31,255**	**46,507**
Cash flows from investing activities:		
Purchases of:		
Investment securities available-for-sale	(302)	(1,671)
Investment securities held-to-maturity	(51,717)	(399,206)
FHLB stock	(8,512)	-
Maturities and redemptions of:		

Investment securities available-for-sale	74,208	121,121
Investment securities held-to-maturity	34,304	10,725
FHLB stock	9,457	343
Proceeds from sales of:		
Investment securities available-for-sale	300,483	103,831
Foreclosed real estate and other repossessed assets, including write-offs	25,779	34,136
Proceeds from sale of loans held-for-sale	478	-
Premises and equipment	44	10
Mortgage servicing rights	-	5,927
Origination and purchase of loans, excluding loans held-for-sale	(373,927)	(414,725)
Principal repayment of loans, including covered loans	386,477	491,330
Reimbursements from the FDIC on shared-loss agreements	738	31,657
Additions to premises and equipment	(3,077)	(1,838)
Net change in restricted cash	319	2,321
Net cash provided by (used in) investing activities	**394,752**	**(16,039)**

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTHS PERIODS ENDED JUNE 30, 2016 AND 2015 – (CONTINUED)

	Six-Month Period Ended June 30,			
		2016		2015
	(In thousands)			
Cash flows from financing activities:				
Net increase (decrease) in:				
Deposits		(87,864)		(209,272)
Securities sold under agreements to repurchase		(320,000)		181,129
FHLB advances, federal funds purchased, and other borrowings		(25,951)		(2,845)
Subordinated capital notes		350		525
Exercise of stock options and restricted units lapsed, net		-		204
Purchase of treasury stock		-		(4,238)
Dividends paid on preferred stock		(6,931)		(6,931)
Dividends paid on common stock		(5,272)		(8,932)
Net cash used in financing activities	**$**	**(445,668)**	**$**	**(50,360)**
Net change in cash and cash equivalents		**(19,661)**		**(19,892)**
Cash and cash equivalents at beginning of period		536,709		573,427
Cash and cash equivalents at end of period	**$**	**517,048**	**$**	**553,535**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:				
Interest paid	$	30,454	$	34,403
Income taxes paid	$	3,642	$	6,730
Mortgage loans securitized into mortgage-backed securities	$	53,872	$	61,854
Transfer from loans to foreclosed real estate and other repossessed assets	$	21,865	$	15,390
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	-	$	1,473
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	182	$	156

See notes to unaudited consolidated financial statements

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

OFG Bancorp (the "Company") is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. The Company operates through various subsidiaries including, a commercial bank, Oriental Bank (the "Bank"), a securities broker-dealer, Oriental Financial Services Corp. ("Oriental Financial Services"), an insurance agency, Oriental Insurance, LLC ("Oriental Insurance") and a retirement plan administrator, Oriental Pension Consultants, Inc. ("OPC"). Through these subsidiaries and their respective divisions, the Company provides a wide range of banking and financial services such as commercial, consumer and mortgage lending, auto loans, financial planning, insurance sales, money management and investment banking and brokerage services, as well as corporate and individual trust services.

On April 30, 2010, the Bank acquired certain assets and assumed certain deposits and other liabilities of Eurobank, a Puerto Rico commercial bank, in an FDIC-assisted acquisition. On December 18, 2012, the Company acquired a group of Puerto Rico-based entities that included Banco Bilbao Vizcaya Argentaria Puerto Rico ("BBVAPR"), a Puerto Rico commercial bank, as well as a securities broker-dealer and an insurance agency, which is referred to herein as the "BBVAPR Acquisition." The businesses acquired in these acquisitions have been integrated with the Company's existing business.

Recent Accounting Developments

In June 2016, the Financial Accounting Standards Board (FASB) issued new accounting guidance that will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity (HTM) debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale (AFS) debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. The new guidance is effective on January 1, 2020, with early adoption permitted on January 1, 2019. The Company is in the process of evaluating the impact of the provisions of this new accounting guidance.

In March 2016, the FASB issued new accounting guidance that simplifies certain aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective on January 1, 2017, with early adoption permitted. The Company does not expect the provisions of this new accounting guidance to have a material impact on its consolidated financial position or results of operations.

In February 2016, the FASB issued new accounting guidance that requires substantially all leases to be recorded as assets and liabilities on the balance sheet. This new accounting guidance is effective on January 1, 2019, with early adoption permitted. Upon adoption, the Company will record a right of use asset and a lease payment obligation associated with arrangements previously accounted for as operating leases. The Company is in the process of evaluating the impact of the provisions of this new accounting guidance on its consolidated financial position, but does not expect the new accounting guidance to have a material impact on its consolidated financial position or results of operations.

In January 2016, the FASB issued new accounting guidance on recognition and measurement of financial instruments. The new guidance makes targeted changes to existing GAAP including, among other provisions, requiring certain equity investments to be measured at fair value with changes in fair value reported in earnings and requiring changes in instrument-specific credit risk. The new guidance is effective on January 1, 2018. The Company does not expect the provisions of this new accounting guidance to have a material impact on its consolidated financial position or results of operations.

In May 2014, the FASB issued new accounting guidance to clarify the principles for recognizing revenue from contracts with customers. This new accounting guidance is effective on January 1, 2018. The Company does not expect the provisions of this new accounting guidance to have a material impact on its consolidated financial position or results of operations.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

The following table includes the composition of the Company's restricted cash:

	June 30, 2016	December 31, 2015
	(In thousands)	
Cash pledged as collateral to other financial institutions to secure:		
Derivatives	$ 1,980	$ 1,980
Obligations under agreement of loans sold with recourse	1,050	1,369
	$ 3,030	**$ 3,349**

At June 30, 2016 and December 31, 2015, the Bank's international banking entities, Oriental International Bank Inc. ("OIB") and Oriental Overseas, a division of the Bank, each held unencumbered certificates of deposit in the amount of $300 thousand as the legal reserve required for international banking entities under Puerto Rico law. Each certificate of deposit cannot be withdrawn by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions of Puerto Rico.

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At June 30, 2016 and December 31, 2015, the Company had delivered $2.0 million of cash as collateral for such derivatives activities.

As part of the BBVA Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At June 30, 2016 and December 31, 2015, the Company delivered as collateral cash amounting to $1.1 million and $1.4 million, respectively.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover demand deposits. The amount of those minimum average reserve balances for the week that covered June 30, 2016 was $178.1 million (December 31, 2015 - $148.3 million). At June 30, 2016 and December 31, 2015, the Bank complied with such requirement. Cash and due from bank as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

NOTE 3 – INVESTMENT SECURITIES

Money Market Investments

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At June 30, 2016 and December 31, 2015, money market instruments included as part of cash and cash equivalents amounted to $5.7 million and $4.7 million, respectively.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 402,557	$ 14,414	$ -	$ 416,971	2.61%
GNMA certificates	109,214	5,064	-	114,278	3.06%
CMOs issued by US government-sponsored agencies	120,238	416	179	120,475	1.87%
Total mortgage-backed securities	**632,009**	**19,894**	**179**	**651,724**	**2.55%**
Investment securities					
Obligations of US government-sponsored agencies	4,468	34	-	4,502	1.37%
Obligations of Puerto Rico government and public instrumentalities	6,720	-	872	5,848	5.55%
Other debt securities	2,101	127	-	2,228	2.94%
Total investment securities	**13,289**	**161**	**872**	**12,578**	**3.73%**
Total securities available for sale	**$ 645,298**	**$ 20,055**	**$ 1,051**	**$ 664,302**	**2.57%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 610,384	8,121	-	618,505	2.20%
Investment securities					
US Treasury securities	25,015	10	-	25,025	0.49%
Total securities held to maturity	**635,399**	**8,131**	**-**	**643,530**	**2.13%**
Total	**$ 1,280,697**	**$ 28,186**	**$ 1,051**	**$ 1,307,832**	**2.36%**

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 735,363	$ 25,791	$ 1,509	$ 759,645	2.97%
GNMA certificates	57,129	1,366	-	58,495	3.19%
CMOs issued by US government-sponsored agencies	137,787	27	2,741	135,073	1.85%
Total mortgage-backed securities	**930,279**	**27,184**	**4,250**	**953,213**	**2.82%**
Investment securities					

Obligations of US government-sponsored agencies	5,122	-	29	5,093	1.36%
Obligations of Puerto Rico government and public instrumentalities	17,801	-	4,070	13,731	6.24%
Other debt securities	2,444	128	-	2,572	2.98%
Total investment securities	**25,367**	**128**	**4,099**	**21,396**	**4.94%**
Total securities available-for-sale	**$ 955,646**	**$ 27,312**	**$ 8,349**	**$ 974,609**	**2.87%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	595,157	426	5,865	589,718	2.24%
Investment securities					
US Treasury securities	25,032	-	71	24,961	0.49%
Total securities held to maturity	**620,189**	**426**	**5,936**	**614,679**	**2.17%**
Total	**$ 1,575,835**	**$ 27,738**	**$ 14,285**	**$ 1,589,288**	**2.60%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The amortized cost and fair value of the Company's investment securities at June 30, 2016, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2016			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)		(In thousands)	
Mortgage-backed securities				
Due from 5 to 10 years				
FNMA and FHLMC certificates	$ 12,650	$ 12,996	$ -	$ -
Total due from 5 to 10 years	**12,650**	**12,996**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	389,907	403,975	610,384	618,505
GNMA certificates	109,214	114,278	-	-
CMOs issued by US government-sponsored agencies	120,238	120,475	-	-
Total due after 10 years	**619,359**	**638,728**	**610,384**	**618,505**
Total mortgage-backed securities	**632,009**	**651,724**	**610,384**	**618,505**
Investment securities				
Due from 1 to 5 years				
US Treasury securities	-	-	25,015	25,025
Obligations of Puerto Rico government and public instrumentalities	6,720	5,848	-	-
Total due from 1 to 5 years	**6,720**	**5,848**	**25,015**	**25,025**
Due from 5 to 10 years				
Obligations of US government and sponsored agencies	4,468	4,502	-	-
Other debt securities	2,101	2,228	-	-
Total due from 5 to 10 years	**6,569**	**6,730**	**-**	**-**
Total investment securities	**13,289**	**12,578**	**25,015**	**25,025**
Total securities available-for-sale and held-to-maturity	**$ 645,298**	**$ 664,302**	**$ 635,399**	**$ 643,530**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the six-month period ended June 30, 2016, the Company retained securitized Government National Mortgage Association ("GNMA") pools totaling $54.2 million amortized cost, at a yield of 3.01% from its own originations. Previously, the Company was selling all securitized GNMA pools. The GNMA pools were sold until June 2015. During the six-month period ended June 30, 2015, the Company sold $63.5 million of available-for-sale GNMA certificates as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period.

During the six-month period ended June 30, 2016, the Company sold $277.2 million of mortgage-backed securities and $11.1 million of Puerto Rico government bonds, and recorded a net gain on sale of securities of $12.2 million. Among the 2016 sales, the Company sold all but one of the Puerto Rico government bonds it held. The Company had other-than-temporary impairment charges on such securities sold totaling $1.5 million during the second half of 2015. During the six-month period ended June 30, 2015, the Company sold $101.3 million of mortgage-backed securities and recorded a net gain on sale of securities of $2.6 million. The table below presents the gross realized gains and gross realized losses by category for such periods.

	Six-Month Period Ended June 30, 2016			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
	(In thousands)			
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 293,505	$ 277,181	$ 16,324	$ -
Investment securities				
Obligations of Puerto Rico government and public instrumentalities	6,978	11,095	-	4,117
Total	**$ 300,483**	**$ 288,276**	**$ 16,324**	**$ 4,117**

	Six-Month Period Ended June 30, 2015			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
	(In thousands)			
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 40,307	$ 37,735	$ 2,571	$ -
GNMA certificates	63,524	63,523	1	-

Total	**$**	**103,831**	**$**	**101,258**	**$**	**2,572**	**$**	**-**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015:

	June 30, 2016		
	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 54,449	$ 179	$ 54,270
Obligations of Puerto Rico government and public instrumentalities	6,720	872	5,848
	$ 61,169	**$ 1,051**	**$ 60,118**

At June 30, 2016 there were no securities available-for-sale or held-to-maturity in a continuous unrealized loss position for less than twelve months. There were no securities held-to-maturity in a continuous unrealized loss position for twelve months or more.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015 12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
Obligations of Puerto Rico Government and public instrumentalities	$ 17,801	$ 4,070	$ 13,731
CMOs issued by US government-sponsored agencies	103,340	2,410	100,930
	$ 121,141	**$ 6,480**	**$ 114,661**

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	25,736	331	25,405
FNMA and FHLMC certificates	149,480	1,509	147,971
Obligations of US government and sponsored agencies	5,122	29	5,093
Securities held to maturity			
FNMA and FHLMC certificates	468,487	5,865	462,622
US Treausury Securities	25,032	71	24,961
	$ 673,857	**$ 7,805**	**$ 666,052**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	129,076	2,741	126,335
FNMA and FHLMC certificates	149,480	1,509	147,971
Obligations of Puerto Rico Government and public instrumentalities	17,801	4,070	13,731
Obligations of US government and sponsored agencies	5,122	29	5,093
	$ 301,479	**$ 8,349**	**$ 293,130**
Securities held to maturity			
FNMA and FHLMC certificates	468,487	5,865	462,622
US Treasury Securities	25,032	71	24,961
	$ 794,998	**$ 14,285**	**$ 780,713**

The Company performs valuations of the investment securities on a monthly basis. Moreover, the Company conducts quarterly reviews to identify and evaluate each investment in an unrealized loss position for other-than-temporary impairment. Any portion of a decline in value associated with credit loss is recognized in the statements of operations with the remaining noncredit-related component recognized in other comprehensive income (loss). A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered by comparing the present value of cash flows expected to be collected from the security, discounted at the rate equal to the yield used to accrete current and prospective beneficial interest for the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the "credit loss."

Other-than-temporary impairment analysis is based on estimates that depend on market conditions and are subject to further change over time. In addition, while the Company believes that the methodology used to value these exposures is reasonable, the methodology is subject to continuing refinement, including those made as a result of market developments. Consequently, it is reasonably possible that changes in estimates or conditions could result in the need to recognize additional other-than-temporary impairment charges in the future.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Most of the investments ($54.5 million, amortized cost, or 89%) with an unrealized loss position at June 30, 2016 consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The remaining investments ($6.7 million, amortized cost, or 11%) with an unrealized loss position at June 30, 2016 consist of obligations issued or guaranteed by the government of Puerto Rico and its public instrumentalities. The decline in the market value of this security is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including the government's credit default, a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population.

As of June 30, 2016, the Company applied a discounted cash flow analysis to the Puerto Rico government bond to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of these investments was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investments, and included the following components:

- The contractual future cash flows of the bonds are projected based on the key terms as set forth in the official statements for each investment. Such key terms include among others the interest rate, amortization schedule, if any, and maturity date.

- The risk-adjusted cash flows are calculated based on a monthly default probability and recovery rate assumptions based on the credit rating of each investment. Constant monthly default rates are assumed throughout the life of the bonds which are based on the respective security's credit rating as of the date of the analysis.

- The adjusted future cash flows are then discounted at the original effective yield of each investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of each investment.

The only obligation issued or guaranteed by the government of Puerto Rico and its instrumentalities held at the end of the second quarter of 2016 by the Company was the Puerto Rico Highways and Transportation Authority ("PRHTA") – Teodoro Moscoso Bridge revenue bond. The pledge income sources of this bond comes from gross revenues from Teodoro Moscoso Bridge operations. Although PRHTA is included in the Puerto Rico Governor's executive order of November 30, 2015 ordering the '"clawback" of certain government revenues, the toll bridge revenues for the repayment of such bonds were not subject to the "clawback." All other Puerto Rico government securities were sold during the first quarter of 2016. The PRHTA bond with a principal amount of $6.7 million had an aggregate fair value of $5.8 million at June 30, 2016 (87% of the bond's cost). The discounted cash flow analysis for the investments showed a cumulative default probability at maturity of 10.20%, thus reflecting that it is more likely than not that the bond will not default during its remaining term. Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in this Puerto Rico government bond and is, therefore, not required to recognize a credit loss as of June 30, 2016. Also, the Company's conclusion is based on the assessment of the specific source of repayment of the outstanding bond, which continues to perform. PRHTA started principal repayments on July 1, 2014. All scheduled principal and interest payments to date have been collected. On July 1, 2016, the Company received the scheduled principal payment of $2.0 million. The next payment is due on July 1, 2017. As a result of the aforementioned analysis, no other-than-temporary losses were recorded during the quarter ended June 30, 2016.

The following table presents a roll-forward of credit-related impairment losses recognized in earnings for the six-month period ended June 30, 2016 and 2015 on available-for-sale securities:

	Six-Month Period Ended June 30,	
	2016	**2015**
Balance at beginning of period	$ 1,490	$ -
Reductions for securities sold during the period (realized)	(1,490)	-
Balance at end of period	$ **-**	$ **-**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

The Company's loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred to as "originated and other" loans) and loans acquired (referred to as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans. Acquired Eurobank loans were purchased subject to loss-sharing agreements with the FDIC. The FDIC loss-share coverage related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. Notwithstanding the expiration of loss share coverage of commercial loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a potential sale of a pool of loss-share assets covered under the commercial loss-sharing agreement. Pursuant to such agreement, and as further discussed below, the FDIC agreed to and paid $20 million in loss share coverage with respect to the aggregate loss resulting from any portfolio sale within 120 days of the agreement. This sale was completed on September 28, 2015. Covered loans are no longer a material amount. Therefore, the Company changed its loan disclosures during 2015.

The coverage for the single family residential loans will expire on June 30, 2020. At June 30, 2016, the remaining covered loans, amounting to $65.8 million, net carrying amount ($76.8 million gross amount), are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties." At December 31, 2015, covered loans amounted to $67.2 million, net carrying amount ($92.3 million gross amount). Interest income recognized for covered loans during the six-month periods ended June 30, 2016 and 2015 was $4.3 million and $28.3 million, respectively. The decrease in interest income recognized for covered loans is due to the expiration of the FDIC loss-share coverage related to commercial and other-non single family residential loans on June 30, 2015.

Effective June 30, 2016, pursuant to supervisory direction, the Company changed the purchase credit impaired policy for all loans accounted for under ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*). Under the revised policy, the Company writes-off the loan's recorded investment and derecognizes the associated allowance for loan and lease losses for loans that exit the acquired pools. The revised policy will be implemented prospectively due to the immaterial impact of retrospective adoption. Prior to June 30, 2016, the pool's carrying value and allowance was determined by discounting expected cash flows at the pool's effective yield. The allowance for loan and lease losses was maintained until all of the loans in the pool were paid off or charged-off. The transition to this revised policy on June 30, 2016 resulted in the de-recognition of $8.5 million and $72.2 million in the recorded investment balance and associated allowance for loans that had exited the pools, for acquired BBVAPR loans and acquired Eurobank loans, respectively, with no impact to the provision for loan and lease losses. Refer to Note 5 Allowances for Loan and Lease Losses.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The composition of the Company's loan portfolio at June 30, 2016 and December 31, 2015 was as follows:

	June 30, 2016	
	(In thous	
Originated and other loans and leases held for investment:		
Mortgage	$ 741,917	$
Commercial	1,476,613	
Consumer	265,269	
Auto and leasing	712,268	
	3,196,067	
Allowance for loan and lease losses on originated and other loans and leases	(112,812)	
	3,083,255	
Deferred loan costs, net	4,619	
Total originated and other loans loans held for investment, net	**3,087,874**	
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	4,559	
Consumer	35,194	
Auto	77,118	
	116,871	
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(4,487)	
	112,384	
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy) (a)		
Mortgage	591,029	
Commercial	246,188	
Construction	76,917	
Consumer	7,331	
Auto	117,038	
	1,038,503	
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30 (b)	(22,801)	
	1,015,702	
Total acquired BBVAPR loans, net	**1,128,086**	
Acquired Eurobank loans: (a)		
Loans secured by 1-4 family residential properties	76,777	
Commercial and construction	83,377	
Consumer	1,410	
Total acquired Eurobank loans	**161,564**	
Allowance for loan and lease losses on Eurobank loans (b)	(22,116)	

Total acquired Eurobank loans, net	**139,448**	
Total acquired loans, net	**1,267,534**	
Total held for investment, net	**4,355,408**	
Mortgage loans held-for-sale	18,209	
Total loans, net	**$ 4,373,617**	**$**

(a) Current period amounts have been re-measured using the revised derecognition policy for purchased credit impaired loans.
(b) A portion of the allowance for loan and lease losses associated with purchased credit impaired loans was derecognized on J
2016 due to the revision in the derecognition policy for these loans.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Originated and Other Loans and Leases Held for Investment

The Company's originated and other loans held for investment are encompassed within four portfolio segments: mortgage, commercial, consumer, and auto and leasing.

The following tables present the aging of the recorded investment in gross originated and other loans held for investment as of June 30, 2016 and December 31, 2015 by class of loans. Mortgage loans past due include delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	June 30, 2016							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
	(In thousands)							
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 260	$ 2,024	$ 2,973	$ 5,257	$ -	$ 48,801	$ 54,058	$ 227
Years 2003 and 2004	343	3,936	6,201	10,480	65	84,208	94,753	-
Year 2005	-	1,878	3,826	5,704	64	46,293	52,061	-
Year 2006	743	2,243	6,741	9,727	50	64,109	73,886	-
Years 2007, 2008 and 2009	854	1,414	11,793	14,061	-	69,957	84,018	699
Years 2010, 2011, 2012, 2013	498	1,307	9,420	11,225	142	133,384	144,751	416
Years 2014, 2015 and 2016	-	189	901	1,090	62	98,209	99,361	-
	2,698	12,991	41,855	57,544	383	544,961	602,888	1,342
Non-traditional	-	938	5,217	6,155	12	20,028	26,195	-
Loss mitigation program	9,898	6,574	15,738	32,210	3,857	68,014	104,081	3,770
	12,596	20,503	62,810	95,909	4,252	633,003	733,164	5,112
Home equity secured personal loans	-	-	-	-	-	384	384	-
GNMA's buy-back option program	-	-	8,369	8,369	-	-	8,369	-
Total mortgage	**12,596**	**20,503**	**71,179**	**104,278**	**4,252**	**633,387**	**741,917**	**5,112**

Commercial								
Commercial secured by real estate:								
Corporate	-	-	-	-	-	230,296	230,296	-
Institutional	-	-	-	-	-	27,838	27,838	-
Middle market	-	125	8,589	8,714	2,255	209,127	220,096	-
Retail	96	1,226	5,871	7,193	3,327	236,171	246,691	-
Floor plan	-	-	-	-	-	2,826	2,826	-
Real estate	-	-	-	-	-	16,079	16,079	-
	96	1,351	14,460	15,907	5,582	722,337	743,826	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	140,192	140,192	-
Institutional	-	-	-	-	183,020	193,258	376,278	-
Middle market	2,007	-	-	2,007	1,421	102,112	105,540	-
Retail	896	529	582	2,007	135	74,823	76,965	-
Floor plan	6	38	40	84	-	33,728	33,812	-
	2,909	567	622	4,098	184,576	544,113	732,787	-
Total commercial	**3,005**	**1,918**	**15,082**	**20,005**	**190,158**	**1,266,450**	**1,476,613**	**-**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Consumer								
Credit cards	459	177	432	1,068	-	23,809	24,877	-
Overdrafts	15	1	-	16	-	204	220	-
Personal lines of credit	42	14	94	150	-	2,281	2,431	-
Personal loans	1,854	1,137	898	3,889	875	216,884	221,648	-
Cash collateral personal loans	63	3	1	67	-	16,026	16,093	-
Total consumer	**2,433**	**1,332**	**1,425**	**5,190**	**875**	**259,204**	**265,269**	**-**
Auto and leasing	**44,433**	**19,438**	**7,322**	**71,193**	**15**	**641,060**	**712,268**	**-**
Total	**$ 62,467**	**$ 43,191**	**$ 95,008**	**$ 200,666**	**$ 195,300**	**$ 2,800,101**	**$ 3,196,067**	**$ 5,112**

18

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 80	$ 2,217	$ 3,889	$ 6,186	$ 41	$ 51,562	$ 57,789	$ 144
Years 2003 and 2004	251	5,036	5,536	10,823	-	88,623	99,446	-
Year 2005	79	2,553	3,549	6,181	-	48,040	54,221	-
Year 2006	551	2,878	7,934	11,363	176	66,864	78,403	-
Years 2007, 2008 and 2009	170	2,053	14,733	16,956	-	74,590	91,546	526
Years 2010, 2011, 2012, 2013	662	1,673	10,519	12,854	141	137,749	150,744	72
Years 2014 and 2015	-	65	663	728	-	85,128	85,856	-
	1,793	16,475	46,823	65,091	358	552,556	618,005	742
Non-traditional	-	977	5,079	6,056	13	23,483	29,552	-
Loss mitigation program	9,958	6,887	14,930	31,775	5,593	64,548	101,916	3,083
	11,751	24,339	66,832	102,922	5,964	640,587	749,473	3,825
Home equity secured personal loans	-	-	64	64	-	346	410	-
GNMA's buy-back option program	-	-	7,945	7,945	-	-	7,945	-
Total mortgage	**11,751**	**24,339**	**74,841**	**110,931**	**5,964**	**640,933**	**757,828**	**3,825**
Commercial								
Commercial secured by real estate:								
Corporate	-	-	-	-	-	227,557	227,557	-
Institutional	213	-	-	213	-	33,594	33,807	-
Middle market	1,174	712	9,113	10,999	1,730	194,219	206,948	-
Retail	686	466	6,921	8,073	1,177	231,840	241,090	-
Floor plan	-	-	-	-	-	2,892	2,892	-
Real estate	-	-	-	-	-	16,662	16,662	-
	2,073	1,178	16,034	19,285	2,907	706,764	728,956	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	108,582	108,582	-
Institutional	-	-	-	-	190,290	190,695	380,985	-
Middle market	-	-	-	-	1,565	105,748	107,313	-
Retail	282	639	604	1,525	783	75,489	77,797	-
Floor plan	238	51	39	328	-	37,688	38,016	-
	520	690	643	1,853	192,638	518,202	712,693	-

Total commercial	**2,593**	**1,868**	**16,677**	**21,138**	**195,545**	**1,224,966**	**1,441,649**	**-**

19

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Consumer								
Credit cards	449	182	369	1,000	-	21,766	22,766	-
Overdrafts	24	-	-	24	-	166	190	-
Personal lines of credit	74	-	45	119	19	2,106	2,244	-
Personal loans	2,078	1,179	627	3,884	414	196,858	201,156	-
Cash collateral personal loans	125	17	2	144	-	16,450	16,594	-
Total consumer	**2,750**	**1,378**	**1,043**	**5,171**	**433**	**237,346**	**242,950**	**-**
Auto and leasing	**53,566**	**16,898**	**8,293**	**78,757**	**49**	**590,357**	**669,163**	**-**
Total	**$70,660**	**$44,483**	**$100,854**	**$215,997**	**$201,991**	**$2,693,602**	**$3,111,590**	**$3,825**

During 2015, the Company changed its early delinquency reporting on mortgage loans from one scheduled payment due to two scheduled payments due to be comparable with local peers, except for troubled-debt restructured loans which continue using one scheduled payment due for delinquency reporting. During the quarter ended June 30, 2016, the Company changed its early delinquency reporting on consumer and auto loans from one scheduled payment due to two scheduled payments to report consistently its retail portfolio. The change resulted in a $19 thousand and $5.9 million reduction in early and total delinquency for consumer and auto loans, respectively.

At June 30, 2016 and December 31, 2015, the Company had carrying balances of $327.0 million and $334.6 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All loans granted to the Puerto Rico government were current at June 30, 2016 and December 31, 2015. As part of a bank syndicate, on November 5, 2015 the Company entered into a Restructuring Support Agreement with a view towards restructuring a line of credit to the Puerto Rico Electric Power Authority ("PREPA") on terms that provide for full repayment of the debt to the Bank. In the third quarter of 2014, the Company classified the credit as substandard and a troubled-debt restructuring. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company’s analysis showing PREPA’s capacity to repay the line of credit, the Company classified the credit as doubtful, placed its participation in non-accrual and recorded a $24 million provision during the first quarter of 2015. During the fourth quarter of 2015, the Company recorded an additional $29.3 million provision for loan and lease losses on PREPA. Since it was placed in non-accrual, interest payments have been applied to principal. At June 30, 2016 and December 31, 2015, the allowance for loan and lease losses to PREPA was $53.3 million.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Loans

Acquired loans were initially measured at fair value and subsequently accounted for under either ASC 310-30 or ASC 310-20 (*Non-refundable fees and Other Costs*). We have acquired loans in two bank acquisitions, BBVAPR and Eurobank.

Acquired BBVAPR Loans

Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)

Credit cards, retail and commercial revolving lines of credits, floor plans and performing auto loans with FICO scores over 660 acquired at a premium, excluding the acquired Eurobank loan portfolio, are accounted for under the guidance of ASC 310-20, which requires that any contractually required loan payment receivable in excess of the Company's initial investment in the loans be accreted into interest income on a level-yield basis over the life of the loan. Loans accounted for under ASC 310-20 are placed on non-accrual status when past due in accordance with the Company's non-accrual policy, and any accretion of discount or amortization of premium is discontinued. Acquired BBVAPR loans that were accounted for under the provisions of ASC 310-20 are removed from the acquired loan category at the end of the reporting period upon refinancing, renewal or normal re-underwriting.

The following tables present the aging of the recorded investment in gross acquired BBVAPR loans accounted for under ASC 310-20 as of June 30, 2016 and December 31, 2015, by class of loans:

	June 30, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Commercial								

Commercial secured by real estate								
Retail	$ -	$ -	$ 197	$ 197	$ -	$ -	$ 197	$ -
Floor plan	-	-	446	446	-	2,309	2,755	-
	-	-	643	643	-	2,309	2,952	-
Other commercial and industrial								
Retail	37	17	120	174	-	1,426	1,600	-
Floor plan	-	-	7	7	-	-	7	-
	37	17	127	181	-	1,426	1,607	-
	37	**17**	**770**	**824**	**-**	**3,735**	**4,559**	**-**
Consumer								
Credit cards	731	290	704	1,725	-	30,573	32,298	-
Personal loans	116	14	60	190	-	2,706	2,896	-
	847	**304**	**764**	**1,915**	**-**	**33,279**	**35,194**	**-**
Auto	**5,088**	**2,196**	**562**	**7,846**	**-**	**69,272**	**77,118**	**-**
Total	**$ 5,972**	**$ 2,517**	**$ 2,096**	**$ 10,585**	**$ -**	**$ 106,286**	**$ 116,871**	**$ -**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Commercial								
Commercial secured by real estate								
Retail	$ -	$ -	$ 228	$ 228	$ -	$ -	$ 228	$ -
Floor plan	-	-	467	467	-	2,422	2,889	-
	-	-	695	695	-	2,422	3,117	-
Other commercial and industrial								
Retail	186	29	178	393	-	3,331	3,724	-
Floor plan	-	-	7	7	-	609	616	-
	186	29	185	400	-	3,940	4,340	-
	186	**29**	**880**	**1,095**	**-**	**6,362**	**7,457**	**-**
Consumer								
Credit cards	930	384	489	1,803	-	33,414	35,217	-
Personal loans	14	29	46	89	-	3,079	3,168	-
	944	**413**	**535**	**1,892**	**-**	**36,493**	**38,385**	**-**
Auto	**7,553**	**2,279**	**831**	**10,663**	**-**	**96,248**	**106,911**	**-**
Total	**$ 8,683**	**$ 2,721**	**$ 2,246**	**$ 13,650**	**$ -**	**$ 139,103**	**$ 152,753**	**$ -**

Acquired BBVAPR Loans Accounted for under ASC 310-30 (including those accounted for under ASC 310-30 by analogy)

Acquired BBVAPR loans, except for credit cards, retail and commercial revolving lines of credits, floor plans and performing auto loans with FICO scores over 660 acquired at a premium, are accounted for by the Company in accordance with ASC 310-30.

The carrying amount corresponding to acquired BBVAPR loans with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at June 30, 2016 and December 31, 2015 is as follows:

		June 30, 2016		December 31, 2015
		(In thousands)		
Contractual required payments receivable (a)	$	1,788,121	$	1,945,098
Less: Non-accretable discount		394,500		434,190
Cash expected to be collected		1,393,621		1,510,908
Less: Accretable yield		355,118		361,688
Carrying amount, gross		1,038,503		1,149,220
Less: allowance for loan and lease losses (b)		22,801		25,785
Carrying amount, net	**$**	**1,015,702**	**$**	**1,123,435**

(a) Current period amounts have been re-measured using the revised derecognition policy for purchased credit impaired loans.
(b) A portion of the allowance for loan and lease losses associated with purchased credit impaired loans was derecognized on June 30, 2016 due to the revision in the derecognition policy for these loans.

At June 30, 2016 and December 31, 2015, the Company had $71.6 million and $80.9 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its acquired BBVAPR loans accounted for under ASC 310-30. This entire amount was current at June 30, 2016 and December 31, 2015

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

.The following tables describe the accretable yield and non-accretable discount activity of acquired BBVAPR loans accounted for under ASC 310-30 for the quarters and six-month periods ended June 30, 2016 and 2015:

	Quarter Ended June 30, 2016					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 260,557	$ 40,102	$ 17,156	$ 17,587	$ 5,261	$ 340,663
Accretion	(8,294)	(5,272)	(1,307)	(3,616)	(870)	(19,359)
Change in expected cash flows	-	3,062	(408)	630	(1)	3,283
Transfer from (to) non-accretable discount	31,560	(833)	(193)	(498)	495	30,531
Balance at end of period	**$ 283,823**	**$ 37,059**	**$ 15,248**	**$ 14,103**	**$ 4,885**	**$ 355,118**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 370,155	$ 10,716	$ 7,432	$ 21,938	$ 18,735	$ 428,976
Change in actual and expected losses	(2,442)	(967)	(206)	(315)	(15)	(3,945)
Transfer (to) from accretable yield	(31,560)	833	193	498	(495)	(30,531)
Balance at end of period	**$ 336,153**	**$ 10,582**	**$ 7,419**	**$ 22,121**	**$ 18,225**	**$ 394,500**

	Six-Month Period Ended June 30, 2016					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 268,794	$ 45,411	$ 19,615	$ 21,578	$ 6,290	$ 361,688
Accretion	(16,601)	(11,111)	(3,176)	(7,827)	(1,808)	(40,523)
Change in expected cash flows	-	3,190	(208)	631	(1)	3,612
Transfer from (to) non-accretable discount	31,630	(431)	(983)	(279)	404	30,341
Balance at end of period	**$ 283,823**	**$ 37,059**	**$ 15,248**	**$ 14,103**	**$ 4,885**	**$ 355,118**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 374,772	$ 11,781	$ 6,764	$ 22,039	$ 18,834	$ 434,190
Change in actual and expected losses	(6,989)	(1,630)	(328)	(197)	(205)	(9,349)
Transfer (to) from accretable yield	(31,630)	431	983	279	(404)	(30,341)
Balance at end of period	**$ 336,153**	**$ 10,582**	**$ 7,419**	**$ 22,121**	**$ 18,225**	**$ 394,500**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2015					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 284,612	$ 57,330	$ 19,390	$ 47,097	$ 5,601	$ 414,030
Accretion	(8,813)	(9,597)	(2,143)	(6,163)	(1,287)	(28,003)
Change in actual and expected losses	-	23,695	9,867	-	-	33,562
Transfer from (to) non-accretable discount	81	135	(2,501)	(9,403)	4,147	(7,541)
Balance at end of period	**$ 275,880**	**$ 71,563**	**$ 24,613**	**$ 31,531**	**$ 8,461**	**$ 412,048**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 392,609	$ 15,826	$ 3,957	$ 14,543	$ 23,576	$ 450,511
Change in actual and expected losses	(3,421)	(4,921)	536	(256)	(73)	(8,135)
Transfer (to) from accretable yield	(81)	(135)	2,501	9,403	(4,147)	7,541
Balance at end of period	**$ 389,107**	**$ 10,770**	**$ 6,994**	**$ 23,690**	**$ 19,356**	**$ 449,917**

	Six-Month Period Ended June 30, 2015					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 298,364	$ 61,196	$ 25,829	$ 53,998	$ 6,559	$ 445,946
Accretion	(17,800)	(20,356)	(5,953)	(13,151)	(2,213)	(59,473)
Change in actual and expected losses	-	23,695	9,867	-	-	33,562
Transfer (to) from non-accretable discount	(4,684)	7,028	(5,130)	(9,316)	4,115	(7,987)
Balance at end of period	**$ 275,880**	**71,563**	**24,613**	**31,531**	**8,461**	**412,048**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 389,839	$ 23,069	$ 3,486	$ 16,215	$ 24,018	$ 456,627
Change in actual and expected losses	(5,416)	(5,271)	(1,622)	(1,841)	(547)	(14,697)
Transfer from (to) accretable yield	4,684	(7,028)	5,130	9,316	(4,115)	7,987
Balance at end of period	**$ 389,107**	**$ 10,770**	**$ 6,994**	**$ 23,690**	**$ 19,356**	**$ 449,917**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Eurobank Loans

The carrying amount of acquired Eurobank loans at June 30, 2016 and December 31, 2015 is as follows:

		June 30 2016		December 31 2015
		(In thousands)		
Contractual required payments receivable (a)	$	252,801	$	342,511
Less: Non-accretable discount		11,555		21,156
Cash expected to be collected		241,246		321,355
Less: Accretable yield		79,682		84,391
Carrying amount, gross		161,564		236,964
Less: Allowance for loan and lease losses (b)		22,116		90,178
Carrying amount, net	**$**	**139,448**	**$**	**146,786**

(a) Current period amounts have been re-measured using the revised derecognition policy for purchased credit impaired loans.
(b) A portion of the allowance for loan and lease losses associated with purchased credit impaired loans was derecognized on June 30, 2016 due to the revision in the derecognition policy for these loans.

The following tables describe the accretable yield and non-accretable discount activity of acquired Eurobank loans for the quarters and six-months periods ended June 30, 2016 and 2015:

	Quarter Ended June 30, 2016					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 50,787	$ 33,203	$ 2,237	$ -	$ -	$ 86,227
Accretion	(2,263)	(4,528)	(33)	2	(76)	(6,898)
Change in expected cash flows	(198)	1,619	-	(77)	81	1,425
Transfer from (to) non-accretable discount	10	(1,152)	-	75	(5)	(1,072)
Balance at end of year	**$ 48,336**	**$ 29,142**	**$ 2,204**	**$ -**	**$ -**	**$ 79,682**

Non-Accretable Discount Activity:						
Balance at beginning of period	$ 12,703	$ -	$ -	$ -	$ -	$ 12,703
Change in actual and expected losses	(1,138)	(1,152)	-	75	(5)	(2,220)
Transfer from (to) accretable yield	(10)	1,152	-	(75)	5	1,072
Balance at end of period	**$ 11,555**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 11,555**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2016					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 51,954	$ 26,970	$ 2,255	$ -	$ 3,213	$ 84,392
Accretion	(4,529)	(8,623)	(47)	2	(1,261)	(14,458)
Change in expected cash flows	786	12,712	(23)	(77)	(1,947)	11,451
Transfer from (to) non-accretable discount	125	(1,917)	19	75	(5)	(1,703)
Balance at end of period	**$ 48,336**	**$ 29,142**	**$ 2,204**	**$ -**	**$ -**	**$ 79,682**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 12,869	$ -	$ -	$ -	$ 8,287	$ 21,156
Change in actual and expected losses	(1,189)	(1,917)	19	75	(8,292)	(11,304)
Transfer (to) from accretable yield	(125)	1,917	(19)	(75)	5	1,703
Balance at end of period	**$ 11,555**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 11,555**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2015					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 58,332	$ 33,481	$ 20,806	$ 1,665	$ 2,004	$ 116,288
Accretion	(3,276)	(8,047)	(405)	(937)	(93)	(12,758)
Transfer from non-accretable discount	750	2,039	(2,052)	375	(1)	1,111
Balance at end of period	**$ 55,806**	**$ 27,473**	**$ 18,349**	**$ 1,103**	**$ 1,910**	**$ 104,641**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 12,557	$ 10,493	$ -	$ -	$ 9,662	$ 32,712
Change in actual and expected losses	(405)	(8,454)	(2,052)	375	67	(10,469)
Transfer to accretable yield	(750)	(2,039)	2,052	(375)	1	(1,111)
Balance at end of period	**$ 11,402**	**$ -**	**$ -**	**$ -**	**$ 9,730**	**$ 21,132**

	Six-Month Period Ended June 30, 2015					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 47,636	$ 37,919	$ 20,753	$ 2,479	$ 1,072	$ 109,859
Accretion	(6,794)	(17,902)	(1,024)	(2,329)	(213)	(28,262)
Transfer from (to) non-accretable discount	14,964	7,456	(1,380)	953	1,051	23,044
Balance at end of period	**$ 55,806**	**$ 27,473**	**$ 18,349**	**$ 1,103**	**$ 1,910**	**$ 104,641**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 27,348	$ 24,464	$ -	$ -	$ 10,598	$ 62,410
Change in actual and expected cash flows	(982)	(17,008)	(1,380)	953	183	(18,234)
Transfer (to) from accretable yield	(14,964)	(7,456)	1,380	(953)	(1,051)	(23,044)
Balance at end of period	**$ 11,402**	**$ -**	**$ -**	**$ -**	**$ 9,730**	**$ 21,132**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

The following table presents the recorded investment in loans in non-accrual status by class of loans as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(In thousands)	
Originated and other loans and leases held for investment		
Mortgage		
Traditional (by origination year):		
Up to the year 2002	$ 2,812	$ 3,786
Years 2003 and 2004	6,359	5,737
Year 2005	3,889	3,627
Year 2006	7,135	8,189
Years 2007, 2008 and 2009	11,292	14,625
Years 2010, 2011, 2012, 2013	9,311	10,588
Years 2014, 2015 and 2016	963	663
	41,761	47,215
Non-traditional	5,229	5,092
Loss mitigation program	18,769	20,172
	65,759	**72,479**
Home equity loans, secured personal loans	-	64
	65,759	**72,543**
Commercial		
Commercial secured by real estate		
Middle market	10,969	12,729
Retail	10,352	8,726
	21,321	21,455
Other commercial and industrial		
Institutional	183,020	190,290
Middle market	1,421	1,565
Retail	1,966	1,932
Floor plan	40	39
	186,447	193,826
	207,768	**215,281**
Consumer		
Credit cards	432	369
Personal lines of credit	94	100
Personal loans	1,812	1,146
Cash collateral personal loans	1	16
	2,339	**1,631**
Auto and leasing	**7,337**	**8,418**

Total non-accrual originated loans	$	**283,203**	$	**297,873**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2016	December 31, 2015
	(In thousands)	
<u>**Acquired BBVAPR loans accounted for under ASC 310-20**</u>		
Commercial		
Commercial secured by real estate		
Retail	$ 197	$ 228
Floor plan	446	467
	643	695
Other commercial and industrial		
Retail	120	178
Floor plan	7	7
	127	185
	770	**880**
Consumer		
Credit cards	704	489
Personal loans	60	46
	764	**535**
Auto	**562**	**831**
Total non-accrual acquired BBVAPR loans accounted for under ASC 310-20	**2,096**	**2,246**
Total non-accrual loans	**$ 285,299**	**$ 300,119**

Loans accounted for under ASC 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses or are accounted for under the cost recovery method.

Delinquent residential mortgage loans insured or guaranteed under applicable Federal Housing Administration ("FHA") and U.S. Department of Veterans Affairs ("VA") programs are classified as non-performing loans when they become 90 days or more past due, but are not placed in non-accrual status until they become 18 months or more past due, since they are insured loans. Therefore, these loans are included as non-performing loans but excluded from non-accrual loans.

During the first quarter of 2015, the revolving line of credit to PREPA was classified as non-accrual. At June 30, 2016, this line of credit had an unpaid principal balance of $183.0 million. Since the second quarter of 2015, interest payments have been applied to principal. As of June 30, 2016, the specific reserve for the PREPA line of credit is $53.3 million.

At June 30, 2016 and December 31, 2015, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $97.2 million and $93.6 million, respectively, as they are performing under their new terms.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

The Company evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans was $219.4 million and $235.8 million at June 30, 2016 and December 31, 2015, respectively. Impaired commercial loans at June 30, 2016 and December 31, 2015 included the PREPA line of credit with an unpaid principal balance of $183.0 million and $190.3 million, respectively. The impaired commercial loans were measured based on the fair value of collateral or the present value of cash flows, including those identified as troubled-debt restructurings. The valuation allowance for impaired commercial loans amounted to $56.8 million at June 30, 2016 and $55.9 million at December 31, 2015. The valuation allowance for impaired commercial loans at June 30, 2016 and December 31, 2015 included $53.3 million of specific allowance for PREPA. The total investment in impaired mortgage loans was $90.9 million and $90.0 million at June 30, 2016 and December 31, 2015, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to $8.9 million at June 30, 2016 and $9.2 million at December 31, 2015.

Originated and Other Loans and Leases Held for Investment

The Company's recorded investment in commercial and mortgage loans categorized as originated and other loans and leases held for investment that were individually evaluated for impairment and the related allowance for loan and lease losses at June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016			
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Coverage**
		(In thousands)		
Impaired loans with specific allowance:				
Commercial	$ 212,876	$ 194,084	$ 56,758	29%
Residential impaired and troubled-debt restructuring	99,145	90,948	8,864	10%
Impaired loans with no specific allowance:				
Commercial	30,228	23,876	-	0%
Total investment in impaired loans	**$ 342,249**	**$ 308,908**	**$ 65,622**	**21%**

	December 31, 2015			
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Coverage**
		(In thousands)		

Impaired loans with specific allowance:							
Commercial	$	210,718	$	199,366	$	55,947	28%
Residential impaired and troubled-debt restructuring		97,424		89,973		9,233	10%
Impaired loans with no specific allowance							
Commercial		42,110		35,928		-	0%
Total investment in impaired loans	**$**	**350,252**	**$**	**325,267**	**$**	**65,180**	**20%**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired BBVAPR Loans

Loans Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)

The Company's recorded investment in acquired BBVAPR commercial loans accounted for under ASC 310-20 that were individually evaluated for impairment and the related allowance for loan and lease losses at June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
		(In thousands)		
Impaired loans with no specific allowance				
Commercial	$ 1,450	$ 1,433	$ -	0%
Total investment in impaired loans	**$ 1,450**	**$ 1,433**	**$ -**	**0%**

	December 31, 2015			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage
		(In thousands)		
Impaired loans with no specific allowance				
Commercial	$ 486	$ 474	$ -	0%
Total investment in impaired loans	**$ 486**	**$ 474**	**$ -**	**0%**

Loans Accounted for under ASC 310-30 (including those accounted for under ASC 310-30 by analogy)

The Company's recorded investment in acquired BBVAPR loan pools accounted for under ASC 310-30 that have recorded impairments and their related allowance for loan and lease losses at June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance: (a)(b)				
Mortgage	$ 591,029	$ 591,056	$ 1,585	0%
Commercial	246,142	173,949	11,884	7%

Construction		76,677		56,457		3,979	7%
Auto		117,038		117,043		5,353	5%
Total investment in impaired loan pools	**$**	**1,030,886**	**$**	**938,505**	**$**	**22,801**	**2%**

(a) Current period amounts have been re-measured using the revised derecognition policy for purchased credit impaired loans.
(b) A portion of the allowance for loan and lease losses associated with purchased credit impaired loans was derecognized on June 30, 2016 due to the revision in the derecognition policy for these loans.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31 , 2015			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance:				
Mortgage	$ 608,294	$ 608,294	$ 1,761	0%
Commercial	287,311	168,107	15,455	9%
Construction	88,180	87,983	5,707	6%
Auto	153,592	153,592	2,862	2%
Total investment in impaired loan pools	**$ 1,137,377**	**$ 1,017,976**	**$ 25,785**	**3%**

The tables above only present information with respect to acquired BBVAPR loans and pools accounted for under ASC 310-30 if there is a recorded impairment to such loans or loan pools and a specific allowance for loan losses.

Acquired Eurobank Loans

The Company's recorded investment in acquired Eurobank loan pools that have recorded impairments and their related allowance for loan and lease losses as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance: (a)(b)				
Loans secured by 1-4 family residential properties	$ 95,755	$ 76,777	$ 11,016	14%
Commercial and construction	114,932	83,377	11,096	13%
Consumer	1,252	1,410	4	0%
Total investment in impaired loan pools	**$ 211,939**	**$ 161,564**	**$ 22,116**	14%

(a) Current period amounts have been re-measured using the revised derecognition policy for purchased credit impaired loans.
(b) A portion of the allowance for loan and lease losses associated with purchased credit impaired loans was derecognized on June 30, 2016 due to the revision in the derecognition policy for these loans.

	December 31, 2015						
		Unpaid Principal		Recorded Investment		Specific Allowance	Coverage to Recorded Investment
				(In thousands)			
Impaired loan pools with specific allowance							
Loans secured by 1-4 family residential properties	$	101,444	$	92,273	$	22,570	24%
Commercial and construction		133,148		142,377		67,365	47%
Consumer		6,713		2,314		243	11%
Total investment in impaired loan pools	**$**	**241,305**	**$**	**236,964**	**$**	**90,178**	38%

The tables above only present information with respect to acquired Eurobank loans and loan pools accounted for under ASC 310-30 if there is a recorded impairment to such loans or loan pools and a specific allowance for loan losses.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the interest recognized in commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30 for the quarters and six-month periods ended June 30, 2016 and 2015:

	Quarter Ended June 30,			
	2016		2015	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Originated and other loans held for investment:				
Impaired loans with specific allowance				
Commercial	$ 75	$ 194,759	$ 45	$ 212,414
Residential troubled-debt restructuring	791	91,007	781	89,041
Impaired loans with no specific allowance				
Commercial	149	29,579	316	30,015
	1,015	**315,345**	**1,142**	**331,470**
Acquired loans accounted for under ASC 310-20:				
Impaired loans with no specific allowance				
Commercial	15	789	11	1,446
Total interest income from impaired loans	**$ 1,030**	**$ 316,134**	**$ 1,153**	**$ 332,916**

	Six-Month Period Ended June 30,			
	2016		2015	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Originated and other loans held for investment:				
Impaired loans with specific allowance				
Commercial	$ 150	$ 195,777	$ 90	$ 146,144
Residential troubled-debt restructuring	1,591	90,650	1,563	91,216
Impaired loans with no specific allowance				
Commercial	298	31,603	631	95,791
Total interest income from impaired loans	**$ 2,039**	**$ 318,030**	**$ 2,284**	**$ 333,151**
Aquired loans accounted for under SC 310-20:				
Impaired loans with no specific allowance				
Commercial	30	628	21	1,923
Total interest income from impaired loans	**$ 2,069**	**$ 318,658**	**$ 2,305**	**$ 335,074**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

The following tables present the troubled-debt restructurings during the quarters and six-month periods ended June 30, 2016 and 2015.

	Quarter Ended June 30, 2016						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	19	$ 2,670	5.69%	372	$ 2,670	4.54%	494
Commercial	6	668	6.65%	65	668	5.91%	86
Consumer	26	364	12.73%	75	372	10.20%	70

	Six-Month Period Ended June 30, 2016						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	52	$ 6,628	5.90%	365	$ 7,525	4.73%	493
Commercial	8	1,323	6.73%	53	1,324	6.31%	61
Consumer	47	556	13.27%	75	603	10.56%	71

	Quarter Ended June 30, 2015						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	39	$ 4,455	5.62%	330	$ 4,455	4.21%	330
Commercial	1	29	7.25%	44	29	6.50%	60
Consumer	21	250	14.40%	71	259	13.87%	69
Auto	1	64	12.95%	72	65	12.95%	72

	Six-Month Period Ended June 30, 2015						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						

Mortgage	97	$11,609	4.65%	348	$11,594	4.13%	349
Commercial	4	4,533	6.83%	80	4,533	7.00%	141
Consumer	32	396	14.50%	72	440	14.25%	68
Auto	1	64	12.95%	72	65	12.95%	72

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents troubled-debt restructurings for which there was a payment default during the twelve-month periods ended June 30, 2016 and 2015:

	Twelve-Month Period Ended June 30,			
	2016		2015	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Mortgage	84	$ 9,869	60	$ 6,911
Consumer	7	$ 134	4	$ 72
Auto	1	$ 17	-	$ -

Credit Quality Indicators

The Company categorizes originated and other loans and acquired loans accounted for under ASC 310-20 into risk categories based on relevant information about the ability of borrowers to service their debt, such as economic conditions, portfolio risk characteristics, prior loss experience, and the results of periodic credit reviews of individual loans.

The Company uses the following definitions for risk ratings:

Pass: Loans classified as “pass” have a well-defined primary source of repayment very likely to be sufficient, with no apparent risk, strong financial position, minimal operating risk, profitability, liquidity and capitalization better than industry standards.

Special Mention: Loans classified as “special mention” have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

Substandard: Loans classified as “substandard” are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as "doubtful" have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, questionable and improbable.

Loss: Loans classified as "loss" are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be effected in the future.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of June 30, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of gross originated and other loans and BBVAPR acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

	June 30, 2016					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 230,296	$ 215,312	$ 14,984	$ -	$ -	$ -
Institutional	27,838	26,200	-	-	-	1,638
Middle market	220,096	188,700	17,697	374	-	13,325
Retail	246,691	222,814	7,468	4,128	-	12,281
Floor plan	2,826	2,826	-	-	-	-
Real estate	16,079	16,079	-	-	-	-
	743,826	671,931	40,149	4,502	-	27,244
Other commercial and industrial:						
Corporate	140,192	140,192	-	-	-	-
Institutional	376,278	193,258	-	-	-	183,020
Middle market	105,540	95,946	5,142	181	-	4,271
Retail	76,965	71,933	898	979	-	3,155
Floor plan	33,812	28,046	5,415	81	-	270
	732,787	529,375	11,455	1,241	-	190,716
Total	1,476,613	1,201,306	51,604	5,743	-	217,960
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	197	-	-	197	-	-
Floor plan	2,755	953	376	-	-	1,426
	2,952	953	376	197	-	1,426
Other commercial and industrial:						
Retail	1,600	1,527	-	73	-	-
Floor plan	7	-	-	-	-	7
	1,607	1,527	-	73	-	7
Total	4,559	2,480	376	270	-	1,433
Total	**$ 1,481,172**	**$ 1,203,786**	**$ 51,980**	**$ 6,013**	**$ -**	**$ 219,393**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015 Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 227,557	$ 212,410	$ 15,147	$ -	$ -	$ -
Institutional	33,807	25,907	-	-	-	7,900
Middle market	206,948	181,916	9,697	-	-	15,335
Retail	241,090	217,836	7,936	5,097	-	10,221
Floor plan	2,892	2,892	-	-	-	-
Real estate	16,662	16,662	-	-	-	-
	728,956	657,623	32,780	5,097	-	33,456
Other commercial and industrial:						
Corporate	108,582	100,826	-	-	-	7,756
Institutional	380,985	190,695	-	-	-	190,290
Middle market	107,313	97,288	8,052	-	-	1,973
Retail	77,797	73,757	1,076	1,184	-	1,780
Floor plan	38,016	35,862	2,115	-	-	39
	712,693	498,428	11,243	1,184	-	201,838
Total	1,441,649	1,156,051	44,023	6,281	-	235,294
Commercial - acquired loans						
(under ASC 310-20)						
Commercial secured by real estate:						
Retail	228	-	-	228	-	-
Floor plan	2,889	602	1,820	-	-	467
	3,117	602	1,820	228	-	467
Other commercial and industrial:						
Retail	3,724	3,637	-	87	-	-
Floor plan	616	609	-	-	-	7
	4,340	4,246	-	87	-	7
Total	7,457	4,848	1,820	315	-	474
Total	**$ 1,449,106**	**$ 1,160,899**	**$ 45,843**	**$ 6,596**	**$ -**	**$ 235,768**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At June 30, 2016 and December 31, 2015, the Company had outstanding credit facilities of approximately $398.6 million and $415.4 million, respectively, granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, included within the portfolios of originated and other loans and acquired BBVAPR loans accounted for under ASC 310-30. A substantial portion of the Company's credit exposure to Puerto Rico's government consists of collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Approximately $204 million of these loans are general obligations of municipalities secured by *ad valorem* taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations.

At June 30, 2016, we had approximately $194.4 million of credit facilities to central government and public corporations of the Commonwealth, including:

- PREPA with an outstanding balance of $183.0 million; and
- The Puerto Rico Housing Finance Authority ("PRHFA") with an outstanding balance of $11.0 million to be repaid from abandoned or unclaimed funds at financial institutions that revert to the government under a Puerto Rico escheat law.

The outstanding balance of credit facilities to central government and public corporations decreased by $10.0 million during the first quarter of 2016 as a result of a partial repayment by PRHFA.

Oriental Bank is part of a four bank syndicate that provided a $550 million revolving line of credit to finance the purchase of fuel for PREPA's day-to-day power generation activities. Our participation in the line of credit has an unpaid principal balance of $183.0 million as of June 30, 2016. As part of the bank syndicate, the Bank entered into a Restructuring Support Agreement on November 5, 2015 with PREPA and certain other creditors. The Restructuring Support Agreement provides for the restructuring of the fuel line of credit subject to the accomplishment of several milestones, including some milestones that depend on the actions of third parties to the agreement, such as the negotiation of agreements with other creditors and legislative action. The Company expects the restructuring to be completed by the end of 2016. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company classifies this participation in the substandard risk category and non-accrual and has a $53.3 million allowance for loan and lease losses recorded for this line of credit. Since April 1, 2015, interest payments have been applied to principal.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of June 30, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of gross originated and other loans and acquired BBVAPR loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

	June 30, 2016							
		Delinquency						
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 54,058	$ 48,163	$ 259	$ 2,023	$ 527	$ 1,153	$ 1,292	$ 641
Years 2003 and 2004	94,753	82,651	343	3,936	1,864	1,859	2,312	1,788
Year 2005	52,061	45,538	-	1,878	497	918	2,410	820
Year 2006	73,886	60,860	511	2,244	554	1,603	4,584	3,530
Years 2007, 2008 and 2009	84,018	66,997	703	1,286	569	1,724	8,898	3,841
Years 2010, 2011, 2012 2013	144,751	132,451	407	1,203	182	1,581	5,132	3,795
Years 2014, 2015 and 2016	99,361	98,270	-	189	140	398	364	-
	602,888	534,930	2,223	12,759	4,333	9,236	24,992	14,415
Non-traditional	26,195	20,040	-	938	564	1,999	2,654	-
Loss mitigation program	104,081	18,865	1,692	1,381	940	1,306	3,364	76,533
	733,164	573,835	3,915	15,078	5,837	12,541	31,010	90,948
Home equity secured personal loans	384	384	-	-	-	-	-	-
GNMA's buy-back option program	8,369	-	-	-	1,498	3,228	3,643	-
	741,917	**574,219**	**3,915**	**15,078**	**7,335**	**15,769**	**34,653**	**90,948**
Consumer								
Credit cards	24,877	23,809	459	177	214	218	-	-
Overdrafts	220	204	15	1	-	-	-	-
	2,431	2,281	42	14	11	83	-	-

Unsecured personal lines of credit								
Unsecured personal loans	221,648	217,759	1,854	1,137	898	-	-	-
Cash collateral personal loans	16,093	16,026	63	3	-	1	-	-
	265,269	**260,079**	**2,433**	**1,332**	**1,123**	**302**	**-**	**-**
Auto and Leasing	**712,268**	**641,075**	**44,433**	**19,438**	**5,492**	**1,830**	**-**	**-**
	1,719,454	**1,475,373**	**50,781**	**35,848**	**13,950**	**17,901**	**34,653**	**90,948**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	32,298	30,573	731	290	290	414	-	-
Personal loans	2,896	2,707	116	14	26	33	-	-
	35,194	**33,280**	**847**	**304**	**316**	**447**	**-**	**-**
Auto	**77,118**	**69,272**	**5,088**	**2,196**	**412**	**150**	**-**	**-**
	112,312	**102,552**	**5,935**	**2,500**	**728**	**597**	**-**	**-**
Total	**$ 1,831,766**	**$ 1,577,925**	**$ 56,716**	**$ 38,348**	**$ 14,678**	**$ 18,498**	**$ 34,653**	**$ 90,948**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015
Delinquency