OFG BANCORP
Form 10-Q
August 04, 2017

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, 2017

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)

Emerging Growth Company

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

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

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

43,947,442 common shares ($1.00 par value per share) outstanding as of July 31, 2017

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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, 2017 AND DECEMBER 31, 2016

		June 30, 2017		December 31, 2016
		(In thousands)		
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$	470,841	$	504,833
Money market investments		6,467		5,606
Total cash and cash equivalents		**477,308**		**510,439**
Restricted cash		3,030		3,030
Investments:				
Trading securities, at fair value, with amortized cost of $667 (December 31, 2016 - $667)		294		347
Investment securities available-for-sale, at fair value, with amortized cost of $649,280 (December 31, 2016 - $749,867)		649,327		751,484
Investment securities held-to-maturity, at amortized cost, with fair value of $549,595 (December 31, 2016 - $592,763)		555,407		599,884
Federal Home Loan Bank (FHLB) stock, at cost		16,616		10,793
Other investments		3		3
Total investments		**1,221,647**		**1,362,511**
Loans:				
Loans held-for-sale, at lower of cost or fair value		47,691		12,499
Loans held for investment, net of allowance for loan and lease losses of $132,295 (December 31, 2016 - $115,937)		4,044,175		4,135,193
Total loans		**4,091,866**		**4,147,692**
Other assets:				
FDIC indemnification asset		-		14,411
Foreclosed real estate		50,223		47,520
Accrued interest receivable		19,798		20,227
Deferred tax asset, net		116,199		124,200
Premises and equipment, net		69,836		70,407
Customers' liability on acceptances		22,739		23,765
Servicing assets		9,866		9,858
Derivative assets		957		1,330
Goodwill		86,069		86,069
Other assets		66,288		80,365
Total assets	$	**6,235,826**	$	**6,501,824**

See notes to unaudited financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2017 AND DECEMBER 31, 2016 (CONTINUED)

		June 30, 2017		December 31, 2016
		(In thousands)		
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Demand deposits	$	1,844,996	$	1,939,764
Savings accounts		1,169,002		1,196,232
Time deposits		1,568,688		1,528,491
Total deposits		**4,582,686**		**4,664,487**
Borrowings:				
Securities sold under agreements to repurchase		453,492		653,756
Advances from FHLB		137,540		105,454
Subordinated capital notes		36,083		36,083
Other borrowings		177		61
Total borrowings		**627,292**		**795,354**
Other liabilities:				
Derivative liabilities		1,881		2,437
Acceptances executed and outstanding		22,739		23,765
Accrued expenses and other liabilities		62,259		95,370
Total liabilities		**5,296,857**		**5,581,413**
Commitments and contingencies (See Note 18)				
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, 2016 - 1,340,000 shares; 1,380,000 shares; and 960,000 shares) $25 liquidation value		92,000		92,000
84,000 shares of Series C issued and outstanding (December 31, 2016 - 84,000 shares); $1,000 liquidation value		84,000		84,000
Common stock, $1 par value; 100,000,000 shares authorized; 52,625,869 shares issued: 43,947,442 shares outstanding (December 31, 2016 - 52,625,869; 43,914,844)		52,626		52,626
Additional paid-in capital		541,005		540,948

Legal surplus		79,460		76,293
Retained earnings		194,687		177,808
Treasury stock, at cost, 8,678,427 shares (December 31, 2016 - 8,711,025 shares)		(104,502)		(104,860)
Accumulated other comprehensive (loss) income, net of tax of $569 (December 31, 2016 $983)		(307)		1,596
Total stockholders' equity		**938,969**		**920,411**
Total liabilities and stockholders' equity	$	**6,235,826**	$	**6,501,824**

See notes to unaudited financial statements

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Interest income:				
Loans	$ 77,238	$ 79,675	$ 154,888	$ 160,827
Mortgage-backed securities	7,276	7,220	14,482	16,217
Investment securities and other	1,426	1,013	2,748	2,170
Total interest income	**85,940**	**87,908**	**172,118**	**179,214**
Interest expense:				
Deposits	7,652	7,367	15,005	14,491
Securities sold under agreements to repurchase	1,734	4,258	4,979	10,358
Advances from FHLB and other borrowings	607	2,098	1,202	4,337
Subordinated capital notes	384	873	751	1,741
Total interest expense	**10,377**	**14,596**	**21,937**	**30,927**
Net interest income	**75,563**	**73,312**	**150,181**	**148,287**
Provision for loan and lease losses, net	26,536	14,445	44,190	28,234
Net interest income after provision for loan and lease losses	**49,027**	**58,867**	**105,991**	**120,053**
Non-interest income:				
Banking service revenue	10,458	10,219	21,084	20,337
Wealth management revenue	6,516	7,041	12,731	13,193
Mortgage banking activities	959	1,024	1,546	1,879
Total banking and financial service revenues	**17,933**	**18,284**	**35,361**	**35,409**
FDIC shared-loss benefit (expense), net	-	(3,420)	1,403	(7,449)
Net gain (loss) on:				
Sale of securities	6,891	211	6,891	12,207
Derivatives	22	(10)	103	(13)
Early extinguishment of debt	(80)	-	(80)	(12,000)
Other non-interest income	120	90	282	504
Total non-interest income, net	**24,886**	**15,155**	**43,960**	**28,658**

See notes to unaudited financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016 (CONTINUED)

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Non-interest expense:				
Compensation and employee benefits	19,317	18,441	39,664	38,696
Professional and service fees	3,225	2,810	6,462	5,795
Occupancy and equipment	8,690	8,107	16,057	15,929
Insurance	1,183	3,155	2,783	6,305
Electronic banking charges	5,450	4,947	10,352	10,536
Information technology expenses	2,069	1,606	4,068	3,262
Advertising, business promotion, and strategic initiatives	1,361	1,294	2,722	2,588
Loss on sale of foreclosed real estate and other repossessed assets	1,787	4,163	3,113	6,094
Loan servicing and clearing expenses	1,270	1,966	2,459	4,096
Taxes, other than payroll and income taxes	2,393	2,330	4,764	5,001
Communication	761	581	1,506	1,400
Printing, postage, stationary and supplies	665	600	1,303	1,325
Director and investor relations	274	301	554	579
Credit related expenses	2,217	2,203	4,843	4,458
Other	2,154	1,321	3,850	2,618
Total non-interest expense	**52,816**	**53,825**	**104,500**	**108,682**
Income before income taxes	**21,097**	**20,197**	**45,451**	**40,029**
Income tax expense	3,993	5,858	13,197	11,519
Net income	**17,104**	**14,339**	**32,254**	**28,510**
Less: dividends on preferred stock	(3,466)	(3,466)	(6,931)	(6,931)
Income available to common shareholders	**$ 13,638**	**$ 10,873**	**$ 25,323**	**$ 21,579**
Earnings per common share:				
Basic	**$ 0.30**	**$ 0.25**	**$ 0.58**	**$ 0.49**
Diluted	**$ 0.30**	**$ 0.25**	**$ 0.57**	**$ 0.49**
Average common shares outstanding and equivalents	**51,100**	**51,095**	**51,093**	**51,081**
Cash dividends per share of common stock	**$ 0.06**	**$ 0.06**	**$ 0.12**	**$ 0.12**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income	**$ 17,104**	**$ 14,339**	**$ 32,254**	**$ 28,510**
Other comprehensive (loss) income before tax:				
Unrealized gain on securities available-for-sale	3,454	3,719	5,319	12,364
Realized gain on investment securities included in net income	(6,891)	(211)	(6,891)	(12,207)
Unrealized (loss) gain on cash flow hedges	(102)	663	81	652
Other comprehensive (loss) income before taxes	**(3,539)**	**4,171**	**(1,491)**	**809**
Income tax effect	(116)	(650)	(412)	999
Other comprehensive (loss) income after taxes	**(3,655)**	**3,521**	**(1,903)**	**1,808**
Comprehensive income	**$ 13,449**	**$ 17,860**	**$ 30,351**	**$ 30,318**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES

IN STOCKHOLDERS' EQUITY

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Six-Month Period Ended June 30,			
	2017		2016	
	(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		540,948		540,512
Stock-based compensation expense		515		698
Stock-based compensation excess tax benefit recognized in income		(100)		-
Lapsed restricted stock units		(358)		(505)
Balance at end of period		**541,005**		**540,705**
Legal surplus:				
Balance at beginning of period		76,293		70,435
Transfer from retained earnings		3,167		2,830
Balance at end of period		**79,460**		**73,265**
Retained earnings:				
Balance at beginning of period		177,808		148,886
Net income		32,254		28,510
Cash dividends declared on common stock		(5,277)		(5,272)
Cash dividends declared on preferred stock		(6,931)		(6,931)
Transfer to legal surplus		(3,167)		(2,830)
Balance at end of period		**194,687**		**162,363**
Treasury stock:				
Balance at beginning of period		(104,860)		(105,379)
Lapsed restricted stock units		358		505
Balance at end of period		**(104,502)**		**(104,874)**
Accumulated other comprehensive (loss) income, net of tax:				
Balance at beginning of period		1,596		13,997
Other comprehensive (loss) income, net of tax		(1,903)		1,808
Balance at end of period		**(307)**		**15,805**
Total stockholders' equity	**$**	**938,969**	**$**	**915,890**

See notes to unaudited consolidated financial statements

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Six-Month Period Ended June 30,	
	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	$ **32,254**	$ **28,510**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan origination fees, net of costs	1,455	1,977
Amortization of fair value premiums, net of discounts, on acquired loans	2	39
Amortization of investment securities premiums, net of accretion of discounts	4,362	4,356
Amortization of core deposit and customer relationship intangibles	737	839
Amortization of fair value premiums on acquired deposits	-	189
FDIC shared-loss (benefit) expense, net	(1,403)	7,449
Depreciation and amortization of premises and equipment	4,231	5,025
Deferred income tax expense, net	7,570	3,543
Provision for loan and lease losses, net	44,190	28,234
Stock-based compensation	515	698
Stock-based compensation excess tax benefit recognized in income	(100)	-
(Gain) loss on:		
Sale of securities	(6,891)	(12,207)
Sale of mortgage loans held-for-sale	(517)	(809)
Derivatives	(103)	88
Early extinguishment of debt	80	12,000
Foreclosed real estate	3,453	7,287
Sale of other repossessed assets	(153)	(1,235)
Sale of premises and equipment	-	13
Originations of loans held-for-sale	(74,806)	(90,052)
Proceeds from sale of mortgage loans held-for-sale	24,020	32,212
Net (increase) decrease in:		
Trading securities	53	(60)
Accrued interest receivable	429	628
Servicing assets	(8)	(477)
Other assets	12,493	(4,872)
Net increase (decrease) in:		
Accrued interest on deposits and borrowings	(370)	(373)
Accrued expenses and other liabilities	(45,858)	8,253
Net cash provided by operating activities	**5,635**	**31,255**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016 (CONTINUED)

	Six-Month Period Ended June 30,	
	2017	2016
	(In thousands)	
Cash flows from investing activities:		
Purchases of:		
Investment securities available-for-sale	(114,595)	(302)
Investment securities held-to-maturity	-	(51,717)
FHLB stock	(26,730)	(8,512)
Maturities and redemptions of:		
Investment securities available-for-sale	57,714	74,208
Investment securities held-to-maturity	41,920	34,304
FHLB stock	20,907	9,457
Proceeds from sales of:		
Investment securities available-for-sale	212,203	300,483
Foreclosed real estate and other repossessed assets, including write-offs	21,754	25,779
Proceeds from sale of loans held-for-sale	-	478
Premises and equipment	-	44
Origination and purchase of loans, excluding loans held-for-sale	(384,211)	(373,927)
Principal repayment of loans, including covered loans	367,834	386,477
(Repayments to) reimbursements from the FDIC on shared-loss agreements, net	(10,125)	738
Additions to premises and equipment	(3,660)	(3,077)
Net change in restricted cash	-	319
Net cash provided by investing activities	**183,011**	**394,752**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016 – (CONTINUED)

	Six-Month Period Ended June 30,			
	2017		2016	
	(In thousands)			
Cash flows from financing activities:				
Net increase (decrease) in:				
Deposits		(41,900)		(87,864)
Securities sold under agreements to repurchase		(199,466)		(320,000)
FHLB advances, federal funds purchased, and other borrowings		32,194		(25,951)
Subordinated capital notes		-		350
Dividends paid on preferred stock		(6,931)		(6,931)
Dividends paid on common stock		(5,674)		(5,272)
Net cash used in financing activities	**$**	**(221,777)**	**$**	**(445,668)**
Net change in cash and cash equivalents		**(33,131)**		**(19,661)**
Cash and cash equivalents at beginning of period		510,439		536,709
Cash and cash equivalents at end of period	**$**	**477,308**	**$**	**517,048**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:				
Interest paid	$	21,386	$	30,454
Income taxes paid	$	15	$	3,642
Mortgage loans securitized into mortgage-backed securities	$	49,648	$	53,872
Transfer from loans to foreclosed real estate and other repossessed assets	$	28,293	$	21,865
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	33,647	$	-
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	112	$	182

See notes to unaudited consolidated financial statements

OFG BANCORP

NOTES TO 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 February 6, 2017, the Bank and the FDIC agreed to terminate the shared-loss agreements related to the Eurobank 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

Scope of Modification Accounting. In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-09 that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU No. 2017-08 is effective for fiscal years, and interim periods, beginning after December 15, 2018, with early adoption permitted. The Company's Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, and dividend equivalents, as well as equity-based performance awards. If any change occurs in the future to the Omnibus Plan, the Company will evaluate it under this guideline.

Premium Amortization on Purchased Callable Debt Securities Receivables. In March 2017, the FASB issued ASU No. 2017-08, which requires the amortization of the premium on callable debt securities to the earliest call date. The amortization period for callable debt securities purchased at a discount would not be impacted by the ASU. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2018. The ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations. At June 30, 2017, the Company does not have callable debt securities.

Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force). In February 2017, the FASB issued ASU No. 2017-06, which intended to reduce diversity and improve the usefulness of information provided by employee benefit plans that hold interests in master trusts. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2018. The ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued ASU No. 2017-04, which simplifies the measurement of goodwill impairment. An entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2019. We are currently assessing the impact that the adoption of ASU 2017-04 will have on our consolidated financial statements and related disclosures.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Restricted Cash. In November 2016, the FASB issued ASU No. 2016-18, which amends Topic 230 (Statement of Cash Flows) and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is intended to reduce diversity in practice in how restricted cash or restricted cash equivalents are presented and classified in the statement of cash flows. ASU No. 2016-18 is effective for fiscal years, and interim periods, beginning after December 15, 2017, with early adoption permitted. The standard requires application using a retrospective transition method. The adoption of ASU No. 2016-18 will change the presentation and classification of restricted cash and restricted cash equivalents in our consolidated statements of cash flows.

Measurement of Credit Losses on Financial Instruments. In June 2016, the FASB issued ASU No. 2016-13, which includes an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. ASU No. 2016-13 is effective for fiscal years, and interim periods, beginning after December 15, 2019. While we continue to assess the impact of ASU No. 2016-13, we have developed a roadmap with time schedules in place from 2016 to implementation date. The Company is in the process of assessing the methodology and the software to be used.

Leases. In February 2016, the FASB issued ASU No. 2016-02, which requires lessees to recognize a right-of-use asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. This ASU retains the classification distinction between finance leases and operating leases. ASU No. 2016-02 is effective for fiscal years, and interim periods, beginning after December 15, 2018. We are currently assessing the impact the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition), and most industry-specific guidance. ASU No. 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). In August 2015, the FASB issued ASU No. 2015-14 to defer the effective date of ASU No. 2014-09 by one year to fiscal years beginning after December 15, 2017. ASU No. 2015-14 also permits early adoption of ASU No. 2014-09, but not before the original effective date, which was for fiscal years beginning after December 15, 2016. While the new guidance does not apply to revenue associated with loans or securities, the Company has been working to identify the customer contracts within the scope of the new guidance and assess the related revenues to determine if any accounting or internal control changes will be required for the new provisions. While the assessment is not complete, the timing of the Company’s revenue recognition is not expected to materially change. Overall, the Company does not expect the new guidance to have a material impact on its consolidated financial position or results of operations. The next phase of the Company’s implementation work will be to evaluate required disclosures to be in compliance with the standard.

Other than the accounting pronouncements disclosed above, there are no other new accounting pronouncements issued during the first quarter of 2017 that could have a material impact on the Company's financial position, operating results or financial statements disclosures.

NOTE 2 – RESTRICTED CASH

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

	June 30, 2017	December 31, 2016
	(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	1,050
	$ 3,030	**$ 3,030**

At June 30, 2017, the Bank's international banking entities, Oriental International Bank Inc. ("OIB") and Oriental Overseas, a division of the Bank, held an unencumbered certificate of deposit and other short-term highly liquid securities in the amount of $300 thousand and $325 thousand, respectively, as the legal reserve required for international banking entities under Puerto Rico law. At December 31, 2016, they held an unencumbered certificate of deposit and other short-term highly liquid securities in the amount of $300 thousand as the required legal reserve. The certificate of deposit and other securities cannot be withdrawn or sold by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions ("OCFI").

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At both June 30, 2017 and December 31, 2016, the Company had delivered approximately $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 both June 30, 2017 and December 31, 2016, the Company delivered as collateral cash amounting to approximately $1.1 million.

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, 2017 was $163.2 million (December 31, 2016 - $161.0 million). At June 30, 2017 and December 31, 2016, the Bank complied with the requirement. Cash and due from bank as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

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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, 2017 and December 31, 2016, money market instruments included as part of cash and cash equivalents amounted to $6.5 million and $5.6 million, respectively.

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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, 2017 and December 31, 2016 were as follows:

	June 30, 2017				
	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	$ 346,388	$ 2,102	$ 1,797	$ 346,693	2.35%
GNMA certificates	145,538	1,633	487	146,684	2.93%
CMOs issued by US government-sponsored agencies	92,622	10	1,078	91,554	1.89%
Total mortgage-backed securities	**584,548**	**3,745**	**3,362**	**584,931**	**2.42%**
Investment securities					
US Treasury securities	55,031	3	44	54,990	1.13%
Obligations of US government-sponsored agencies	3,353	-	27	3,326	1.38%
Obligations of Puerto Rico government and					
public instrumentalities	4,680	-	339	4,341	5.55%
Other debt securities	1,668	71	-	1,739	3.00%
Total investment securities	**64,732**	**74**	**410**	**64,396**	**1.51%**
Total securities available for sale	**$ 649,280**	**$ 3,819**	**$ 3,772**	**$ 649,327**	**2.33%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	**$ 555,407**	**$ 212**	**$ 6,024**	**$ 549,595**	**2.11%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 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	$ 422,168	$ 6,354	$ 3,036	$ 425,486	2.59%
GNMA certificates	163,614	2,241	620	165,235	2.95%
CMOs issued by US government-sponsored agencies	103,990	64	2,223	101,831	1.88%
Total mortgage-backed securities	**689,772**	**8,659**	**5,879**	**692,552**	**2.57%**
Investment securities					
US Treasury securities	49,672	-	618	49,054	1.73%
Obligations of US government-sponsored agencies	3,903	-	19	3,884	1.38%
Obligations of Puerto Rico government and public instrumentalities	4,680	-	607	4,073	5.55%
Other debt securities	1,840	81	-	1,921	3.00%
Total investment securities	**60,095**	**81**	**1,244**	**58,932**	**2.04%**
Total securities available-for-sale	**$ 749,867**	**$ 8,740**	**$ 7,123**	**$ 751,484**	**2.53%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	**$ 599,884**	**$ 145**	**$ 7,266**	**$ 592,763**	**2.15%**

The amortized cost and fair value of the Company's investment securities at June 30, 2017, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Mortgage-backed securities				
Due from 1 to 5 years				
FNMA and FHLMC certificates	$ 8,102	$ 8,185	$ -	$ -
Total due from 1 to 5 years	**8,102**	**8,185**	-	-
Due after 5 to 10 years				
CMOs issued by US government-sponsored agencies	$ 70,850	$ 70,047	$ -	$ -
FNMA and FHLMC certificates	69,364	69,403	-	-
Total due after 5 to 10 years	**140,214**	**139,450**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	$ 268,922	$ 269,105	$ 555,407	$ 549,595
GNMA certificates	145,538	146,684	-	-
CMOs issued by US government-sponsored agencies	21,772	21,507	-	-
Total due after 10 years	**436,232**	**437,296**	**555,407**	**549,595**
Total mortgage-backed securities	**584,548**	**584,931**	**555,407**	**549,595**
Investment securities				
Due less than one year				
US Treasury securities	$ 45,092	$ 45,095	$ -	$ -
Total due in less than one year	**45,092**	**45,095**	**-**	**-**
Due from 1 to 5 years				
US Treasury securities	$ 9,939	$ 9,895	$ -	$ -
Obligations of US government and sponsored agencies	3,353	3,326	-	-
Obligations of Puerto Rico government and public instrumentalities	4,680	4,341	-	-
Total due from 1 to 5 years	**17,972**	**17,562**	**-**	**-**
Due from 5 to 10 years				
Other debt securities	1,668	1,739	-	-
Total due after 5 to 10 years	**1,668**	**1,739**	**-**	**-**
Total investment securities	**64,732**	**64,396**	**-**	**-**
Total	**$ 649,280**	**$ 649,327**	**$ 555,407**	**$ 549,595**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

During the six-month period ended June 30, 2017 the Company retained securitized GNMA pools totaling $49.8 million amortized cost, at a yield of 3.15% from its own originations while during the six-month period ended June 30, 2016 that amount totaled $54.2 million, amortized cost, at a yield of 3.01%.

During the six-month period ended June 30, 2017, the Company sold $166.0 million of mortgage-backed securities and $39.3 million of US Treasury securities, and recorded a net gain on sale of securities of $6.9 million. During the six-month period ended June 30, 2016, the Company sold $277.2 million on 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.

	Six-Month Period Ended June 30, 2017			
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	$ 107,510	$ 102,311	$ 5,199	$ -
GNMA certificates	65,284	63,704	1,580	-
Investment securities				
US Treasury securities	39,409	39,297	112	-
Total	**$ 212,203**	**$ 205,312**	**$ 6,891**	**$ -**

	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 PR government and public instrumentalities	6,978	11,095	-	4,117
Total mortgage-backed securities	**$ 300,483**	**$ 288,276**	**$ 16,324**	**$ 4,117**

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, 2017 and December 31, 2016:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017		
		12 months or more	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 30,309	$ 342	$ 29,967
Obligations of US government and sponsored agencies	3,353	27	3,326
Obligations of Puerto Rico government and public instrumentalities	4,680	339	4,341
	$ 38,342	**$ 708**	**$ 37,634**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 6,753**	**$ 164**	**$ 6,589**

		Less than 12 months	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 61,115	$ 736	$ 60,379
FNMA and FHLMC certificates	164,473	1,797	162,676
GNMA certificates	30,437	487	29,950
US Treausury Securities	10,263	44	10,219
	$ 266,288	**$ 3,064**	**$ 263,224**
Securities held-to-maturity			
FNMA and FHLMC Certificates	**$ 471,100**	**$ 5,860**	**$ 465,240**

		Total	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 91,424	$ 1,078	$ 90,346
FNMA and FHLMC certificates	164,473	1,797	162,676
Obligations of Puerto Rico government and public instrumentalities	4,680	339	4,341
Obligations of US government and sponsored agencies	3,353	27	3,326
GNMA certificates	30,437	487	29,950

US Treausury Securities		10,263		44		10,219
	$	**304,630**	**$**	**3,772**	**$**	**300,858**
Securities held-to-maturity						
FNMA and FHLMC certificates	**$**	**477,853**	**$**	**6,024**	**$**	**471,829**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016		
		12 months or more	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
Obligations of Puerto Rico government and public instrumentalities	$ 4,680	$ 607	$ 4,073
CMOs issued by US government-sponsored agencies	33,883	793	33,090
	$ 38,563	**$ 1,400**	**$ 37,163**

		Less than 12 months	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	67,777	1,430	66,347
FNMA and FHLMC certificates	184,782	3,036	181,746
Obligations of US government and sponsored agencies	3,903	19	3,884
GNMA certificates	29,445	620	28,825
US Treausury Securities	49,172	618	48,554
	$ 335,079	**$ 5,723**	**$ 329,356**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 525,258**	**$ 7,266**	**$ 517,992**

		Total	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	101,660	2,223	99,437
FNMA and FHLMC certificates	184,782	3,036	181,746
Obligations of Puerto Rico government and public instrumentalities	4,680	607	4,073
Obligations of US government and sponsored agencies	3,903	19	3,884
GNMA certificates	29,445	620	28,825
US Treausury Securities	49,172	618	48,554
	$ 373,642	**$ 7,123**	**$ 366,519**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 525,258**	**$ 7,266**	**$ 517,992**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

Most of the investments ($777.8 million, amortized cost, or 99.4%) with an unrealized loss position at June 30, 2017 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 sole exposure to PR bond ($4.7 million, amortized cost, or 0.6%) with an unrealized loss position at June 30, 2017 consists of an obligation issued by the Puerto Rico Highways and Transportation Authority ("PRHTA") secured by a pledge of toll revenues from the Teodoro Moscoso Bridge operated through a public-private partnership. The decline in the market value of this security is mainly attributed to the significant economic and fiscal challenges that Puerto Rico is facing, which is expected to result in a significant restructuring of the government under the supervision of a federally created Fiscal Oversight Board. All other Puerto Rico government securities were sold during the first quarter of 2016. The PRHTA bond had an aggregate fair value of $4.3 million at June 30, 2017 (93% of the bond's amortized cost) and matures on July 1, 2018. The discounted cash flow analysis for the investment showed a cumulative default probability at maturity of 6.4%, 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, 2017. 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, 2017, the Company received a scheduled principal payment of $2.2 million. As a result of the aforementioned analysis, no other-than-temporary losses were recorded during the period ended June 30, 2017.

As of June 30, 2017, the Company performed a cash flow analysis of its 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 this investment 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 investment, and included the following components:

- The contractual future cash flows of the bond are projected based on the key terms as set forth in the official statements for the 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 the investment. Constant monthly default rates are assumed throughout the life of the bond which is 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 the investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of the investment.

The following table presents a rollforward of credit-related impairment losses recognized in earnings for the six-month periods ended June 30, 2017 and 2016 on available-for-sale securities:

	Six-Month Period Ended June 30,			
	2017		2016	
	(In thousands)			
Balance at beginning of period	$	-	$	1,490
Reductions for securities sold during the period (realized)		-		(1,490)
Balance at end of period	$	**-**	$	**-**

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, which were terminated on February 6, 2017.

The composition of the Company's loan portfolio at June 30, 2017 and December 31, 2016 was as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017	December 31, 2016
	(In thousands)	
Originated and other loans and leases held for investment:		
Mortgage	$ 699,290	$ 721,494
Commercial	1,270,844	1,277,866
Consumer	314,267	290,515
Auto and leasing	807,204	756,395
	3,091,605	**3,046,270**
Allowance for loan and lease losses on originated and other loans and leases	(69,666)	(59,300)
	3,021,939	**2,986,970**
Deferred loan costs, net	6,574	5,766
Total originated and other loans loans held for investment, net	**3,028,513**	**2,992,736**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	5,350	5,562
Consumer	30,233	32,862
Auto	33,661	53,026
	69,244	**91,450**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(3,348)	(4,300)
	65,896	**87,150**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	544,325	569,253
Commercial	266,002	292,564
Consumer	2,163	4,301
Auto	58,078	85,676
	870,568	**951,794**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(37,494)	(31,056)
	833,074	**920,738**
Total acquired BBVAPR loans, net	**898,970**	**1,007,888**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	70,329	73,018
Commercial	66,894	81,460
Consumer	1,256	1,372
Total acquired Eurobank loans	**138,479**	**155,850**
Allowance for loan and lease losses on Eurobank loans	(21,787)	(21,281)

Total acquired Eurobank loans, net		**116,692**		**134,569**
Total acquired loans, net		**1,015,662**		**1,142,457**
Total held for investment, net		**4,044,175**		**4,135,193**
Mortgage loans held-for-sale		14,044		12,499
Other loans held-for-sale		33,647		-
Total loans, net	**$**	**4,091,866**	**$**	**4,147,692**

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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 at June 30, 2017 and December 31, 2016, 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, 2017							
	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	$ 193	$ 1,406	$ 2,930	$ 4,529	$ -	$ 43,252	$ 47,781	$ 168
Years 2003 and 2004	333	3,162	6,319	9,814	299	76,028	86,141	-
Year 2005	106	2,247	3,500	5,853	284	39,796	45,933	-
Year 2006	262	1,641	5,882	7,785	185	56,871	64,841	-
Years 2007, 2008 and 2009	435	1,693	8,653	10,781	38	60,375	71,194	335
Years 2010, 2011, 2012, 2013	324	1,506	6,845	8,675	-	124,191	132,866	164
Years 2014, 2015, 2016 and 2017	-	184	1,380	1,564	-	115,824	117,388	-

	1,653	11,839	35,509	49,001	806	516,337	566,144	667
Non-traditional	-	161	4,303	4,464	-	16,011	20,475	-
Loss mitigation program	11,348	7,291	13,806	32,445	2,921	67,744	103,110	1,217
	13,001	19,291	53,618	85,910	3,727	600,092	689,729	1,884
Home equity secured personal loans	-	-	-	-	-	332	332	-
GNMA's buy-back option program	-	-	9,229	9,229	-	-	9,229	-
	13,001	**19,291**	**62,847**	**95,139**	**3,727**	**600,424**	**699,290**	**1,884**
Commercial								
Commercial secured by real estate:								
Corporate	-	-	-	-	-	226,979	226,979	-
Institutional	-	-	254	254	-	46,806	47,060	-
Middle market	-	-	3,601	3,601	634	224,571	228,806	-
Retail	1,350	1,242	8,301	10,893	4,496	230,863	246,252	-
Floor plan	-	-	-	-	-	2,916	2,916	-
Real estate	-	-	-	-	-	15,783	15,783	-
	1,350	1,242	12,156	14,748	5,130	747,918	767,796	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	161,839	161,839	-
Institutional	-	-	-	-	-	128,479	128,479	-
Middle market	881	-	-	881	1,227	84,158	86,266	-
Retail	327	848	1,300	2,475	695	85,673	88,843	-
Floor plan	-	-	53	53	-	37,568	37,621	-
	1,208	848	1,353	3,409	1,922	497,717	503,048	-
	2,558	**2,090**	**13,509**	**18,157**	**7,052**	**1,245,635**	**1,270,844**	**-**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017							
	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	$ 442	$ 288	$ 636	$ 1,366	$ -	$ 26,308	$ 27,674	$ -
Overdrafts	29	13	20	62	-	167	229	-
Personal lines of credit	59	-	29	88	-	2,188	2,276	-
Personal loans	2,693	1,752	1,096	5,541	699	262,728	268,968	-
Cash collateral personal loans	216	3	-	219	-	14,901	15,120	-
	3,439	2,056	1,781	7,276	699	306,292	314,267	-
Auto and leasing	45,914	20,458	8,205	74,577	90	732,537	807,204	-
Total	**$ 64,912**	**$ 43,895**	**$ 86,342**	**$ 195,149**	**$ 11,568**	**$ 2,884,888**	**$ 3,091,605**	**$ 1,884**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 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	$ 196	$ 2,176	$ 3,371	$ 5,743	$ -	$ 44,542	$ 50,285	$ 158
Years 2003 and 2004	156	3,872	7,272	11,300	181	79,226	90,707	-
Year 2005	-	1,952	4,306	6,258	180	43,571	50,009	-
Year 2006	506	2,905	6,261	9,672	94	59,534	69,300	-
Years 2007, 2008 and 2009	409	1,439	11,732	13,580	111	63,038	76,729	398
Years 2010, 2011, 2012, 2013	349	1,772	10,417	12,538	126	127,196	139,860	583
Years 2014, 2015 and 2016	47	123	1,357	1,527	-	106,672	108,199	-
	1,663	14,239	44,716	60,618	692	523,779	585,089	1,139
Non-traditional	-	498	4,730	5,228	-	17,631	22,859	-
Loss mitigation program	8,911	7,205	16,541	32,657	3,599	67,272	103,528	1,724
	10,574	21,942	65,987	98,503	4,291	608,682	711,476	2,863
Home equity secured personal loans	-	-	-	-	-	337	337	-
GNMA's buy-back option program	-	-	9,681	9,681	-	-	9,681	-
	10,574	**21,942**	**75,668**	**108,184**	**4,291**	**609,019**	**721,494**	**2,863**
Commercial								
Commercial secured by real estate:								

Corporate	-	-	-	-	-	242,770	242,770	-
Institutional	-	-	254	254	-	26,546	26,800	-
Middle market	-	60	3,319	3,379	1,304	230,298	234,981	-
Retail	154	350	6,594	7,098	4,638	237,992	249,728	-
Floor plan	-	-	-	-	-	2,989	2,989	-
Real estate	-	-	-	-	-	16,395	16,395	-
	154	410	10,167	10,731	5,942	756,990	773,663	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	136,438	136,438	-
Institutional	-	-	-	-	-	180,285	180,285	-
Middle market	-	-	-	-	1,278	80,355	81,633	-
Retail	930	100	969	1,999	294	71,412	73,705	-
Floor plan	8	-	61	69	-	32,073	32,142	-
	938	100	1,030	2,068	1,572	500,563	504,203	-
	1,092	**510**	**11,197**	**12,799**	**7,514**	**1,257,553**	**1,277,866**	**-**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 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	$ 527	$ 283	$ 525	$ 1,335	$ -	$ 25,023	$ 26,358	$ -
Overdrafts	16	12	5	33	-	174	207	-
Personal lines of credit	41	4	32	77	-	2,327	2,404	-
Personal loans	2,474	1,489	1,081	5,044	259	240,969	246,272	-
Cash collateral personal loans	240	20	4	264	-	15,010	15,274	-
	3,298	**1,808**	**1,647**	**6,753**	**259**	**283,503**	**290,515**	**-**
Auto and leasing	**42,714**	**19,014**	**8,173**	**69,901**	**181**	**686,313**	**756,395**	**-**
Total	**$ 57,678**	**$ 43,274**	**$ 96,685**	**$ 197,637**	**$ 12,245**	**$ 2,836,388**	**$ 3,046,270**	**$ 2,863**

At June 30, 2017 and December 31, 2016, the Company had carrying balance of $132.2 million and $136.6 million, respectively, in originated and other loans held for investment granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All originated and other loans granted to the Puerto Rico government 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. On June 30, 2017, the Company was opportunistic and entered into an agreement to sell a performing originated municipal loan, which was due in July 2018, for $28.8 million. The sale reduced near-term risk associated with a likely refinancing. The loan was moved to other loans held-for-sale at June 30, 2017 with a balance of $33.7 million, and included a principal payment of $4.8 million received by the Company in July 1, 2017. The sale transaction settled in July 5, 2017. In addition, on July 1, 2017, the Company received $3.7 million principal payments from the remaining municipal loans.

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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 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 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, 2017 and December 31, 2016, by class of loans:

	June 30, 2017							
	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	$ 28	$ -	$ 98	$ 126	$ -	$ -	$ 126	$ -
Floor plan	-	-	959	959	-	1,148	2,107	-
	28	-	1,057	1,085	-	1,148	2,233	-
Other commercial and industrial								
Retail	50	32	45	127	-	2,988	3,115	-
Floor plan	-	-	2	2	-	-	2	-
	50	32	47	129	-	2,988	3,117	-
	78	**32**	**1,104**	**1,214**	**-**	**4,136**	**5,350**	**-**
Consumer								
Credit cards	676	203	489	1,368	-	26,206	27,574	-
Personal loans	133	10	47	190	-	2,469	2,659	-
	809	**213**	**536**	**1,558**	**-**	**28,675**	**30,233**	**-**
Auto	**2,435**	**1,231**	**325**	**3,991**	**-**	**29,670**	**33,661**	**-**
Total	**$ 3,322**	**$ 1,476**	**$ 1,965**	**$ 6,763**	**$ -**	**$ 62,481**	**$ 69,244**	**$ -**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 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	$ 33	$ -	$ 110	$ 143	$ -	$ -	$ 143	$ -
Floor plan	-	-	219	219	929	1,242	2,390	-
	33	-	329	362	929	1,242	2,533	-
Other commercial and industrial								
Retail	97	34	121	252	-	2,775	3,027	-
Floor plan	-	-	2	2	-	-	2	-
	97	34	123	254	-	2,775	3,029	-
	130	**34**	**452**	**616**	**929**	**4,017**	**5,562**	**-**
Consumer								
Credit cards	736	369	708	1,813	-	28,280	30,093	-
Personal loans	48	14	120	182	-	2,587	2,769	-
	784	**383**	**828**	**1,995**	**-**	**30,867**	**32,862**	**-**
Auto	**3,652**	**1,355**	**517**	**5,524**	**15**	**47,487**	**53,026**	**-**
Total	**$ 4,566**	**$ 1,772**	**$ 1,797**	**$ 8,135**	**$ 944**	**$ 82,371**	**$ 91,450**	**$ -**

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, 2017 and December 31, 2016 is as follows:

		June 30, 2017		December 31, 2016
		(In thousands)		
Contractual required payments receivable:	$	1,569,855	$	1,669,602
Less: Non-accretable discount		366,762		363,107
Cash expected to be collected		1,203,093		1,306,495
Less: Accretable yield		332,525		354,701
Carrying amount, gross		870,568		951,794
Less: allowance for loan and lease losses		37,494		31,056
Carrying amount, net	**$**	**833,074**	**$**	**920,738**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At June 30, 2017 and December 31, 2016, the Company had \$66.6 million and \$66.2 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. These loans are primarily secured municipal general obligations and a \$10.6 million participation in a loan to the Puerto Rico Housing Finance Authority ("PRHFA") legally required to be repaid from abandoned or unclaimed funds at financial institutions that revert to the government under a Puerto Rico escheat law. Such loan defaulted on an annual principal payment in the third quarter of 2016. On July 1, 2017, the Company received \$5.2 million principal payments from acquired BBVAPR loans to municipalities.

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, 2017, and 2016:

	Quarter Ended June 30, 2017				
	Mortgage	**Commercial**	**Auto**	**Consumer**	**Total**
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of period	$ 276,817	$ 46,902	$ 6,583	$ 3,058	$ 333,360
Accretion	(7,694)	(4,513)	(1,776)	(556)	(14,539)
Change in expected cash flows	1	15,993	98	50	16,142
Transfer (to) from non-accretable discount	1,024	(2,344)	(52)	(1,066)	(2,438)
Balance at end of period	**$ 270,148**	**$ 56,038**	**$ 4,853**	**$ 1,486**	**$ 332,525**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 309,993	$ 14,803	$ 22,564	$ 18,159	$ 365,519
Change in actual and expected losses	(2,465)	(280)	1,344	206	(1,195)
Transfer from (to) accretable yield	(1,024)	2,344	52	1,066	2,438
Balance at end of period	**$ 306,504**	**$ 16,867**	**$ 23,960**	**$ 19,431**	**$ 366,762**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2017				
	Mortgage	Commercial	Auto (In thousands)	Consumer	Total
Accretable Yield Activity:					
Balance at beginning of period	$ 292,115	$ 50,366	$ 8,538	$ 3,682	$ 354,701
Accretion	(15,584)	(9,494)	(3,923)	(1,158)	(30,159)
Change in expected cash flows	2	16,191	150	86	16,429
Transfer (to) from non-accretable discount	(6,385)	(1,025)	88	(1,124)	(8,446)
Balance at end of period	**$ 270,148**	**$ 56,038**	**$ 4,853**	**$ 1,486**	**$ 332,525**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 305,615	$ 16,965	$ 22,407	$ 18,120	$ 363,107
Change in actual and expected losses	(5,496)	(1,123)	1,641	187	(4,791)
Transfer from (to) accretable yield	6,385	1,025	(88)	1,124	8,446
Balance at end of period	**$ 306,504**	**$ 16,867**	**$ 23,960**	**$ 19,431**	**$ 366,762**

	Quarter Ended June 30, 2016				
	Mortgage	Commercial	Auto (In thousands)	Consumer	Total
Accretable Yield Activity:					
Balance at beginning of period	$ 260,557	$ 57,258	$ 17,587	$ 5,261	$ 340,663
Accretion	(8,294)	(6,579)	(3,616)	(870)	(19,359)
Change in actual and expected losses	-	2,654	630	(1)	3,283
Transfer from (to) non-accretable discount	31,560	(1,026)	(498)	495	30,531
Balance at end of period	**$ 283,823**	**$ 52,307**	**$ 14,103**	**$ 4,885**	**$ 355,118**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 370,155	$ 18,148	$ 21,938	$ 18,735	$ 428,976
Change in actual and expected losses	(2,442)	(1,173)	(315)	(15)	(3,945)
	(31,560)	1,026	498	(495)	(30,531)

Transfer (to) from accretable yield										
Balance at end of period	**$**	**336,153**	**$**	**18,001**	**$**	**22,121**	**$**	**18,225**	**$**	**394,500**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2016				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of period	$ 268,794	$ 65,026	$ 21,578	$ 6,290	$ 361,688
Accretion	(16,601)	(14,287)	(7,827)	(1,808)	(40,523)
Change in actual and expected losses	-	2,982	631	(1)	3,612
Transfer (to) from non-accretable discount	31,630	(1,414)	(279)	404	30,341
Balance at end of period	**$ 283,823**	**$ 52,307**	**$ 14,103**	**$ 4,885**	**$ 355,118**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 374,772	$ 18,545	$ 22,039	$ 18,834	$ 434,190
Change in actual and expected losses	(6,989)	(1,958)	(197)	(205)	(9,349)
Transfer from (to) accretable yield	(31,630)	1,414	279	(404)	(30,341)
Balance at end of period	**$ 336,153**	**$ 18,001**	**$ 22,121**	**$ 18,225**	**$ 394,500**

Acquired Eurobank Loans

The carrying amount of acquired Eurobank loans at June 30, 2017 and December 31, 2016 is as follows:

	June 30 2017	December 31 2016
	(In thousands)	
Contractual required payments receivable:	$ 201,564	$ 232,698
Less: Non-accretable discount	9,010	12,340
Cash expected to be collected	192,554	220,358
Less: Accretable yield	54,075	64,508
Carrying amount, gross	138,479	155,850
Less: Allowance for loan and lease losses	21,787	21,281
Carrying amount, net	**$ 116,692**	**$ 134,569**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables describe the accretable yield and non-accretable discount activity of acquired Eurobank loans for the quarters and six-month periods ended June 30, 2017, and 2016:

	Quarter Ended June 30, 2017					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 44,697	12,743	1,871	-	-	59,311
Accretion	(1,923)	(4,061)	(5)	(11)	(37)	(6,037)
Change in expected cash flows	19	543	6	(22)	74	620
Transfer from (to) non-accretable discount	219	(68)	34	33	(37)	181
Balance at end of period	**$ 43,012**	**$ 9,157**	**$ 1,906**	**$ -**	**$ -**	**$ 54,075**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 7,426	2,471	333	-	6	10,236
Change in actual and expected losses	(520)	(529)	-	33	(29)	(1,045)
Transfer from (to) accretable yield	(219)	68	(34)	(33)	37	(181)
Balance at end of period	**$ 6,687**	**$ 2,010**	**$ 299**	**$ -**	**$ 14**	**$ 9,010**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2017					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 45,839	$ 16,475	$ 2,194	$ -	$ -	$ 64,508
Accretion	(3,827)	(8,571)	(43)	(11)	(195)	(12,647)
Change in expected cash flows	100	1,321	43	(165)	384	1,683
Transfer from (to) non-accretable discount	900	(68)	(288)	176	(189)	531
Balance at end of period	**$ 43,012**	**$ 9,157**	**$ 1,906**	**$ -**	**$ -**	**$ 54,075**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 8,441	$ 3,880	$ 11	$ -	$ 8	$ 12,340
Change in actual and expected losses	(854)	(1,938)	-	176	(183)	(2,799)
Transfer from (to) accretable yield	(900)	68	288	(176)	189	(531)
Balance at end of period	**$ 6,687**	**$ 2,010**	**$ 299**	**$ -**	**$ 14**	**$ 9,010**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016					
	Loans Secured by 1-4 Family Residential Properties	Commercial	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 actual and expected losses	(198)	1,619	-	(77)	81	1,425
Transfer from (to) non-accretable discount	10	(1,152)	-	75	(5)	(1,072)
Balance at end of period	**$ 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 (to) from 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	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 cash flows	(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**

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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, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(In thousands)	
Originated and other loans and leases held for investment		
Mortgage		
Traditional (by origination year):		
Up to the year 2002	$ 2,824	$ 3,336
Years 2003 and 2004	6,809	7,668
Year 2005	3,890	4,487
Year 2006	6,067	6,746
Years 2007, 2008 and 2009	8,633	11,526
Years 2010, 2011, 2012, 2013	6,680	10,089
Years 2014, 2015, 2016 and 2017	1,380	1,404
	36,283	45,256
Non-traditional	4,303	4,730
Loss mitigation program	18,082	20,744
	58,668	**70,730**
Commercial		
Commercial secured by real estate		
Institutional	254	-
Middle market	4,236	4,682
Retail	14,239	11,561
	18,729	16,243
Other commercial and industrial		
Middle market	2,108	1,278
Retail	2,629	1,950
Floor plan	53	61
	4,790	3,289
	23,519	**19,532**
Consumer		
Credit cards	636	525
Overdrafts	20	-
Personal lines of credit	29	32
Personal loans	1,999	1,420
Cash collateral personal loans	3	4

		2,687		**1,981**
Auto and leasing		**8,295**		**9,052**
Total non-accrual originated loans	$	**93,169**	$	**101,295**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017	December 31, 2016
	(In thousands)	
Acquired BBVAPR loans accounted for under ASC 310-20		
Commercial		
Commercial secured by real estate		
Retail	$ 127	$ 143
Floor plan	959	1,149
	1,086	1,292
Other commercial and industrial		
Retail	45	121
Floor plan	2	2
	47	123
	1,133	**1,415**
Consumer		
Credit cards	489	708
Personal loans	47	120
	536	**828**
Auto	**325**	**552**
Total non-accrual acquired BBVAPR loans accounted for under ASC 310-20	**1,994**	**2,795**
Total non-accrual loans	**$ 95,163**	**$ 104,090**

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 under the cost recovery method.

Delinquent residential mortgage loans insured or guaranteed under applicable FHA and 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. In addition, these loans are excluded from the impairment analysis.

At June 30, 2017 and December 31, 2016, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $98.7 million and $98.1 million, respectively, as they are performing under their new terms.

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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 that were individually evaluated for impairment was $58.1 million and $54.3 million at June 30, 2017 and December 31, 2016, respectively. The impairments on these 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 allowance for loan and lease losses for these impaired commercial loans amounted to $1.9 million and $1.8 million at June 30, 2017 and December 31, 2016, respectively. The total investment in impaired mortgage loans that were individually evaluated for impairment was $87.0 million and $91.6 million at June 30, 2017 and December 31, 2016, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The allowance for loan losses for these impaired mortgage loans amounted to $8.6 million and $7.8 million at June 30, 2017 and December 31, 2016, respectively.

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, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
		(In thousands)		
Impaired loans with specific allowance:				
Commercial	$ 21,475	$ 19,486	$ 1,940	10%
Residential impaired and troubled-debt restructuring	95,821	87,042	8,630	10%
Impaired loans with no specific allowance:				
Commercial	44,367	37,842	N/A	0%
Total investment in impaired loans	**$ 161,663**	**$ 144,370**	**$ 10,570**	**7%**

	December 31, 2016			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
		(In thousands)		
Impaired loans with specific allowance:				
Commercial	$ 13,183	$ 11,698	$ 1,626	14%
Residential impaired and troubled-debt restructuring	100,101	91,650	7,761	8%
Impaired loans with no specific allowance				
Commercial	49,038	41,441	N/A	0%
Total investment in impaired loans	**$ 162,322**	**$ 144,789**	**$ 9,387**	**6%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired BBVAPR 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, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ -	$ -	$ -	0%
Impaired loans with no specific allowance				
Commercial	$ 926	$ 761	N/A	0%
Total investment in impaired loans	**$ 926**	**$ 761**	**$ -**	**0%**

	December 31, 2016			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 944	$ 929	$ 141	15%
Impaired loans with no specific allowance				
Commercial	$ 240	$ 221	N/A	0%
Total investment in impaired loans	**$ 1,184**	**$ 1,150**	**$ 141**	**12%**

Acquired BBVAPR 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, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Unpaid Principal	**Recorded Investment**	**Allowance**	**Coverage to Recorded Investment**
		(In thousands)		
Impaired loan pools with specific allowance:				
Mortgage	$ 567,845	$ 544,326	$ 4,141	1%
Commercial	224,838	217,495	25,614	12%
Auto	58,132	58,078	7,739	13%
Total investment in impaired loan pools	**$ 850,815**	**$ 819,899**	**$ 37,494**	5%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31 , 2016			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools with specific allowance:				
Mortgage	$ 595,757	$ 569,250	$ 2,682	0%
Commercial	199,092	195,528	23,452	12%
Auto	92,797	85,676	4,922	6%
Total investment in impaired loan pools	**$ 887,646**	**$ 850,454**	**$ 31,056**	4%

The tables above only present information with respect to acquired BBVAPR loan pools accounted for under ASC 310-30 if there is a recorded impairment to such 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, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools with specific allowance:				
Loans secured by 1-4 family residential properties	$ 83,293	$ 70,329	$ 13,651	19%
Commercial	56,193	53,389	8,131	15%
Consumer	14	1,256	5	0%
Total investment in impaired loan pools	**$ 139,500**	**$ 124,974**	**$ 21,787**	17%

December 31, 2016

	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	$ 88,017	$ 73,018	$ 11,947	16%
Commercial	81,992	72,140	9,328	13%
Consumer	29	1,372	6	0%
Total investment in impaired loan pools	**$ 170,038**	**$ 146,530**	**$ 21,281**	15%

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the interest recognized in commercial and mortgage loans that were individually evaluated for impairment, which excludes loans accounted for under ASC 310-30, for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30,			
	2017		2016	
	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	$ 193	$ 14,908	$ 75	$ 194,759
Residential troubled-debt restructuring	723	87,615	791	91,007
Impaired loans with no specific allowance				
Commercial	383	44,528	149	29,579
	1,299	**147,051**	**1,015**	**315,345**
Acquired loans accounted for under ASC 310-20:				
Impaired loans with specific allowance				
Commercial	-	-	-	-
Impaired loans with no specific allowance				
Commercial	-	763	15	789
Total interest income from impaired loans	**$ 1,299**	**$ 147,814**	**$ 1,030**	**$ 316,134**

	Six-Month Period Ended June 30,			
	2017		2016	
	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	$	385	$	13,859	$	150	$	195,777
Residential troubled-debt restructuring		1,427		88,579		1,591		90,650
Impaired loans with no specific allowance								
Commercial		766		44,211		298		31,603
Total interest income from impaired loans	**$**	**2,578**	**$**	**146,649**	**$**	**2,039**	**$**	**318,030**
Acquired loans accounted for under ASC 310-20:								
Impaired loans with specific allowance								
Commercial	$	-	$	-	$	-	$	-
Impaired loans with no specific allowance								
Commercial		-		840		30		628
Total interest income from impaired loans	**$**	**2,578**	**$**	**147,489**	**$**	**2,069**	**$**	**318,658**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

The following tables present the troubled-debt restructurings in all loan portfolios during the quarters and six-month periods ended June 30, 2017 and 2016.

	Quarter Ended June 30, 2017						
	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	27	$ 3,349	6.00%	382	$ 3,313	4.21%	367
Commercial	9	2,155	5.96%	55	2,155	5.12%	68
Consumer	37	477	12.83%	65	477	10.87%	68
Auto	4	66	6.39%	61	66	12.91%	37

	Six-Month Period Ended June 30, 2017						
	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	59	$ 7,353	6.29%	387	$ 7,328	4.26%	378
Commercial	18	3,373	6.44%	55	3,374	5.41%	67
Consumer	62	869	11.98%	65	907	10.62%	70
Auto	7	111	7.41%	67	113	12.48%	38

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	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

The following table presents troubled-debt restructurings for which there was a payment default during the twelve month periods ended June 30, 2017 and 2016:

	Twelve Month Period Ended June 30,			
	2017		2016	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Mortgage	22	$ 2,293	84	$ 9,869
Commercial	5	$ 563	-	$ -
Consumer	17	$ 156	7	$ 134
Auto	-	$ -	1	$ 17

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

As of June 30, 2017 and December 31, 2016, 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:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017 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	$ 226,979	$ 210,369	$ 14,640	$ -	$ -	$ 1,970
Institutional	47,060	34,882	-	10,675	-	1,503
Middle market	228,806	189,754	9,624	3,640	-	25,788
Retail	246,252	215,629	8,796	4,891	-	16,936
Floor plan	2,916	2,916	-	-	-	-
Real estate	15,783	15,783	-	-	-	-
	767,796	669,333	33,060	19,206	-	46,197
Other commercial and industrial:						
Corporate	161,839	161,839	-	-	-	-
Institutional	128,479	128,479	-	-	-	-
Middle market	86,266	67,119	11,266	124	-	7,757
Retail	88,843	83,331	837	1,301	-	3,374
Floor plan	37,621	34,328	3,240	53	-	-
	503,048	475,096	15,343	1,478	-	11,131
Total	1,270,844	1,144,429	48,403	20,684	-	57,328
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	126	-	-	126	-	-
Floor plan	2,107	850	298	198	-	761
	2,233	850	298	324	-	761
Other commercial and						

industrial:											
Retail		3,115		3,109		-		6		-	-
Floor plan		2		-		-		2		-	-
		3,117		3,109		-		8		-	-
Total		5,350		3,959		298		332		-	761
Total	**$**	**1,276,194**	**$**	**1,148,388**	**$**	**48,701**	**$**	**21,016**	**$**	**-**	**$ 58,089**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 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	$ 242,770	$ 226,768	$ 16,002	$ -	$ -	