OFG BANCORP
Form 10-Q
November 06, 2015

**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 September 30, 2015**

**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 ý Accelerated Filer o 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:**

43,867,909 common shares ($1.00 par value per share) outstanding as of October 31, 2015

**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 expr 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:

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- the fiscal and monetary policies of the federal government and its agencies;
- a credit default or potential restructuring by the Commonwealth of Puerto Rico or any of its agencies, municipalities or instrumentalities;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) on the Company’s businesses, business practices and cost of operations;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in Puerto Rico;
- the performance of the securities markets;
- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation (“FDIC”) assessments; and

- possible legislative, tax or regulatory changes.

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 SEPTEMBER 30, 2015 AND DECEMBER 31, 2014**

| | |
|---|---|
| | **S** |
| **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 $1,324 (December 31, 2014 - $2,419) | |
| Investment securities available-for-sale, at fair value, with amortized cost of $982,754 (December 31, 2014 - $1,187,679) | |
| Investment securities held-to-maturity, at amortized cost, with fair value of $595,148 (December 31, 2014 - $164,154) | |
| 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 $196,142 (December 31, 2014 - $133,762) | |
| **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 20)**
**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, 2014 - 1,340,000; 1,380,000; and 960,000) $25 liquidation value
84,000 shares of Series C issued and outstanding (December 31, 2014 - 84,000); $1,000 liquidation value
Common stock, $1 par value; 100,000,000 shares authorized; 52,625,869 shares issued:
43,867,909 shares outstanding (December 31, 2014 - 52,625,869; 44,613,615)
Additional paid-in capital
Legal surplus
Retained earnings
Treasury stock, at cost, 8,757,960 shares (December 31, 2014 - 8,012,254 shares)
Accumulated other comprehensive income, net of tax of $284 (December 31, 2014 - $447)
**Total stockholders' equity**
**Total liabilities and stockholders' equity** $

**See notes to unaudited consolidated financial statements.**

1

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**

| | Quarter Ended September 30, | | Nine- Ende |
|---|---|---|---|
| | 2015 | 2014 | 201 |
| | (In thousands, except per share data) | | (In exce |
| **Interest income:** | | | |
| Loans | $ 97,264 | $ 108,548 | $ 285 |
| Mortgage-backed securities | 9,137 | 10,842 | 25 |
| Investment securities and other | 846 | 911 | 2 |
| **Total interest income** | **107,247** | **120,301** | **313** |
| **Interest expense:** | | | |
| Deposits | 6,651 | 7,661 | 20 |
| Securities sold under agreements to repurchase | 7,605 | 7,453 | 22 |
| Advances from FHLB and other borrowings | 2,283 | 2,314 | 6 |
| Subordinated capital notes | 885 | 1,002 | 2 |
| **Total interest expense** | **17,424** | **18,430** | **51** |
| **Net interest income** | **89,823** | **101,871** | **261** |
| Provision for loan and lease losses, net | 51,579 | 17,257 | 109 |
| **Net interest income after provision for loan and lease losses** | **38,244** | **84,614** | **152** |
| **Non-interest income:** | | | |
| Banking service revenue | 10,826 | 9,753 | 31 |
| Wealth management revenue | 6,885 | 7,113 | 21 |
| Mortgage banking activities | 992 | 2,097 | 4 |
| **Total banking and financial service revenues** | **18,703** | **18,963** | **57** |
| Total other-than-temporary impairment losses on investment securities | (584) | - | ( |
| Portion of loss recognized in other comprehensive income, before taxes | 338 | - | |
| Net impairment losses recognized in earnings | (246) | - | ( |
| FDIC shared-loss expense, net: | | | |
| FDIC indemnification asset expense | (1,215) | (16,059) | (35, |
| Change in true-up payment obligation | (864) | (875) | (2, |
| | (2,079) | (16,934) | (38, |
| Reimbursement from FDIC shared-loss coverage in sale of loans and foreclosed real estate | 20,000 | - | 20 |
| Net gain (loss) on: | | | |
| Sale of securities | - | - | 2 |
| Derivatives | (208) | 7 | ( |
| Other non-interest (loss) income | (193) | 455 | (2, |
| **Total non-interest income, net** | **35,977** | **2,491** | **38** |
| **Non-interest expense:** | | | |
| Compensation and employee benefits | 21,015 | 18,592 | 60 |
| Professional and service fees | 4,000 | 3,807 | 12 |
| Occupancy and equipment | 8,556 | 8,770 | 26 |

| | | | |
|---|---|---|---|
| Insurance | 2,263 | 2,099 | 6 |
| Electronic banking charges | 5,496 | 4,637 | 16 |
| Information technology expenses | 1,364 | 1,289 | 4 |
| Advertising, business promotion, and strategic initiatives | 1,577 | 1,825 | 4 |
| Foreclosure, repossession and other real estate expenses | 16,601 | 7,842 | 32 |
| Loan servicing and clearing expenses | 1,976 | 1,870 | 6 |
| Taxes, other than payroll and income taxes | 2,649 | 3,494 | 6 |
| Communication | 774 | 820 | 2 |
| Printing, postage, stationary and supplies | 624 | 620 | 1 |
| Director and investor relations | 246 | 250 | |
| Other | 1,949 | 3,660 | 7 |
| **Total non-interest expense** | **69,090** | **59,575** | **189** |
| **Income before income taxes** | **5,131** | **27,530** | |
| Income tax expense | 562 | 7,998 | 2 |
| **Net income (loss)** | **4,569** | **19,532** | **(1,** |
| Less: dividends on preferred stock | (3,465) | (3,465) | (10, |
| **Net income (loss) available to common shareholders** | **$ 1,104** | **$ 16,067** | **$ (11,** |
| **Earnings (loss) per common share:** | | | |
| Basic | **$ 0.03** | **$ 0.36** | **$ (0** |
| Diluted | **$ 0.03** | **$ 0.34** | **$ (0** |
| **Average common shares outstanding and equivalents** | **51,146** | **52,362** | **51** |
| **Cash dividends per share of common stock** | **$ 0.10** | **$ 0.08** | **$** |

**See notes to unaudited consolidated financial statements.**

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**

| | Quarter Ended September 30, | | Nine-Month Period Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | (In thousands) | |
| **Net income (loss)** | **$ 4,569** | **$ 19,532** | **$ (1,528)** | **$ 64,588** |
| **Other comprehensive income (loss) before tax:** | | | | |
| Unrealized gain (loss) on securities available-for-sale | 3,958 | (9,410) | (1,582) | 15,094 |
| Realized gain on investment securities included in net income | - | - | (2,572) | (4,366) |
| Other-than-temporary impairment on investment securities included in net income | 246 | - | 246 | - |
| Unrealized gain on cash flow hedges | 119 | 1,798 | 2,190 | 2,189 |
| **Other comprehensive income (loss) before taxes** | **4,323** | **(7,612)** | **(1,718)** | **12,917** |
| Income tax effect | (468) | (732) | 163 | (2,697) |
| **Other comprehensive income (loss) after taxes** | **3,855** | **(8,344)** | **(1,555)** | **10,220** |
| **Comprehensive income (loss)** | **$ 8,424** | **$ 11,188** | **$ (3,083)** | **$ 74,808** |

**See notes to unaudited consolidated financial statements.**

3

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**

| | Nine-Month Period Ended September 30, 2015 | 2014 |
|---|---|---|
| | (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 | 52,707 |
| Exercised stock options | - | 54 |
| **Balance at end of period** | **52,626** | **52,761** |
| **Additional paid-in capital:** | | |
| Balance at beginning of period | 539,311 | 538,071 |
| Stock-based compensation expense | 1,213 | 1,248 |
| Exercised stock options | - | 589 |
| Lapsed restricted stock units | (436) | (386) |
| **Balance at end of period** | **540,088** | **539,522** |
| **Legal surplus:** | | |
| Balance at beginning of period | 70,467 | 61,957 |
| Transfer (to) from retained earnings | (44) | 6,480 |
| **Balance at end of period** | **70,423** | **68,437** |
| **Retained earnings:** | | |
| Balance at beginning of period | 181,152 | 133,629 |
| Net (loss) income | (1,528) | 64,588 |
| Cash dividends declared on common stock | (13,298) | (10,822) |
| Cash dividends declared on preferred stock | (10,396) | (10,396) |
| Transfer from (to) legal surplus | 44 | (6,480) |
| **Balance at end of period** | **155,974** | **170,519** |
| **Treasury stock:** | | |
| Balance at beginning of period | (97,070) | (80,642) |
| Stock repurchased | (8,950) | (10,394) |
| Lapsed restricted stock units | 641 | 384 |
| **Balance at end of period** | **(105,379)** | **(90,652)** |
| **Accumulated other comprehensive income, net of tax:** | | |
| Balance at beginning of period | 19,711 | 3,191 |
| Other comprehensive (loss) income, net of tax | (1,555) | 10,220 |
| **Balance at end of period** | **18,156** | **13,411** |
| **Total stockholders' equity** | **$ 907,888** | **$ 929,998** |

**See notes to unaudited consolidated financial statements.**

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**

| | Nine-Month Period Ended September 30, 2015 | 2014 |
|---|---|---|
| | (In thousands) | |
| **Cash flows from operating activities:** | | |
| Net (loss) income | $ **(1,528)** | $ **64,588** |
| **Adjustments to reconcile net (loss) income to net cash provided by operating activities:** | | |
| Amortization of deferred loan origination fees, net of costs | 2,515 | 2,065 |
| Amortization of fair value premiums, net of discounts, on acquired loans | 2,972 | 9,914 |
| Amortization of investment securities premiums, net of accretion of discounts | 9,312 | 1,048 |
| Amortization of core deposit and customer relationship intangibles | 1,429 | 1,627 |
| Amortization of fair value premiums on acquired deposits | 569 | 4,349 |
| FDIC shared-loss expense, net | 38,408 | 53,776 |
| Other-than-temporary impairments on securities | 246 | - |
| Reimbursement from the FDIC shared-loss coverage in sale of loans | (20,000) | - |
| Depreciation and amortization of premises and equipment | 8,538 | 7,415 |
| Deferred income tax (benefit) expense, net | (1,329) | 20,418 |
| Provision for covered and non-covered loan and lease losses, net | 109,311 | 43,763 |
| Stock-based compensation | 1,213 | 1,248 |
| **(Gain) loss on:** | | |
| Sale of securities | (2,572) | (4,366) |
| Sale of mortgage loans held-for-sale | (2,595) | (3,891) |
| Derivatives | (26) | 584 |
| Foreclosed real estate, including write-offs | 30,608 | 9,185 |
| Sale of other repossessed assets | 4,585 | 4,506 |
| Sale of premises and equipment | 193 | (11) |
| Originations of loans held-for-sale | (165,333) | (130,547) |
| Proceeds from sale of loans held-for-sale | 76,953 | 72,211 |
| Net (increase) decrease in: | | |
| Trading securities | 1,011 | 182 |
| Accrued interest receivable | 2,720 | (931) |
| Servicing assets | 544 | (185) |
| Other assets | (18,263) | 8,538 |
| Net increase (decrease) in: | | |
| Accrued interest on deposits and borrowings | (745) | (1,811) |
| Accrued expenses and other liabilities | (11,923) | (3,099) |
| **Net cash provided by operating activities** | **66,813** | **160,576** |
| **Cash flows from investing activities:** | | |
| Purchases of: | | |
| Investment securities available-for-sale | (3,747) | (219,027) |
| Investment securities held-to-maturity | (458,229) | (115,396) |
| FHLB stock | - | (84,375) |

| | | |
|---|---|---|
| Maturities and redemptions of: | | |
| Investment securities available-for-sale | 187,052 | 429,939 |
| Investment securities held-to-maturity | 24,753 | 1,045 |
| FHLB stock | 365 | 87,636 |
| Proceeds from sales of: | | |
| Investment securities available-for-sale | 103,831 | 189,249 |
| Foreclosed real estate and other repossessed assets | 63,959 | 33,915 |
| Proceeds from sale of loans held-for-investment | 30,669 | 9,378 |
| Premises and equipment | (76) | 25 |
| Mortgage servicing rights | 5,927 | - |
| Origination and purchase of loans, excluding loans held-for-sale | (611,815) | (545,776) |
| Principal repayment of loans, including covered loans | 722,579 | 561,479 |
| Reimbursements from the FDIC on shared-loss agreements | 46,356 | 31,537 |
| Additions to premises and equipment | (3,402) | (6,626) |
| Net change in securities purchased under agreements to resell | - | 60,000 |
| Net change in restricted cash | 4,058 | 49,292 |
| **Net cash provided by investing activities** | **112,280** | **482,295** |

5

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014 – (CONTINUED)**

| | Nine-Month Period Ended September 30, | | | |
|---|---|---|---|---|
| | | 2015 | | 2014 |
| | | (In thousands) | | |
| **Cash flows from financing activities:** | | | | |
| Net increase (decrease) in: | | | | |
| Deposits | | (211,637) | | (306,917) |
| Securities sold under agreements to repurchase | | 20,717 | | (255,000) |
| FHLB advances, federal funds purchased, and other borrowings | | (3,676) | | (1,142) |
| Subordinated capital notes | | 787 | | 1,180 |
| Exercise of stock options and restricted units lapsed, net | | 204 | | 641 |
| Purchase of treasury stock | | (8,950) | | (10,394) |
| Dividends paid on preferred stock | | (10,396) | | (10,396) |
| Dividends paid on common stock | | (13,373) | | (10,873) |
| **Net cash used in financing activities** | **$** | **(226,324)** | **$** | **(592,901)** |
| **Net change in cash and cash equivalents** | | **(47,231)** | | **49,970** |
| Cash and cash equivalents at beginning of period | | 573,427 | | 621,269 |
| **Cash and cash equivalents at end of period** | **$** | **526,196** | **$** | **671,239** |
| **Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:** | | | | |
| Interest paid | $ | 51,471 | $ | 63,082 |
| Income taxes paid | $ | 10,598 | $ | 1,839 |
| Mortgage loans securitized into mortgage-backed securities | $ | 87,609 | $ | 71,466 |
| Transfer from loans to foreclosed real estate and other repossessed assets | $ | 56,510 | $ | 67,296 |
| Securities purchased but not yet received | $ | - | $ | 30,057 |
| Reclassification of loans held-for-investment portfolio to held-for-sale portfolio | $ | 1,453 | $ | 5,268 |
| Reclassification of loans held-for-sale portfolio to held-for-investment portfolio | $ | 156 | $ | 25,801 |

**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, Inc. ("Oriental Insurance") and a retirement plan administrator, Oriental Pension Consultants, Inc. ("OPC"), formerly known as Caribbean Pension Consultants, Inc. 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 April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability rather than as an asset. The standard does not affect the recognition and measurement of debt issuance costs; therefore, the amortization of such costs shall continue to be reported as interest expense. ASU 2015-03 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permissible for financial statements that have not been previously issued. The new guidance is to be applied on a retrospective basis to all prior periods. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the third quarter of 2015 that could have a material impact on the Company’s financial position, operating results or financials statement disclosures.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 2 – RESTRICTED CASH

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| Cash pledged as collateral to other financial institutions to secure: | | |
| Derivatives | $ 2,980 | $ 2,980 |
| Obligations under agreement of loans sold with recourse | 1,369 | 5,427 |
| | **$ 4,349** | **$ 8,407** |

At September 30, 2015 and December 31, 2014, 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 ("OCFI").

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties.  At September 30, 2015 and December 31, 2014, the Company had delivered $3.0 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 September 30, 2015 and December 31, 2014, the Company delivered as collateral cash amounting to $1.4 million and $5.4 million, respectively.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover government demand deposits. The amount of those minimum average reserve balances for the week that covered September 30, 2015 was $148.9 million (December 31, 2014 - $141.5 million). At September 30, 2015 and December 31, 2014, 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.

## 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 September 30, 2015 and December 31, 2014, money market instruments included as part of cash and cash equivalents amounted to $4.7 million in both periods.

**OFG BANCORP**

**NOTES TO UNAUDITED 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 September 30, 2015 and December 31, 2014 were as follows:

| | September 30, 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 | $ 777,412 | $ 30,486 | $ 97 | $ 807,801 | 2.98% |
| GNMA certificates | 30,854 | 1,075 | - | 31,929 | 3.31% |
| CMOs issued by US government-sponsored agencies | 147,336 | 172 | 1,684 | 145,824 | 1.84% |
| **Total mortgage-backed securities** | **955,602** | **31,733** | **1,781** | **985,554** | **2.81%** |
| **Investment securities** | | | | | |
| Obligations of US government-sponsored agencies | 5,572 | 31 | - | 5,603 | 1.36% |
| Obligations of Puerto Rico government and political subdivisions | 18,987 | - | 5,194 | 13,793 | 5.53% |
| Other debt securities | 2,593 | 162 | - | 2,755 | 2.95% |
| **Total investment securities** | **27,152** | **193** | **5,194** | **22,151** | **4.43%** |
| **Total securities available for sale** | **$ 982,754** | **$ 31,926** | **$ 6,975** | **$ 1,007,705** | **2.86%** |
| **Held-to-maturity** | | | | | |
| **Mortgage-backed securities** | | | | | |
| FNMA and FHLMC certificates | $ 569,599 | 2,146 | 1,650 | 570,095 | 2.26% |
| **Investment securities** | | | | | |
| US Treasury securities | 25,040 | 13 | - | 25,053 | 0.49% |
| **Total securities held to maturity** | **594,639** | **2,159** | **1,650** | **595,148** | **2.19%** |
| **Total** | **$ 1,577,393** | **$ 34,085** | **$ 8,625** | **$ 1,602,853** | **2.61%** |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 972,836 | $ 37,876 | $ 1,203 | $ 1,009,509 | 3.12% |
| GNMA certificates | 4,473 | 288 | 8 | 4,753 | 4.94% |

| | | | | | |
|---|---|---|---|---|---|
| CMOs issued by US government-sponsored agencies | 179,146 | 136 | 3,153 | 176,129 | 1.81% |
| **Total mortgage-backed securities** | **1,156,455** | **38,300** | **4,364** | **1,190,391** | **2.92%** |
| **Investment securities** | | | | | |
| Obligations of US government-sponsored agencies | 7,148 | 33 | - | 7,181 | 1.34% |
| Obligations of Puerto Rico government and public instrumentalities | 20,939 | - | 5,267 | 15,672 | 5.41% |
| Other debt securities | 3,137 | 157 | - | 3,294 | 2.95% |
| **Total investment securities** | **31,224** | **190** | **5,267** | **26,147** | **4.23%** |
| **Total securities available-for-sale** | **$ 1,187,679** | **$ 38,490** | **$ 9,631** | **$ 1,216,538** | **2.96%** |
| **Held-to-maturity** | | | | | |
| Mortgage-backed securities | | | | | |
| **FNMA and FHLMC certificates** | 162,752 | 1,402 | - | 164,154 | 2.48% |
| **Total** | **$ 1,350,431** | **$ 39,892** | **$ 9,631** | **$ 1,380,692** | **2.90%** |

9

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The amortized cost and fair value of the Company's investment securities at September 30, 2015, 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.

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | Available-for-sale | | Held-to-maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In thousands) | | (In thousands) | |
| **Mortgage-backed securities** | | | | |
| Due after 5 to 10 years | | | | |
| FNMA and FHLMC certificates | $ 16,410 | $ 16,772 | $ - | $ - |
| **Total due after 5 to 10 years** | **16,410** | **16,772** | **-** | **-** |
| Due after 10 years | | | | |
| FNMA and FHLMC certificates | 761,002 | 791,029 | 569,599 | 570,095 |
| GNMA certificates | 30,854 | 31,929 | - | - |
| CMOs issued by US government-sponsored agencies | 147,336 | 145,824 | - | - |
| **Total due after 10 years** | **939,192** | **968,782** | **569,599** | **570,095** |
| **Total mortgage-backed securities** | **955,602** | **985,554** | **569,599** | **570,095** |
| **Investment securities** | | | | |
| Due from 1 to 5 years | | | | |
| US Treasury securities | - | - | 25,040 | 25,053 |
| Obligations of Puerto Rico government and political subdivisions | 8,766 | 7,341 | - | - |
| **Total due from 1 to 5 years** | **8,766** | **7,341** | **25,040** | **25,053** |
| Due after 5 to 10 years | | | | |
| Obligations of US government and sponsored agencies | 5,572 | 5,603 | - | - |
| **Total due after 5 to 10 years** | **5,572** | **5,603** | **-** | **-** |
| Due after 10 years | | | | |
| Obligations of Puerto Rico government and political subdivisions | 10,221 | 6,452 | - | - |
| Other debt securities | 2,593 | 2,755 | - | - |
| **Total due after 10 years** | **12,814** | **9,207** | **-** | **-** |
| **Total investment securities** | **27,152** | **22,151** | **25,040** | **25,053** |
| **Total securities available-for-sale** | **$ 982,754** | **$ 1,007,705** | **$ 594,639** | **$ 595,148** |

**OFG BANCORP**

**NOTES TO UNAUDITED 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 nine-month period ended September 30, 2015 and 2014, the Company sold $63.5 million and $74.1 million, respectively, of available-for-sale Government National Mortgage Association ("GNMA") certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such periods. During the quarter ended September 30, 2015, the Company retained securitized GNMA pools totaling $27.8 million, amortized cost, at a yield of 3.06% from its own originations. Previously, the Company was selling all securitized GNMA pools.

For the nine-month periods periods ended September 30, 2015 and 2014, the Company recorded a net gain on sale of securities of $2.6 million and $4.4 million, respectively. The table below presents the gross realized gains by category for such periods:

| | Nine-Month Period Ended September 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 | $ 37,736 | $ 2,571 | $ - |
| GNMA certificates | 63,524 | 63,523 | 1 | - |
| **Total** | **$ 103,831** | **$ 101,259** | **$ 2,572** | **$ -** |

| | Nine-Month Period Ended September 30,2014 | | | |
|---|---|---|---|---|
| **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 | $ 115,158 | $ 110,792 | $ 4,366 | $ - |
| GNMA certificates | 74,091 | 74,091 | - | - |
| **Total mortgage-backed securities** | **$ 189,249** | **$ 184,883** | **$ 4,366** | **$ -** |

**OFG BANCORP**

**NOTES TO UNAUDITED 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 September 30, 2015 and December 31, 2014:

| | September 30, 2015 12 months or more | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| CMOs issued by US government-sponsored agencies | $ 109,190 | $ 1,684 | $ 107,506 |
| Obligations of Puerto Rico government and political subdivisions | 18,987 | 5,194 | 13,793 |
| | **$ 128,177** | **$ 6,878** | **$ 121,299** |

| | Less than 12 months | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| FNMA and FHLMC certificates | $ 49,679 | $ 97 | $ 49,582 |
| **Securities held-to-maturity** | | | |
| FNMA and FHLMC Certificates | 342,215 | 1,650 | 340,565 |
| | **$ 391,894** | **$ 1,747** | **$ 390,147** |

| | Total | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| CMOs issued by US government-sponsored agencies | $ 109,190 | $ 1,684 | $ 107,506 |
| FNMA and FHLMC certificates | 49,679 | 97 | 49,582 |
| Obligations of Puerto Rico government and political subdivisions | 18,987 | 5,194 | 13,793 |
| | **177,856** | **6,975** | **170,881** |
| **Securities held-to-maturity** | | | |
| FNMA and FHLMC Certificates | **342,215** | **1,650** | **340,565** |
| | **$ 520,071** | **$ 8,625** | **$ 511,446** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | December 31, 2014<br>12 months or more | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| Obligations of Puerto Rico government and political subdivisions | $ 20,939 | $ 5,267 | $ 15,672 |
| CMOs issued by US government-sponsored agencies | 143,928 | 3,086 | 140,842 |
| FNMA and FHLMC certificates | 113,376 | 1,172 | 112,204 |
| GNMA certificates | 77 | 8 | 69 |
| | **$ 278,320** | **$ 9,533** | **$ 268,787** |

| | Less than 12 months | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| CMOs issued by US government-sponsored agencies | 15,172 | 67 | 15,105 |
| FNMA and FHLMC certificates | 63,736 | 31 | 63,705 |
| | **$ 78,908** | **$ 98** | **$ 78,810** |

| | Total | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| CMOs issued by US government-sponsored agencies | 159,100 | 3,153 | 155,947 |
| FNMA and FHLMC certificates | 177,112 | 1,203 | 175,909 |
| Obligations of Puerto Rico government and political subdivisions | 20,939 | 5,267 | 15,672 |
| GNMA certificates | 77 | 8 | 69 |
| | **$ 357,228** | **$ 9,631** | **$ 347,597** |

**OFG BANCORP**

**NOTES TO UNAUDITED 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 ($501.1 million, amortized cost, or 96%) with an unrealized loss position at September 30, 2015 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 ($19.0 million, amortized cost, or 4%) with an unrealized loss position at September 30, 2015 consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The decline in the market value of these securities 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 a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. Moreover, the negative rating decisions taken by the credit rating agencies have affected the market value and liquidity of these securities.

As of September 30, 2015, the Company applied a discounted cash flow analysis to the Puerto Rico government bonds 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.

For certain obligations totaling $17.7 million, amortized cost, or 93% of the obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities, the discounted cash flow analysis for the investments showed a cumulative default probability at maturity in the range of 6.4% to 47%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 53% and 93.6%). Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in these Puerto Rico government bonds and is therefore not required to recognize a credit loss as of September 30, 2015.

Also, the Bank's conclusion is based on the assessment of the specific source of repayment of each outstanding bond, and the bonds continue to perform. No principal is due on the bonds until July 1st, 2017, except for PRHTA that started the principal repayments on July 1st 2014 and was paid as scheduled. All scheduled interest payments are being collected from different issuers.

For one obligation amounting to $1.2 million, amortized cost, or 7% of the Puerto Rico government debt securities, the discounted cash flow analysis showed a cumulative default of 47% using a recovery rate of 65%. Taking into consideration that the bond is guaranteed by the full faith and credit of the Commonwealth of Puerto Rico and the recent downgrades of the general obligation debts after the government announced it needs to restructure its debt, the Company concluded that it is more likely than not that this bond will default during its remaining term until maturity in 2028. Based on the above, during the quarter ended September 30, 2015 an other-than-temporary impairment was recorded in earnings for the amount of $246 thousand, which represents the estimated loss

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

resulting from the discounted cash flow analysis. The non-credit related portion of the unrealized losses amounting to $338 thousand was recognized in other comprehensive income, net of related taxes.

Prospectively, for debt securities for which other-than-temporary impairments was recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted as interest income. If upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes will be accounted for as a prospective adjustment to the accretable yield. Subsequent increases and decreases (if not other-than-temporary impairment) in the fair value of available-for-sale securities will be included in other comprehensive income.

Further negative evidence impacting the liquidity and sources of repayment of the obligations of Puerto Rico and its political subdivisions, could result in a further charge to earnings to recognize estimated credit losses determined to be other-than-temporary.

At September 30, 2015, the Company has cash flow capacity, sufficient liquidity and a strong capital position to maintain the bonds and does not need to sell them in a loss position and it is not likely that the Company will have to sell the investment securities prior to recovery of their amortized cost basis.

The following table presents a rollforward of credit-related impairment losses recognized in earnings for the quarter and nine-month periods ended September 30, 2015 and 2014 on available-for-sale securities that the Company does not have the intent to sell or will not more-likely-than-not be required to sell:

| | Quarter Ended September 30, | | Nine-Month Period Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| Balance at beginning of period | $ - | $ - | $ - | $ - |
| Additions from credit losses recognized on available-for-sale securities that had no previous impairment losses | 246 | - | 246 | - |
| Balance at end of period | $ **246** | $ **-** | $ **246** | $ **-** |

**NOTE 4 - LOANS**

The Company’s loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred as "originated and other" loans) and loans acquired (referred 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 sharing agreement, related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. Notwithstanding the expiration of loss share coverage of non-single family 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 non-single family loss share agreement. Pursuant to such agreement, the FDIC agreed to pay up to $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 and a $20 million receivable from the FDIC was included in other assets in the unaudited statement of financial condition related to this reimbursement. The coverage for the single family residential loans will expire on June 30, 2020. At September 30, 2015, the remaining covered loans amounting to $ 60.1 million, net carrying amount, are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties". At December 31, 2014, covered loans amounted to $298.9 million, net carrying amount. Covered loans are no longer a material amount. Therefore, the Company changed its current and prior year loan disclosures during the quarter ended September 30, 2015.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The composition of the Company's loan portfolio at September 30, 2015 and December 31, 2014 was as follows:

| | September 30, 2015 | Decen 31 201 |
|---|---|---|
| | (In thousands) | |
| **Originated and other loans and leases held for investment:** | | |
| Mortgage | $ 762,636 | $ 791 |
| Commercial | 1,389,353 | 1,289 |
| Consumer | 227,756 | 186 |
| Auto and leasing | 647,544 | 575 |
| | **3,027,289** | **2,843** |
| Allowance for loan and lease losses on originated and other loans and leases | (80,351) | (51 |
| | **2,946,938** | **2,792** |
| Deferred loan costs, net | 4,571 | 4 |
| **Total originated and other loans loans held for investment, net** | **2,951,509** | **2,796** |
| | | |
| **Acquired loans:** | | |
| **Acquired BBVAPR loans:** | | |
| **Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)** | | |
| Commercial | 7,736 | 12 |
| Consumer | 39,774 | 45 |
| Auto | 124,120 | 184 |
| | **171,630** | **242** |
| Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20 | (5,473) | (4 |
| | **166,157** | **238** |
| | | |
| **Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)** | | |
| Mortgage | 617,268 | 656 |
| Commercial | 395,637 | 452 |
| Construction | - | 106 |
| Consumer | 15,072 | 29 |
| Auto | 173,979 | 247 |
| | **1,201,956** | **1,491** |
| Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30 | (19,986) | (13 |
| | **1,181,970** | **1,478** |
| **Total acquired BBVAPR loans, net** | **1,348,127** | **1,716** |
| **Acquired Eurobank loans:** | | |
| Loans secured by 1-4 family residential properties | 92,757 | 102 |
| Commercial | 144,704 | 256 |
| Consumer | 2,708 | 4 |
| Total acquired Eurobank loans | **240,169** | **363** |
| Allowance for loan and lease losses on Eurobank loans | (90,332) | (64 |

| | | |
|---|---|---|
| **Total acquired Eurobank loans, net** | **149,837** | **298** |
| **Total acquired loans, net** | **1,497,964** | **2,015** |
| **Total held for investment, net** | **4,449,473** | **4,812** |
| Mortgage loans held for sale | 19,203 | 14 |
| **Total loans, net** | **$ 4,468,676** | **$ 4,826** |

On September 28, 2015, the Company sold a portion of covered non-performing commercial loans amounting to $197.1 million unpaid principal balance or UPB ($100.0 million carrying amount). The sales price was 18.44% of UPB, or $36.3 million. The FDIC agreed to cover $20.0 million of losses as part of its loss-share agreement with the Company. As a result, a $20.0 million reimbursement was recorded in the statement of operations. The Company also recorded a $32.9 million provision for loan and lease losses for acquired Eurobank loans, which was partially offset by $4.6 million in cost recoveries. Also, as part of this transaction, the Company sold certain non-performing commercial loans and real estate owned from the BBVAPR acquisition amounting to $38.1 million unpaid principal balance ($9.9 million carrying amount). The sales price was $5.2 million. As a result, a $5.2 million provision for loan and lease losses was recorded for BBVAPR acquired loans, which was partially offset by $2.4 million in cost recoveries. In addition, certain additional real estate owned with a carrying amount of $11.0 million was sold for $1.7 million. At September 30, 2015, the Company had a $13.0 million receivable related to this sale and a $20.0 million receivable from the FDIC reimbursement.

**OFG BANCORP**

**NOTES TO UNAUDITED 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 September 30, 2015 and December 31, 2014 by class of loans. Mortgage loans past due included 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.

| | September 30, 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 | $ 81 | $ 2,270 | $ 3,900 | $ 6,251 | $ - | $ 53,330 | $ 59,581 | $ 73 |
| Years 2003 and 2004 | 364 | 4,723 | 5,826 | 10,913 | - | 90,950 | 101,863 | - |
| Year 2005 | - | 2,525 | 3,686 | 6,211 | - | 49,389 | 55,600 | - |
| Year 2006 | 97 | 2,853 | 8,133 | 11,083 | 137 | 69,207 | 80,427 | - |
| Years 2007, 2008 and 2009 | 539 | 2,320 | 15,442 | 18,301 | - | 76,017 | 94,318 | 666 |
| Years 2010, 2011, 2012, 2013 | 599 | 1,249 | 10,337 | 12,185 | - | 142,346 | 154,531 | 74 |
| Years 2014 and 2015 | - | 96 | 185 | 281 | - | 76,111 | 76,392 | - |
| | 1,680 | 16,036 | 47,509 | 65,225 | 137 | 557,350 | 622,712 | 813 |
| Non-traditional | - | 1,918 | 3,468 | 5,386 | 14 | 26,849 | 32,249 | - |
| Loss mitigation program | 11,696 | 5,981 | 16,001 | 33,678 | 4,786 | 61,703 | 100,167 | 3,757 |
| | 13,376 | 23,935 | 66,978 | 104,289 | 4,937 | 645,902 | 755,128 | 4,570 |
| Home equity secured personal loans | 64 | - | - | 64 | - | 451 | 515 | - |
| GNMA's buy-back option program | - | - | 6,993 | 6,993 | - | - | 6,993 | - |
| | **13,440** | **23,935** | **73,971** | **111,346** | **4,937** | **646,353** | **762,636** | **4,570** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Commercial** | | | | | | | | |
| Commercial secured by real estate: | | | | | | | | |
| Corporate | - | - | - | - | - | 224,110 | 224,110 | - |
| Institutional | - | - | - | - | - | 34,342 | 34,342 | - |
| Middle market | - | - | 6,212 | 6,212 | 7,889 | 193,154 | 207,255 | - |
| Retail | 516 | 350 | 7,222 | 8,088 | 1,139 | 202,534 | 211,761 | - |
| Floor plan | - | - | - | - | - | 2,925 | 2,925 | - |
| Real estate | - | - | - | - | - | 16,766 | 16,766 | - |
| | 516 | 350 | 13,434 | 14,300 | 9,028 | 673,831 | 697,159 | - |
| Other commercial and industrial: | | | | | | | | |
| Corporate | - | - | - | - | - | 71,714 | 71,714 | - |
| Institutional | - | - | - | - | 193,904 | 189,882 | 383,786 | - |
| Middle market | 20 | - | 223 | 243 | 2,046 | 105,554 | 107,843 | - |
| Retail | 276 | 255 | 1,204 | 1,735 | 944 | 89,989 | 92,668 | - |
| Floor plan | 178 | 83 | 475 | 736 | - | 35,447 | 36,183 | - |
| | 474 | 338 | 1,902 | 2,714 | 196,894 | 492,586 | 692,194 | - |
| | **990** | **688** | **15,336** | **17,014** | **205,922** | **1,166,417** | **1,389,353** | **-** |

17

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | September 30, 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 | 436 | 182 | 344 | 962 | - | 20,186 | 21,148 | - |
| Overdrafts | 15 | - | - | 15 | - | 260 | 275 | - |
| Personal lines of credit | 31 | 27 | 39 | 97 | 21 | 2,066 | 2,184 | - |
| Personal loans | 1,798 | 822 | 862 | 3,482 | 641 | 183,703 | 187,826 | - |
| Cash collateral personal loans | 171 | 103 | 2 | 276 | - | 16,047 | 16,323 | - |
| | 2,451 | 1,134 | 1,247 | 4,832 | 662 | 222,262 | 227,756 | - |
| **Auto and leasing** | 52,412 | 19,215 | 8,986 | 80,613 | 282 | 566,649 | 647,544 | - |
| **Total** | **$69,293** | **$44,972** | **$99,540** | **$213,805** | **$211,803** | **$2,601,681** | **$3,027,289** | **$4,570** |

18

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | $ 4,128 | $ 3,157 | $ 4,395 | $ 11,680 | $ - | $ 54,064 | $ 65,744 | $ 134 |
| Years 2003 and 2004 | 10,484 | 4,735 | 6,489 | 21,708 | 455 | 87,506 | 109,669 | - |
| Year 2005 | 3,824 | 2,205 | 4,454 | 10,483 | 131 | 49,858 | 60,472 | - |
| Year 2006 | 5,706 | 3,298 | 8,667 | 17,671 | 548 | 67,331 | 85,550 | 89 |
| Years 2007, 2008 and 2009 | 5,283 | 1,809 | 7,646 | 14,738 | 761 | 77,990 | 93,489 | - |
| Years 2010, 2011, 2012, 2013 | 3,394 | 2,992 | 6,900 | 13,286 | - | 149,030 | 162,316 | 365 |
| Year 2014 | 290 | - | - | 290 | - | 41,818 | 42,108 | - |
| | 33,109 | 18,196 | 38,551 | 89,856 | 1,895 | 527,597 | 619,348 | 588 |
| Non-traditional | 1,477 | 584 | 3,223 | 5,284 | - | 30,916 | 36,200 | - |
| Loss mitigation program | 8,199 | 7,106 | 14,114 | 29,419 | 6,358 | 57,666 | 93,443 | 2,766 |
| | 42,785 | 25,886 | 55,888 | 124,559 | 8,253 | 616,179 | 748,991 | 3,354 |
| Home equity secured personal loans | - | - | - | - | - | 517 | 517 | - |
| GNMA's buy-back option program | - | - | 42,243 | 42,243 | - | - | 42,243 | - |
| | **42,785** | **25,886** | **98,131** | **166,802** | **8,253** | **616,696** | **791,751** | **3,354** |
| **Commercial** | | | | | | | | |
| Commercial secured by real estate: | | | | | | | | |
| Corporate | - | - | - | - | - | 133,076 | 133,076 | - |
| Institutional | - | - | - | - | - | 36,611 | 36,611 | - |
| Middle market | - | 645 | 396 | 1,041 | 8,494 | 154,515 | 164,050 | - |
| Retail | 330 | 561 | 7,275 | 8,166 | 1,445 | 166,017 | 175,628 | - |
| Floor plan | - | - | - | - | - | 1,650 | 1,650 | - |
| Real estate | - | - | - | - | - | 12,628 | 12,628 | - |
| | 330 | 1,206 | 7,671 | 9,207 | 9,939 | 504,497 | 523,643 | - |
| Other commercial and industrial: | | | | | | | | |
| Corporate | - | - | - | - | - | 63,746 | 63,746 | - |
| Institutional | - | - | - | - | - | 478,935 | 478,935 | - |
| Middle market | - | - | 618 | 618 | - | 91,716 | 92,334 | - |
| Retail | 866 | 412 | 1,061 | 2,339 | 1,047 | 86,785 | 90,171 | - |
| Floor plan | - | - | - | - | - | 40,903 | 40,903 | - |
| | 866 | 412 | 1,679 | 2,957 | 1,047 | 762,085 | 766,089 | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **1,196** | **1,618** | **9,350** | **12,164** | **10,986** | **1,266,582** | **1,289,732** | **-** |

19

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 360 | 139 | 375 | 874 | - | 18,197 | 19,071 | - |
| Overdrafts | 20 | - | - | 20 | - | 287 | 307 | - |
| Personal lines of credit | 102 | 25 | 102 | 229 | 9 | 1,962 | 2,200 | - |
| Personal loans | 1,822 | 743 | 678 | 3,243 | 337 | 144,359 | 147,939 | - |
| Cash collateral personal loans | 275 | 39 | 9 | 323 | - | 16,920 | 17,243 | - |
| | **2,579** | **946** | **1,164** | **4,689** | **346** | **181,725** | **186,760** | **-** |
| **Auto and leasing** | **47,658** | **16,916** | **7,420** | **71,994** | **145** | **503,443** | **575,582** | **-** |
| **Total** | **$94,218** | **$45,366** | **$116,065** | **$255,649** | **$19,730** | **$2,568,446** | **$2,843,825** | **$3,354** |

During the quarter ended September 30, 2015, the Company changed its early delinquency reporting on mortgage loans from one scheduled payment due to two scheduled payments due in order to comply with regulatory reporting instructions and be comparable with local peers, except for troubled debt restructured loans which remain using one scheduled payment due.

At September 30, 2015 and December 31, 2014, the Company had $338.3 million and $450.2 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 Puerto Rico government were current at September 30, 2015 and December 31, 2014. We, as part of a bank syndicate, have granted various extensions to the Puerto Rico Electric Power Authority (“PREPA”) and on November 5, 2015 entered into a Restructuring Support Agreement with a view towards restructuring the debt on terms that provide for full repayment of the debt to the Bank. After the first extension 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 placed its participation in non-accrual and recorded a $24 million provision during the first quarter of 2015, based on management’s concerns regarding PREPA’s willingness to repay the debt. At September 30, 2015, the allowance for loan and lease losses to PREPA was $23.4 million. Since it was placed in non-accrual, interest payments have been applied to principal.

20

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

***Acquired Loans***

Acquired loans were initially measured at fair value and subsequently accounted for under either Accounting Standards Codification Topic ("ASC") 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality) 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, 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 September 30, 2015 and December 31, 2014, by class of loans:

| | September 30, 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 | $ - | $ - | $ 279 | $ 279 | $ 47 | $ - | $ 326 | $ - |
| Floor plan | - | - | 478 | 478 | - | 2,470 | 2,948 | - |
| | - | - | 757 | 757 | 47 | 2,470 | 3,274 | - |
| Other commercial and industrial | | | | | | | | |
| Retail | 228 | 24 | 61 | 313 | - | 3,475 | 3,788 | - |
| Floor plan | - | 10 | 7 | 17 | 1 | 656 | 674 | - |
| | 228 | 34 | 68 | 330 | 1 | 4,131 | 4,462 | - |
| | **228** | **34** | **825** | **1,087** | **48** | **6,601** | **7,736** | **-** |
| **Consumer** | | | | | | | | |
| Credit cards | 825 | 422 | 769 | 2,016 | - | 34,510 | 36,526 | - |
| Personal loans | 89 | 14 | 41 | 144 | - | 3,104 | 3,248 | - |
| | **914** | **436** | **810** | **2,160** | **-** | **37,614** | **39,774** | **-** |
| **Auto** | **9,010** | **2,921** | **1,040** | **12,971** | **49** | **111,100** | **124,120** | **-** |
| **Total** | **$ 10,152** | **$ 3,391** | **$ 2,675** | **$ 16,218** | **$ 97** | **$ 155,315** | **$ 171,630** | **$ -** |

21

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ - | $ - | $ 351 | $ 351 | $ - | $ - | $ 351 | $ - |
| Floor plan | - | 62 | 345 | 407 | - | 3,724 | 4,131 | - |
| | - | 62 | 696 | 758 | - | 3,724 | 4,482 | - |
| Other commercial and industrial | | | | | | | | |
| Retail | 155 | 67 | 192 | 414 | 2 | 3,705 | 4,121 | - |
| Floor plan | 202 | 134 | 223 | 559 | 10 | 3,503 | 4,072 | - |
| | 357 | 201 | 415 | 973 | 12 | 7,208 | 8,193 | - |
| | **357** | **263** | **1,111** | **1,731** | **12** | **10,932** | **12,675** | **-** |
| **Consumer** | | | | | | | | |
| Credit cards | 1,376 | 654 | 1,399 | 3,429 | - | 38,419 | 41,848 | - |
| Personal loans | 151 | 47 | 77 | 275 | - | 3,221 | 3,496 | - |
| | **1,527** | **701** | **1,476** | **3,704** | **-** | **41,640** | **45,344** | **-** |
| **Auto** | **11,003** | **3,453** | **1,262** | **15,718** | **76** | **168,988** | **184,782** | **-** |
| **Total** | **$ 12,887** | **$ 4,417** | **$ 3,849** | **$ 21,153** | **$ 88** | **$ 221,560** | **$ 242,801** | **$ -** |

*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 September 30, 2015 and December 31, 2014 is as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| Contractual required payments receivable | $2,022,672 | $2,394,378 |
| Less: Non-accretable discount | $442,103 | $456,627 |
| Cash expected to be collected | 1,580,569 | 1,937,751 |
| Less: Accretable yield | 378,613 | 445,946 |
| Carrying amount, gross | 1,201,956 | 1,491,805 |
| Less: allowance for loan and lease losses | 19,986 | 13,481 |
| **Carrying amount, net** | **$1,181,970** | **$1,478,324** |

At September 30, 2015 and December 31, 2014, the Company had $80.2 million and $168.8 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 September 30, 2015 and December 31, 2014.

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 nine-month periods ended September 30, 2015 and 2014:

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | Quarter Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage | Commercial | Construction | Auto | Consumer | Total |
| | (In thousands) | | | | | |
| **Accretable Yield Activity:** | | | | | | |
| **Balance at beginning of period** | $ 275,880 | $ 71,563 | $ 24,613 | $ 31,531 | $ 8,461 | $ 412,048 |
| Accretion | (8,614) | (12,693) | (2,719) | (5,463) | (1,207) | (30,696) |
| Change in expected cash flows | - | 6,134 | 1,396 | (1) | (1) | 7,528 |
| Transfer (to) from non-accretable discount | 75 | (6,450) | (4,075) | 148 | 35 | (10,267) |
| **Balance at end of period** | **$ 267,341** | **$ 58,554** | **$ 19,215** | **$ 26,215** | **$ 7,288** | **$ 378,613** |
| **Non-Accretable Discount Activity:** | | | | | | |
| **Balance at beginning of period** | $ 389,107 | $ 10,770 | $ 6,994 | $ 23,690 | $ 19,356 | $ 449,917 |
| Change in actual and expected losses | (2,184) | (12,090) | (2,937) | (555) | (315) | (18,081) |
| Transfer from (to) accretable yield | (75) | 6,450 | 4,075 | (148) | (35) | 10,267 |
| **Balance at end of period** | **$ 386,848** | **$ 5,130** | **$ 8,132** | **$ 22,987** | **$ 19,006** | **$ 442,103** |

| | Nine-Month Period Ended September 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 | (26,414) | (33,049) | (8,672) | (18,614) | (3,420) | (90,169) |
| Change in expected cash flows | - | 6,134 | 1,396 | (1) | (1) | 7,528 |
| Transfer (to) from non-accretable discount | (4,609) | 24,273 | 662 | (9,168) | 4,150 | 15,308 |
| **Balance at end of period** | **$ 267,341** | **$ 58,554** | **$ 19,215** | **$ 26,215** | **$ 7,288** | **$ 378,613** |
| **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 | (7,600) | 6,334 | 5,308 | (2,396) | (862) | 784 |
| Transfer from (to) accretable yield | 4,609 | (24,273) | (662) | 9,168 | (4,150) | (15,308) |
| **Balance at end of period** | **$ 386,848** | **$ 5,130** | **$ 8,132** | **$ 22,987** | **$ 19,006** | **$ 442,103** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | Quarter Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage | Commercial | Construction | Auto | Consumer | Total |
| | (In thousands) | | | | | |
| **Accretable Yield Activity:** | | | | | | |
| **Balance at beginning of period** | $ 269,105 | $ 70,491 | $ 30,672 | $ 64,620 | $ 9,718 | $ 444,606 |
| Accretion | (9,627) | (12,575) | (5,929) | (8,825) | (1,384) | (38,340) |
| Transfer (to) from non-accretable discount | - | 1,137 | (3,550) | 237 | 40 | (2,136) |
| **Balance at end of period** | **$ 259,478** | **$ 59,053** | **$ 21,193** | **$ 56,032** | **$ 8,374** | **$ 404,130** |
| **Non-Accretable Discount Activity:** | | | | | | |
| **Balance at beginning of period** | $ 455,789 | $ 41,050 | $ 5,388 | $ 27,279 | $ 25,218 | $ 554,724 |
| Change in actual and expected losses | (15,802) | (4,215) | (8,937) | (2,800) | (1,119) | (32,873) |
| Transfer from (to) accretable yield | - | (1,137) | 3,550 | (237) | (40) | 2,136 |
| **Balance at end of period** | **$ 439,987** | **$ 35,698** | **$ 1** | **$ 24,242** | **$ 24,059** | **$ 523,987** |

| | Nine-Month Period September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage | Commercial | Construction | Auto | Consumer | Total |
| | (In thousands) | | | | | |
| **Accretable Yield Activity:** | | | | | | |
| **Balance at beginning of period** | $ 287,841 | 96,139 | 42,993 | 77,845 | 12,735 | 517,553 |
| Accretion | (28,359) | (37,509) | (16,388) | (31,243) | (4,824) | (118,323) |
| Transfer (to) from non-accretable discount | (4) | 423 | (5,412) | 9,430 | 463 | 4,900 |
| **Balance at end of period** | **$ 259,478** | **59,053** | **21,193** | **56,032** | **8,374** | **404,130** |
| **Non-Accretable Discount Activity:** | | | | | | |
| **Balance at beginning of period** | $ 463,166 | 42,515 | 5,851 | 39,645 | 28,410 | 579,587 |
| Change in actual and expected losses | (23,183) | (6,394) | (11,262) | (5,973) | (3,888) | (50,700) |
| Transfer from (to) accretable yield | 4 | (423) | 5,412 | (9,430) | (463) | (4,900) |
| **Balance at end of period** | **$ 439,987** | **35,698** | **1** | **24,242** | **24,059** | **523,987** |

***Acquired Eurobank Loans***

The carrying amount of acquired Eurobank loans at September 30, 2015 and December 31, 2014 is as follows:

| | September 30 2015 | December 31 2014 |
|---|---|---|
| | (In thousands) | |

| | | | | |
|---|---|---|---|---|
| Contractual required payments receivable | $ | 357,702 | $ | 535,425 |
| Less: Non-accretable discount | | 21,675 | | 62,410 |
| Cash expected to be collected | | 336,027 | | 473,015 |
| Less: Accretable yield | | 95,858 | | 109,859 |
| Carrying amount, gross | | 240,169 | | 363,156 |
| Less: Allowance for covered loan and lease losses | | 90,332 | | 64,245 |
| **Carrying amount, net** | **$** | **149,837** | **$** | **298,911** |

24

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following tables describe the accretable yield and non-accretable discount activity of acquired Eurobank loans for the quarters and nine-month periods periods ended September 30, 2015 and 2014:

| | Quarter Ended September 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** | $ 55,806 | $ 27,473 | $ 18,349 | $ 1,103 | $ 1,910 | $ 104,641 |
| Accretion | (3,543) | (10,100) | (1,446) | (711) | (214) | (16,014) |
| Change in expected cash flows | 4,320 | 43,775 | (10,749) | 270 | 118 | 37,734 |
| Transfer from (to) non-accretable discount | (2,188) | (30,400) | 175 | 307 | 1,603 | (30,503) |
| **Balance at end of period** | **$ 54,395** | **$ 30,748** | **$ 6,329** | **$ 969** | **$ 3,417** | **$ 95,858** |
| **Non-Accretable Discount Activity:** | | | | | | |
| **Balance at beginning of period** | $ 11,402 | $ - | $ - | $ - | $ 9,730 | $ 21,132 |
| Change in actual and expected losses | (8) | (30,400) | 175 | 307 | (34) | (29,960) |
| Transfer from (to) accretable yield | 2,188 | 30,400 | (175) | (307) | (1,603) | 30,503 |
| **Balance at end of period** | **$ 13,582** | **$ -** | **$ -** | **$ -** | **$ 8,093** | **$ 21,675** |

| | Nine-Month Period Ended September 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 | (10,337) | (28,002) | (2,470) | (3,040) | (427) | (44,276) |
| Change in expected cash flows | 4,320 | 43,775 | (10,749) | 270 | 118 | 37,734 |
| Transfer from (to) non-accretable discount | 12,776 | (22,944) | (1,205) | 1,260 | 2,654 | (7,459) |
| **Balance at end of period** | **$ 54,395** | **$ 30,748** | **$ 6,329** | **$ 969** | **$ 3,417** | **$ 95,858** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Non-Accretable Discount Activity:** | | | | | | |
| **Balance at beginning of period** | $ 27,348 | $ 24,464 | $ - | $ - | $ 10,598 | $ 62,410 |
| Change in actual and expected losses | (990) | (47,408) | (1,205) | 1,260 | 149 | (48,194) |
| Transfer from (to) accretable yield | (12,776) | 22,944 | 1,205 | (1,260) | (2,654) | 7,459 |
| **Balance at end of period** | **$ 13,582** | **$ -** | **$ -** | **$ -** | **$ 8,093** | **$ 21,675** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | Quarter Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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** | $ 50,586 | $ 70,227 | $ - | $ 5,100 | $ 2,148 | $ 128,061 |
| Accretion | (3,882) | (13,044) | (1,056) | (2,500) | (404) | (20,886) |
| Transfer from (to) non-accretable discount | - | 698 | 1,056 | 305 | 750 | 2,809 |
| **Balance at end of period** | **$ 46,704** | **$ 57,881** | **$ -** | **$ 2,905** | **$ 2,494** | **$ 109,984** |
| **Non-Accretable Discount Activity:** | | | | | | |
| **Balance at beginning of period** | $ 29,859 | $ 46,596 | $ - | $ - | $ 8,769 | $ 85,224 |
| Change in actual and expected losses | (888) | (5,648) | 1,056 | 305 | 700 | (4,475) |
| Transfer (to) from accretable yield | - | (698) | (1,056) | (305) | (750) | (2,809) |
| **Balance at end of period** | **$ 28,971** | **$ 40,250** | **$ -** | **$ -** | **$ 8,719** | **$ 77,940** |

| | Nine-Month Period Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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** | $ 53,250 | $ 95,093 | $ 1,690 | $ 10,238 | $ 2,688 | $ 162,959 |
| Accretion | (12,079) | (45,037) | (3,206) | (7,888) | (944) | (69,154) |
| Transfer from (to) non-accretable discount | 5,533 | 7,825 | 1,516 | 555 | 750 | 16,179 |
| **Balance at end of period** | **$ 46,704** | **$ 57,881** | **$ -** | **$ 2,905** | **$ 2,494** | **$ 109,984** |
| **Non-Accretable Discount Activity:** | | | | | | |
| **Balance at beginning of period** | $ 39,182 | $ 81,092 | $ - | $ - | $ 9,203 | $ 129,477 |
| Change in actual and expected losses | (4,678) | (33,017) | 1,516 | 555 | 266 | (35,358) |
| Transfer (to) from accretable yield | (5,533) | (7,825) | (1,516) | (555) | (750) | (16,179) |
| **Balance at end of period** | **$ 28,971** | **$ 40,250** | **$ -** | **$ -** | **$ 8,719** | **$ 77,940** |

At September 30, 2015, $92.8 million in gross loans continue subject to the loss-sharing agreements with the FDIC and are disclosed under the name "loans secured by 1-4 family residential properties." At September 30, 2015, the net carrying amount of these loans was $60.1 million.

**OFG BANCORP**

**NOTES TO UNAUDITED 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 September 30, 2015 and December 31, 2014:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| **Originated and other loans and leases held for investment** | | |
| **Mortgage** | | |
| Traditional (by origination year): | | |
| Up to the year 2002 | $ 3,827 | $ 4,427 |
| Years 2003 and 2004 | 6,275 | 7,042 |
| Year 2005 | 3,686 | 4,585 |
| Year 2006 | 8,270 | 9,274 |
| Years 2007, 2008 and 2009 | 14,949 | 8,579 |
| Years 2010, 2011, 2012, 2013 | 10,264 | 7,365 |
| Years 2014 and 2015 | 185 | - |
| | 47,456 | 41,272 |
| Non-traditional | 3,482 | 3,224 |
| Loss mitigation program | 19,227 | 20,934 |
| | **70,165** | **65,430** |
| **Commercial** | | |
| Commercial secured by real estate | | |
| Middle market | 14,101 | 9,534 |
| Retail | 8,958 | 9,000 |
| | 23,059 | 18,534 |
| Other commercial and industrial | | |
| Institutional | 193,904 | - |
| Middle market | 2,270 | 618 |
| Retail | 2,364 | 2,527 |
| Floor plan | 475 | - |
| | 199,013 | 3,145 |
| | **222,072** | **21,679** |
| **Consumer** | | |
| Credit cards | 344 | 375 |
| Personal lines of credit | 60 | 110 |
| Personal loans | 1,598 | 1,092 |
| Cash collateral personal loans | 2 | 13 |
| | **2,004** | **1,590** |
| **Auto and leasing** | **10,076** | **8,668** |
| **Total non-accrual originated loans** | **$ 304,317** | **$ 97,367** |

27

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| <u>**Acquired BBVAPR loans accounted for under ASC 310-20**</u> | | |
| **Commercial** | | |
| Commercial secured by real estate | | |
| Retail | $ 326 | $ 351 |
| Floor plan | 477 | 407 |
| | 803 | 758 |
| Other commercial and industrial | | |
| Retail | 61 | 195 |
| Floor plan | 9 | 234 |
| | 70 | 429 |
| | **873** | **1,187** |
| **Consumer** | | |
| Credit cards | 769 | 1,399 |
| Personal loans | 41 | 77 |
| | **810** | **1,476** |
| **Auto** | **1,244** | **1,512** |
| **Total non-accrual acquired BBVAPR loans accounted for under ASC 310-20** | **2,927** | **4,175** |
| **Total non-accrual loans** | **$ 307,244** | **$ 101,542** |

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.

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.

During the quarter ended March 31, 2015, the revolving line of credit to PREPA was classified as non-accrual. At September 30, 2015, this line of credit had an unpaid principal balance of $193.9 million. For the second and third quarter of 2015, interest payments received were applied to principal. As of September 30, 2015, the specific reserve was $23.4 million.

At September 30, 2015 and December 31, 2014, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $91.2 million and $274.4 million, respectively, as they are performing under their new terms. At December 31, 2014, the balance included the revolving line of credit to PREPA.

**OFG BANCORP**

**NOTES TO UNAUDITED 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 $233.6 million and $236.9 million at September 30, 2015 and December 31, 2014, respectively. Impaired commercial loans at September 30, 2015 and December 31, 2014 included the PREPA line of credit with an unpaid principal balance of $193.9 million and $200.0 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 $26.8 million and $841 thousand at September 30, 2015 and December 31, 2014, respectively. The valuation allowance for impaired commercial loans at September 30, 2015 includes $23.4 million of specific allowance for PREPA recorded during the quarter ended March 31, 2015.The total investment in impaired mortgage loans was $90.5 million and $94.2 million at September 30, 2015 and December 31, 2014, 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 $8.2 million and $9.0 million at September 30, 2015 and December 31, 2014, respectively.

*Originated and Other Loans and Leases Held for Investment*

The Company's recorded investment in commercial and mortgage loans, excluding acquired Eurobank 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 September 30, 2015 and December 31, 2014 are as follows:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | **Unpaid Principal** | **Recorded Investment** | **Related Allowance** | **Coverage** |
| | | **(In thousands)** | | |
| Impaired loans with specific allowance: | | | | |
| Commercial | $ 213,930 | $ 206,227 | $ 26,809 | 13% |
| Residential troubled-debt restructuring | 97,203 | 90,530 | 8,249 | 9% |
| Impaired loans with no specific allowance: | | | | |
| Commercial | 30,464 | 26,887 | N/A | N/A |
| **Total investment in impaired loans** | **$ 341,597** | **$ 323,644** | **$ 35,058** | **11%** |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | **Unpaid Principal** | **Recorded Investment** | **Related Allowance** | **Coverage** |

| | | | | |
|---|---|---|---|---|
| | (In thousands) | | | |
| Impaired loans with specific allowance | | | | |
| Commercial | $ 6,349 | $ 6,226 | $ 841 | 14% |
| Residential troubled-debt restructuring | 99,947 | 94,185 | 8,968 | 10% |
| Impaired loans with no specific allowance | | | | |
| Commercial | 237,806 | 230,044 | N/A | N/A |
| **Total investment in impaired loans** | **$ 344,102** | **$ 330,455** | **$ 9,809** | **3%** |

29

**OFG BANCORP**

**NOTES TO UNAUDITED 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 September 30, 2015 and December 31, 2014 are as follows:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | Unpaid Principal | Recorded Investment | Related Allowance | Coverage |
| | (In thousands) | | | |
| Impaired loans with no specific allowance | | | | |
| Commercial | $ 494 | $ 485 | N/A | N/A |
| **Total investment in impaired loans** | **$ 494** | **$ 485** | **$ -** | **-** |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Unpaid Principal | Recorded Investment | Specific Allowance | Coverage |
| | (In thousands) | | | |
| Impaired loans with no specific allowance | | | | |
| Commercial | $ 672 | $ 672 | N/A | N/A |
| **Total investment in impaired loans** | **$ 672** | **$ 672** | **$ -** | **-** |

*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 and their related allowance for loan and lease losses at September 30, 2015 and December 31, 2014 are as follows:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | Unpaid Principal | Recorded Investment | Allowance | Coverage to Recorded Investment |
| | (In thousands) | | | |
| Impaired loan pools: | | | | |
| Mortgage | $ 617,268 | $ 22,762 | $ 557 | 2% |
| Commercial | 307,271 | 185,274 | 11,780 | 6% |
| Construction | 88,365 | 88,202 | 4,787 | 5% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Auto | | 173,979 | | 173,979 | | 2,862 | 2% |
| **Total investment in impaired loan pools** | **$** | **1,186,883** | **$** | **470,217** | **$** | **19,986** | 4% |

30

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | December 31 , 2014 | | | |
|---|---|---|---|---|
| | Unpaid Principal | Recorded Investment | Allowance | Coverage to Recorded Investment |
| | (In thousands) | | | |
| Impaired loan pools: | | | | |
| Commercial | 289,228 | 255,619 | 5,506 | 2% |
| Construction | 90,786 | 83,751 | 7,970 | 10% |
| Consumer | 35,812 | 29,888 | 5 | 0% |
| **Total investment in impaired loan pools** | **$ 415,826** | **$ 369,258** | **$ 13,481** | 4% |

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. As of September 30, 2015, the Company eliminated the specific allowance of $5 thousand maintained on impaired acquired BBVAPR consumer loan pool accounted under ASC 310-30 because there was an increase in the net present value of cash flows expected to be collected from such pool when compared with the recorded investment. Likewise, the increase in mortgage and auto loan pools from December 31, 2014 to September 30, 2015 was caused by the establishment of a specific reserve with respect to impaired mortgage and auto loan pools that were required based on the net present value of the cash flows expected to be collected.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*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 September 30, 2015 and December 31, 2014 are as follows:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | Unpaid Principal | Recorded Investment | Allowance | Coverage to Recorded Investment |
| | (In thousands) | | | |
| Impaired loan pools: | | | | |
| Loans secured by 1-4 family residential properties | $ 108,537 | $ 105,734 | $ 32,685 | 31% |
| Construction and development secured by 1-4 family residential properties | 11,506 | 3,185 | 2,707 | 85% |
| Commercial and other construction | 137,163 | 128,543 | 54,697 | 43% |
| Consumer | 6,935 | 2,708 | 243 | 9% |
| **Total investment in impaired loan pools** | **$ 264,141** | **$ 240,170** | **$ 90,332** | 38% |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | 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 | $ 134,579 | $ 106,116 | $ 15,522 | 15% |
| Construction and development secured by 1-4 family residential properties | 57,123 | 19,562 | 10,724 | 55% |
| Commercial and other construction | 93,894 | 74,069 | 37,610 | 51% |
| Consumer | 7,992 | 4,506 | 389 | 9% |
| **Total investment in impaired loan pools** | **$ 293,588** | **$ 204,253** | **$ 64,245** | 31% |

The decrease in construction loan pools from December 31, 2014 to September 30, 2015 was mostly caused by the sale of covered commercial loans during the quarter ended September 30, 2015. The increase in loans secured by 1-4 family residential properties, commercial and other construction loan pools from December 31, 2014 to September 30, 2015 was caused by the establishment of a specific reserve with respect to impaired commercial and other construction loan pools that were required based on the net present value of the cash flows expected to be collected.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table presents the interest recognized on commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30, for the quarters and nine-month periods ended September 30, 2015 and 2014:

| | Quarter Ended September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | 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 | $ 37 | $ 207,610 | $ 28 | $ 5,103 |
| Residential troubled-debt restructuring | 788 | 90,278 | 666 | 91,293 |
| Impaired loans with no specific allowance | | | | |
| Commercial | 365 | 31,159 | 1,728 | 89,029 |
| | **1,190** | **329,047** | **2,422** | **185,425** |
| **Acquired loans accounted for under ASC 310-20:** | | | | |
| Impaired loans with no specific allowance | | | | |
| Commercial | - | 1,077 | - | - |
| **Total interest income from impaired loans** | **$ 1,190** | **$ 330,124** | **$ 2,422** | **$ 185,425** |

| | Nine-Month Period Ended September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | 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 | $ 73 | $ 166,633 | $ 83 | $ 6,187 |
| Residential troubled-debt restructuring | 2,381 | 90,903 | 1,876 | 89,597 |
| Impaired loans with no specific allowance | | | | |
| Commercial | 727 | 74,247 | 5,185 | 44,203 |
| | **$ 3,181** | **$ 331,783** | **$ 7,144** | **$ 139,987** |
| **Acquired loans accounted for under ASC 310-20:** | | | | |
| Impaired loans with no specific allowance | | | | |
| Commercial | - | 1,641 | - | - |
| **Total interest income from impaired loans** | **$ 3,181** | **$ 333,424** | **$ 7,144** | **$ 139,987** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*Modifications*

The following tables present the troubled-debt restructurings during the quarters and nine-month periods ended September 30, 2015 and 2014:

| Quarter Ended September 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 | 30 | $ 3,846 | 6.34% | 338 | $ 3,992 | 4.45% | 180 |
| Commercial | 3 | 1,001 | 6.50% | 12 | 8,511 | 3.19% | 12 |
| Consumer | 27 | 170 | 12.41% | 70 | 400 | 12.32% | 52 |

| Nine-Month Period Ended September 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 | 127 | $ 15,455 | 5.07% | 346 | $ 15,586 | 4.21% | 306 |
| Commercial | 7 | 5,534 | 6.77% | 67 | 13,045 | 4.52% | 57 |
| Consumer | 59 | 567 | 13.87% | 71 | 840 | 13.33% | 60 |
| Auto | 1 | 64 | 12.95% | 72 | 65 | 12.95% | 72 |

| Quarter Ended September 30, 2014 | 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 | 26 | $ 3,016 | 5.62% | 347 | $ 2,965 | 4.22% | 393 |
| Commercial | 20 | 200,007 | 7.25% | 3 | 200,007 | 7.25% | 10 |
| Consumer | 6 | 58 | 10.00% | 61 | 68 | 9.66% | 55 |

| Nine-Month Period Ended September 30, 2014 | Number of | Pre-Modification Outstanding | Pre-Modification Weighted | Pre-Modification Weighted | Post-Modification Outstanding | Post-Modification Weighted | Post-Modification Weighted |
|---|---|---|---|---|---|---|---|

| | contracts | Recorded Investment | Average Rate | Average Term (in Months) | Recorded Investment | Average Rate | Average Term (in Months) |
|---|---|---|---|---|---|---|---|
| | | | | (Dollars in thousands) | | | |
| Mortgage | 113 | $ 14,562 | 5.99% | 349 | $ 14,162 | 4.21% | 389 |
| Commercial | 21 | 200,080 | 7.25% | 3 | 200,080 | 7.25% | 10 |
| Consumer | 13 | 123 | 11.77% | 55 | 139 | 11.48% | 62 |

34

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table presents troubled-debt restructurings for which there was a payment default during the twelve-month periods ended September 30, 2015 and 2014:

| | Twelve-Month Period Ended September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
| | (Dollars in thousands) | | | |
| Mortgage | 49 | $ 5,396 | 15 | $ 1,739 |
| Consumer | 8 | $ 177 | 2 | $ 5 |
| Auto | 1 | $ 64 | - | $ - |

***Credit Quality Indicators***

The Company categorizes originated commercial loans and acquired BBVAPR commercial 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, and 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

As of September 30, 2015 and December 31, 2014, 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:

| | September 30, 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 | $ 224,110 | $ 206,678 | $ 15,227 | $ - | $ - | $ 2,205 |
| Institutional | 34,342 | 26,101 | 8,023 | - | - | 218 |
| Middle market | 207,255 | 182,617 | 9,368 | - | - | 15,270 |
| Retail | 211,761 | 191,523 | 4,633 | 4,821 | - | 10,784 |
| Floor plan | 2,925 | 2,925 | - | - | - | - |
| Real estate | 16,766 | 16,766 | - | - | - | - |
| | 697,159 | 626,610 | 37,251 | 4,821 | - | 28,477 |
| Other commercial and industrial: | | | | | | |
| Corporate | 71,714 | 66,054 | - | - | - | 5,660 |
| Institutional | 383,786 | 189,882 | - | - | - | 193,904 |
| Middle market | 107,843 | 102,757 | 2,395 | - | - | 2,691 |
| Retail | 92,668 | 87,839 | 673 | 2,110 | - | 2,046 |
| Floor plan | 36,183 | 33,453 | 2,169 | 225 | - | 336 |
| | 692,194 | 479,985 | 5,237 | 2,335 | - | 204,637 |
| Total | 1,389,353 | 1,106,595 | 42,488 | 7,156 | - | 233,114 |
| **Commercial - acquired loans (under ASC 310-20)** | | | | | | |
| Commercial secured by real estate: | | | | | | |
| Retail | 326 | - | - | 326 | - | - |
| Floor plan | 2,948 | 1,641 | 829 | - | - | 478 |
| | 3,274 | 1,641 | 829 | 326 | - | 478 |
| Other commercial and industrial: | | | | | | |
| Retail | 3,788 | 3,777 | - | 11 | - | - |
| Floor plan | 674 | 666 | - | 1 | - | 7 |
| | 4,462 | 4,443 | - | 12 | - | 7 |
| Total | 7,736 | 6,084 | 829 | 338 | - | 485 |
| **Total** | **$ 1,397,089** | **$ 1,112,679** | **$ 43,317** | **$ 7,494** | **$ -** | **$ 233,599** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 133,076 | $ 109,282 | $ 15,615 | $ - | $ - | $ 8,179 |
| Institutional | 36,611 | 27,089 | 9,284 | - | - | 238 |
| Middle market | 164,050 | 148,360 | 2,817 | - | - | 12,873 |
| Retail | 175,628 | 159,209 | 3,690 | 2,637 | - | 10,092 |
| Floor plan | 1,650 | 692 | 958 | - | - | - |
| Real estate | 12,628 | 12,628 | - | - | - | - |
| | 523,643 | 457,260 | 32,364 | 2,637 | - | 31,382 |
| Other commercial and industrial: | | | | | | |
| Corporate | 63,746 | 63,746 | - | - | - | - |
| Institutional | 478,935 | 278,953 | - | - | - | 199,982 |
| Middle market | 92,334 | 87,126 | 2,815 | - | - | 2,393 |
| Retail | 90,171 | 85,941 | 259 | 2,575 | - | 1,396 |
| Floor plan | 40,903 | 38,413 | 1,247 | 126 | - | 1,117 |
| | 766,089 | 554,179 | 4,321 | 2,701 | - | 204,888 |
| Total | 1,289,732 | 1,011,439 | 36,685 | 5,338 | - | 236,270 |
| **Commercial - acquired loans** | | | | | | |
| **(under ASC 310-20)** | | | | | | |
| Commercial secured by real estate: | | | | | | |
| Retail | 351 | - | - | 351 | - | - |
| Floor plan | 4,131 | 3,724 | - | - | - | 407 |
| | 4,482 | 3,724 | - | 351 | - | 407 |
| Other commercial and industrial: | | | | | | |
| Retail | 4,121 | 4,080 | 8 | 33 | - | - |
| Floor plan | 4,072 | 3,807 | - | - | - | 265 |
| | 8,193 | 7,887 | 8 | 33 | - | 265 |
| Total | 12,675 | 11,611 | 8 | 384 | - | 672 |
| **Total** | **$ 1,302,407** | **$ 1,023,050** | **$ 36,693** | **$ 5,722** | **$ -** | **$ 236,942** |

All loans individually measured for impairment are classified as substandard at September 30, 2015 and December 31, 2014.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

At September 30, 2015 and December 31, 2014, the Company had outstanding credit facilities of approximately $418.5 million and $619.0 million, respectively, granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities. 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 $203 million of these loans are general obligations debt 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 debt.

In addition, some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as the Puerto Rico Electric Power Authority ("PREPA") and the State Insurance Fund Corporation. The Commonwealth's instrumentalities or public corporations have varying degrees of independence from the central government. Some instrumentalities or public corporations that provide essential or important government services, such as the University of Puerto Rico, the Puerto Rico Medical Services Administration and the Puerto Rico Metropolitan Bus Authority, are supported by the Commonwealth through budget appropriations, while others, such as PREPA, are owed substantial amounts for utility services rendered to the Commonwealth.

At September 30, 2015, we had approximately $215.6 million of credit facilities to central government and public corporations of the Commonwealth, including:

- PREPA with an outstanding balance of $193.9 million; and
- The Puerto Rico Housing Finance Authority with an outstanding balance of $20.9 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 public corporations decreased during the second quarter as a result of a repayment in full of a $75 million loan by the Puerto Rico Aqueduct and Sewer Authority and in the third quarter as a result of a repayment in full of a $78 million loan by the State Insurance Fund Corporation.

Oriental Bank is part of a four bank syndicate providing 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 $193.9 million as of September 30, 2015. As part of the bank syndicate, the Bank entered into a forbearance agreement with PREPA, which was extended several times until the execution of 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 has classified the credit facility to PREPA as substandard and on non-accrual status. 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 placed its participation in non-accrual and recorded a $24 million provision during the first quarter of 2015. Since April 1, 2015, interest payments have been applied to principal. At September 30, 2015, the specific allowance for PREPA amounted to $23.4 million.

PREPA's enabling act provides for local receivership upon request to any Puerto Rico court of competent jurisdiction in the event of a default in debt-service payments or other obligations in connection with PREPA's bonds. The receiver so appointed would be empowered, directly or through its agents and attorneys, to take possession of the undertakings, income and revenues pledged to the payment of the bonds in default; to have, hold, use, operate, manage and control the same; and to exercise all of PREPA's rights and powers with respect to such undertakings. However, any such receiver would not have the power to sell, assign, mortgage or otherwise dispose of PREPA's assets, and its powers would be limited to the operation and maintenance of such undertakings and the collection and application of the income and revenues therefrom. Although the Puerto Rico government is actively seeking the right to bankruptcy relief for some of its public instrumentalities, including PREPA, both through an amendment to the federal bankruptcy code and the enactment of a local debt restructuring law, such efforts have thus far been unsuccessful.

**OFG BANCORP**

**NOTES TO UNAUDITED 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 September 30, 2015 and December 31, 2014, 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:

| | | | September 30, 2015 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 | $ 59,581 | $ 52,550 | $ 82 | $ 2,267 | $ 999 | $ 1,083 | $ 1,818 | $ 782 |
| Years 2003 and 2004 | 101,863 | 89,211 | 364 | 4,723 | 1,763 | 1,064 | 2,999 | 1,739 |
| Year 2005 | 55,600 | 48,517 | - | 2,525 | 287 | 1,192 | 2,208 | 871 |
| Year 2006 | 80,427 | 65,839 | 97 | 2,854 | 1,070 | 1,708 | 5,354 | 3,505 |
| Years 2007, 2008 and 2009 | 94,318 | 72,491 | 281 | 2,151 | 1,447 | 3,926 | 9,984 | 4,038 |
| Years 2010, 2011, 2012 2013 | 154,531 | 139,927 | 538 | 1,248 | 139 | 4,007 | 4,338 | 4,334 |
| Years 2014 and 2015 | 76,392 | 76,111 | - | 96 | - | 185 | - | - |
| | 622,712 | 544,646 | 1,362 | 15,864 | 5,705 | 13,165 | 26,701 | 15,269 |
| Non-traditional | 32,249 | 26,863 | - | 1,918 | 375 | 1,362 | 1,731 | - |
| Loss mitigation program | 100,167 | 16,289 | 2,479 | 1,530 | 1,194 | 1,723 | 1,691 | 75,261 |
| | 755,128 | 587,798 | 3,841 | 19,312 | 7,274 | 16,250 | 30,123 | 90,530 |
| Home equity secured personal loans | 515 | 451 | 64 | - | - | - | - | - |
| GNMA's buy-back option program | 6,993 | - | - | - | 973 | 3,840 | 2,180 | - |
| | **762,636** | **588,249** | **3,905** | **19,312** | **8,247** | **20,090** | **32,303** | **90,530** |
| **Consumer** | | | | | | | | |
| Credit cards | 21,148 | 20,186 | 436 | 182 | 123 | 221 | - | - |
| Overdrafts | 275 | 260 | 15 | - | - | - | - | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Unsecured personal lines of credit | 2,184 | 2,087 | 31 | 27 | 39 | - | - | - |
| Unsecured personal loans | 187,826 | 184,441 | 1,737 | 786 | 835 | 27 | - | - |
| Cash collateral personal loans | 16,323 | 16,047 | 171 | 103 | - | 2 | - | - |
| | **227,756** | **223,021** | **2,390** | **1,098** | **997** | **250** | **-** | **-** |
| **Auto and Leasing** | **647,544** | **566,993** | **52,350** | **19,215** | **6,668** | **2,318** | **-** | **-** |
| | **1,637,936** | **1,378,263** | **58,645** | **39,625** | **15,912** | **22,658** | **32,303** | **90,530** |
| **Acquired loans (accounted for under ASC 310-20)** | | | | | | | | |
| **Consumer** | | | | | | | | |
| Credit cards | 36,526 | 34,511 | 825 | 422 | 351 | 417 | - | - |
| Personal loans | 3,248 | 3,102 | 89 | 14 | 11 | 32 | - | - |
| | **39,774** | **37,613** | **914** | **436** | **362** | **449** | **-** | **-** |
| **Auto** | **124,120** | **111,149** | **9,010** | **2,921** | **752** | **288** | **-** | **-** |
| | **163,894** | **148,762** | **9,924** | **3,357** | **1,114** | **737** | **-** | **-** |
| **Total** | **$ 1,801,830** | **$ 1,527,025** | **$ 68,569** | **$ 42,982** | **$ 17,026** | **$ 23,395** | **$ 32,303** | **$ 90,530** |

39

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 65,744 | $ 53,432 | $ 3,963 | $ 3,083 | $ 1,044 | $ 1,360 | $ 1,975 | $ 887 |
| Years 2003 and 2004 | 109,669 | 86,941 | 10,391 | 4,362 | 1,657 | 3,215 | 1,330 | 1,773 |
| Year 2005 | 60,472 | 49,275 | 3,824 | 2,205 | 389 | 1,673 | 1,893 | 1,213 |
| Year 2006 | 85,550 | 65,113 | 5,263 | 2,967 | 1,242 | 2,801 | 4,624 | 3,540 |
| Years 2007, 2008 and 2009 | 93,489 | 76,246 | 4,230 | 1,809 | 337 | 3,986 | 2,813 | 4,068 |
| Years 2010, 2011, 2012 2013 | 162,316 | 148,832 | 2,698 | 2,490 | 938 | 1,397 | 1,296 | 4,665 |
| Year 2014 | 42,108 | 41,818 | 290 | - | - | - | - | - |
| | 619,348 | 521,657 | 30,659 | 16,916 | 5,607 | 14,432 | 13,931 | 16,146 |
| Non-traditional | 36,200 | 30,916 | 1,477 | 584 | 478 | 600 | 2,096 | 49 |
| Loss mitigation program | 93,443 | 10,882 | 995 | 1,123 | 802 | 405 | 1,246 | 77,990 |
| | 748,991 | 563,455 | 33,131 | 18,623 | 6,887 | 15,437 | 17,273 | 94,185 |
| Home equity secured personal loans | 517 | 517 | - | - | - | - | - | - |
| GNMA's buy-back option program | 42,243 | - | - | - | 6,416 | 20,729 | 15,098 | - |
| | **791,751** | **563,972** | **33,131** | **18,623** | **13,303** | **36,166** | **32,371** | **94,185** |
| **Consumer** | | | | | | | | |
| Credit cards | 19,071 | 18,198 | 360 | 139 | 171 | 203 | - | - |
| Overdrafts | 307 | 287 | 20 | - | - | - | - | - |
| Unsecured personal lines of credit | 2,200 | 1,970 | 102 | 25 | 38 | 62 | 3 | - |
| Unsecured personal loans | 147,939 | 144,696 | 1,822 | 743 | 623 | 55 | - | - |
| Cash collateral personal loans | 17,243 | 16,920 | 275 | 39 | 9 | - | - | - |
| | **186,760** | **182,071** | **2,579** | **946** | **841** | **320** | **3** | **-** |
| **Auto and Leasing** | **575,582** | **503,588** | **47,658** | **16,916** | **5,196** | **2,224** | **-** | **-** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **1,554,093** | **1,249,631** | **83,368** | **36,485** | **19,340** | **38,710** | **32,374** | **94,185** |
| **Acquired loans (accounted for under ASC 310-20)** | | | | | | | | |
| **Consumer** | | | | | | | | |
| Credit cards | 41,848 | 38,419 | 1,376 | 654 | 589 | 810 | - | - |
| Personal loans | 3,496 | 3,221 | 151 | 47 | 39 | 38 | - | - |
| | **45,344** | **41,640** | **1,527** | **701** | **628** | **848** | **-** | **-** |
| **Auto** | **184,782** | **169,064** | **11,003** | **3,453** | **767** | **495** | **-** | **-** |
| | **230,126** | **210,704** | **12,530** | **4,154** | **1,395** | **1,343** | **-** | **-** |
| **Total** | **$ 1,784,219** | **$ 1,460,335** | **$ 95,898** | **$ 40,639** | **$ 20,735** | **$ 40,053** | **$ 32,374** | **$ 94,185** |

40

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the Company's allowance for loan and lease losses at September 30, 2015 and December 31, 2014 was as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| **Allowance for loans and lease losses on non-acquired loans:** | | |
| **Originated and other loans and leases held for investment:** | | |
| Mortgage | $ 17,292 | $ 19,679 |
| Commercial | 35,524 | 8,432 |
| Consumer | 10,816 | 9,072 |
| Auto and leasing | 16,674 | 14,255 |
| Unallocated | 45 | 1 |
| **Total allowance for originated and other loans and lease losses** | **80,351** | **51,439** |
| **Acquired loans:** | | |
| **Acquired BBVAPR loans:** | | |
| **Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)** | | |
| Commercial | 22 | 65 |
| Consumer | 3,057 | 1,211 |
| Auto | 2,394 | 3,321 |
| | **5,473** | **4,597** |
| **Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)** | | |
| Mortgage | 473 | - |
| Commercial | 16,567 | 13,476 |
| Consumer | 84 | 5 |
| Auto | 2,862 | - |
| | **19,986** | **13,481** |
| **Total allowance for acquired BBVAPR loans and lease losses** | **105,810** | **69,517** |
| **Acquired Eurobank loans:** | | |
| Loans secured by 1-4 family residential properties | 32,685 | 15,522 |
| Commercial and other construction | 57,280 | 48,334 |
| Consumer | 367 | 389 |
| **Total allowance for acquired Eurobank loan and lease losses** | **90,332** | **64,245** |
| **Total allowance for loan and lease losses** | **$ 196,142** | **$ 133,762** |

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors. While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Company's control. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition.

As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended June 30, 2015 an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer and commercial loan portfolios.  The analysis was based on the trends observed and their relation with the economic cycle as of the period ended June 30, 2015.  As a result, for the commercial portfolio, the look-back period was changed to 36 months from the previously determined 12 months.  For auto and leasing and consumer, a look back period of 24 months was maintained.  In addition, during the quarter ended June 30, 2015, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration the

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others. These changes in the allowance for loan and lease losses' look-back period and the result of the assessment in economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively. No changes were made during the quarter ended September 30, 2015.

*Allowance for Originated and Other Loan and Lease Losses Held for Investment*

The following tables present the activity in our allowance for loan and lease losses and the related recorded investment of the associated loans for our originated and other loans held for investment portfolio by segment for the periods indicated:

| | Quarter Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Auto and Leasing | Unallocated | T |
| | (In thousands) | | | | | |
| **Allowance for loan and lease losses for originated and other loans:** | | | | | | |
| **Balance at beginning of period** | $ 18,076 | $ 34,779 | $ 10,464 | $ 15,064 | $ 606 | $ |
| Charge-offs | (1,058) | (828) | (2,471) | (8,510) | - | (1 |
| Recoveries | 270 | 63 | 186 | 3,251 | - | |
| Provision (recapture) for originated and other loans and lease losses | 4 | 1,510 | 2,637 | 6,869 | (561) | |
| **Balance at end of period** | **$ 17,292** | **$ 35,524** | **$ 10,816** | **$ 16,674** | **$ 45** | **$** |

| | Nine-Month Period Ended September 30, 20 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Auto and Leasing | Unallocated | To |
| | (In thousands) | | | | | |
| **Allowance for loan and lease losses for originated and other loans:** | | | | | | |
| **Balance at beginning of period** | $ 19,679 | $ 8,432 | $ 9,072 | $ 14,255 | $ 1 | $ 5 |
| Charge-offs | (3,829) | (2,317) | (6,456) | (24,307) | - | (36 |
| Recoveries | 338 | 372 | 729 | 10,060 | - | 1 |
| Provision (recapture) for originated and other loans and lease losses | 1,104 | 29,037 | 7,471 | 16,666 | 44 | 5 |
| **Balance at end of period** | **$ 17,292** | **$ 35,524** | **$ 10,816** | **$ 16,674** | **$ 45** | **$ 8** |

| September 30, 2015 | | | | | |
|---|---|---|---|---|---|
| Mortgage | Commercial | Consumer | Auto and Leasing | Unallocated | T |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | **(In thousands)** | |
| **Allowance for loan and lease losses on originated and other loans:** | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | $ 8,249 | $ 26,809 | $ - | $ - | $ - | $ |
| Collectively evaluated for impairment | 9,043 | 8,715 | 10,816 | 16,674 | 45 | |
| **Total ending allowance balance** | **$ 17,292** | **$ 35,524** | **$ 10,816** | **$ 16,674** | **$ 45** | **$** |
| **Loans:** | | | | | | |
| Individually evaluated for impairment | $ 90,530 | $ 233,114 | $ - | $ - | $ - | $ 3 |
| Collectively evaluated for impairment | 672,106 | 1,156,239 | 227,756 | 647,544 | - | 2,7 |
| **Total ending loan balance** | **$ 762,636** | **$ 1,389,353** | **$ 227,756** | **$ 647,544** | **$ -** | **$ 3,0** |

42

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | Quarter Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Auto and Leasing | Unallocated | Tot |
| | (In thousands) | | | | | |
| **Allowance for loan and lease losses for originated and other loans:** | | | | | | |
| **Balance at beginning of period** | $ 19,062 | $ 12,423 | $ 7,887 | $ 11,127 | $ 139 | $ 50 |
| Charge-offs | (1,563) | (1,081) | (1,585) | (7,393) | - | (11, |
| Recoveries | 138 | 56 | 66 | 2,434 | - | 2 |
| Provision (recapture) for originated and other loan and lease losses | 1,235 | (2,286) | 2,341 | 7,236 | 43 | 8 |
| **Balance at end of period** | **$ 18,872** | **$ 9,112** | **$ 8,709** | **$ 13,404** | **$ 182** | **$ 50** |

| | Nine-Month Period Ended September 30, 20 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Auto and Leasing | Unallocated | |
| | (In thousands) | | | | | |
| **Allowance for loan and lease losses for originated and other loans:** | | | | | | |
| **Balance at beginning of period** | $ 19,937 | $ 14,897 | $ 6,006 | $ 7,866 | $ 375 | $ |
| Charge-offs | (3,764) | (2,043) | (3,820) | (17,994) | - | ( |
| Recoveries | 374 | 269 | 457 | 6,094 | - | |
| Provision (recapture) for originated and other loan and lease losses | 2,325 | (4,011) | 6,066 | 17,438 | (193) | |
| **Balance at end of period** | **$ 18,872** | **$ 9,112** | **$ 8,709** | **$ 13,404** | **$ 182** | **$** |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Auto and Leasing | Unallocated | To |
| | (In thousands) | | | | | |
| **Allowance for loan and lease losses on originated and other loans:** | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | $ 8,968 | $ 841 | $ - | $ - | $ - | $ |
| Collectively evaluated for impairment | 10,711 | 7,591 | 9,072 | 14,255 | 1 | 4 |
| **Total ending allowance balance** | **$ 19,679** | **$ 8,432** | **$ 9,072** | **$ 14,255** | **$ 1** | **$ 5** |
| **Loans:** | | | | | | |
| Individually evaluated for impairment | $ 94,185 | $ 236,270 | $ - | $ - | $ - | $ 33 |
| Collectively evaluated for impairment | 697,566 | 1,053,462 | 186,760 | 575,582 | - | 2,51 |
| **Total ending loan balance** | **$ 791,751** | **$ 1,289,732** | **$ 186,760** | **$ 575,582** | **$ -** | **$ 2,84** |

During the quarter ended March 31, 2015 the Company placed its $200 million participation in a line of credit to PREPA on non-accrual status and recorded a $24.0 million provision for loan and lease losses. Since April 1, 2015, interest payments received have been applied to principal. As of September 30, 2015, the specific reserve was maintained at $23.4 million.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*Allowance for BBVAPR Acquired Loan Losses*

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

The following tables present the activity in our allowance for loan losses and related recorded investment of the associated loans in our BBVAPR acquired loan portfolio, excluding loans accounted for under ASC 310-30, for the periods indicated:

| | Quarter Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | **Commercial** | **Consumer** | **Auto** | **Unallocated** | **Total** |
| | (In thousands) | | | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:** | | | | | |
| **Balance at beginning of period** | $ 54 | $ 2,616 | $ 2,859 | $ - | $ 5,529 |
| Charge-offs | (22) | (1,103) | (1,150) | - | (2,275) |
| Recoveries | 7 | 59 | 502 | - | 568 |
| Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20 | (17) | 1,485 | 183 | - | 1,651 |
| **Balance at end of period** | **$ 22** | **$ 3,057** | **$ 2,394** | **$ -** | **$ 5,473** |

| | Nine-Month Period Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | **Commercial** | **Consumer** | **Auto** | **Unallocated** | **Total** |
| | (In thousands) | | | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:** | | | | | |
| **Balance at beginning of period** | $ 65 | $ 1,211 | $ 3,321 | $ - | $ 4,597 |
| Charge-offs | (38) | (3,789) | (3,454) | - | (7,281) |
| Recoveries | 24 | 622 | 1,574 | - | 2,220 |
| Provision (recapture) for acquired BBVAPR | (29) | 5,013 | 953 | - | 5,937 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| loan and lease losses accounted for<br><br>under ASC 310-20 | | | | | | | | | | |
| **Balance at end of period** | **$** | **22** | **$** | **3,057** | **$** | **2,394** | **$** | **-** | **$** | **5,473** |

44

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | **Commercial** | **Consumer** | **Auto** | **Unallocated** | **Total** |
| | | | (In thousands) | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:** | | | | | |
| Ending allowance balance attributable to loans: | | | | | |
| Collectively evaluated for impairment | $ 22 | $ 3,057 | $ 2,394 | $ - | $ 5,473 |
| **Total ending allowance balance** | **$ 22** | **$ 3,057** | **$ 2,394** | **$ -** | **$ 5,473** |
| **Loans:** | | | | | |
| Individually evaluated for impairment | $ 485 | $ - | $ - | $ - | $ 485 |
| Collectively evaluated for impairment | 7,251 | 39,774 | 124,120 | - | 171,145 |
| **Total ending loan balance** | **$ 7,736** | **$ 39,774** | **$ 124,120** | **$ -** | **$ 171,630** |

| | Quarter Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | **Commercial** | **Consumer** | **Auto** | **Unallocated** | **Total** |
| | | | (In thousands) | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:** | | | | | |
| **Balance at beginning of period** | **$ 464** | **$ 338** | **$ 2,642** | **$ -** | **$ 3,444** |
| Charge-offs | (228) | (1,432) | (1,748) | - | (3,408) |
| Recoveries | 35 | 139 | 519 | - | 693 |
| Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20 | (1) | 1,986 | 1,746 | - | 3,731 |
| **Balance at end of period** | **$ 270** | **$ 1,031** | **$ 3,159** | **$ -** | **$ 4,460** |

| | Nine-Month Period Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | **Commercial** | **Consumer** | **Auto** | **Unallocated** | **Total** |
| | | | (In thousands) | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **accounted for under ASC 310-20:** | | | | | |
| **Balance at beginning of period** | **$ 926** | **$ -** | **$ 1,428** | **$ -** | **$ 2,354** |
| Charge-offs | (512) | (5,442) | (4,414) | - | (10,368) |
| Recoveries | 65 | 363 | 1,504 | - | 1,932 |
| Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20 | (209) | 6,110 | 4,641 | - | 10,542 |
| **Balance at end of period** | **$ 270** | **$ 1,031** | **$ 3,159** | **$ -** | **$ 4,460** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial | Consumer | Auto | Unallocated | Total |
| | | | (In thousands) | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:** | | | | | |
| Ending allowance balance attributable to loans: | | | | | |
| Collectively evaluated for impairment | $ 65 | $ 1,211 | $ 3,321 | $ - | $ 4,597 |
| **Total ending allowance balance** | **$ 65** | **$ 1,211** | **$ 3,321** | **$ -** | **$ 4,597** |
| **Loans:** | | | | | |
| Individually evaluated for impairment | $ 672 | $ - | $ - | $ - | $ 672 |
| Collectively evaluated for impairment | 12,003 | 45,344 | 184,782 | - | 242,129 |
| **Total ending loan balance** | **$ 12,675** | **$ 45,344** | **$ 184,782** | **$ -** | **$ 242,801** |

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

The following tables present the activity in our allowance for loan losses and related recorded investment of the associated loans in our acquired BBVAPR loan portfolio accounted for under ASC 310-30, for the periods indicated:

| | Quarter Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Auto | Total |
| | | | (In thousands) | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:** | | | | | |
| **Balance at beginning of period** | $ 473 | $ 14,940 | $ 84 | $ 2,862 | $ 18,359 |
| Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30 | - | 5,979 | - | - | 5,979 |
| Loan pools fully charged-off | - | (4,352) | - | - | (4,352) |
| **Balance at end of period** | **$ 473** | **$ 16,567** | **$ 84** | **$ 2,862** | **$ 19,986** |

| | Nine-Month Period Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Auto | Total |
| | | | (In thousands) | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans** | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **accounted for under ASC 310-30:** | | | | | | | | | | |
| **Balance at beginning of period** | $ | - | $ | 13,476 | $ | 5 | $ | - | $ | 13,481 |
| Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30 | | 473 | | 7,443 | | 79 | | 2,862 | | 10,857 |
| Loan pools fully charged-off | | - | | (4,352) | | - | | - | | (4,352) |
| **Balance at end of period** | **$** | **473** | **$** | **16,567** | **$** | **84** | **$** | **2,862** | **$** | **19,986** |

46

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | **Quarter Ended Septe 2014** | | | |
|---|---|---|---|---|
| | **Mortgage** | **Commercial** | **Consumer** | **Au** |
| | **(In thousands)** | | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:** | | | | |
| **Balance at beginning of period** | $- | $6,216 | $62 | $- |
| Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30 | - | 3,899 | (57) | - |
| **Balance at end of period** | **$-** | **$10,115** | **$5** | **$-** |

| | **Nine-Month Period E September 30, 2014** | | | |
|---|---|---|---|---|
| | **Mortgage** | **Commercial** | **Consumer** | **Au** |
| | **(In thousands)** | | | |
| **Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:** | | | | |
| **Balance at beginning of period** | $- | $1,713 | $418 | $7 |
| Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30 | - | 8,402 | (413) | ( |
| **Balance at end of period** | **$-** | **$10,115** | **$5** | **$-** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*Allowance for Acquired Eurobank Loan Losses*

The changes in the allowance for loan and lease losses on acquired Eurobank loans for the quarters and nine-month periods ended September 30, 2015 and 2014 were as follows:

| | Quarter Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Loans Secured by 1-4 Family Residential Properties | Commercial | Consumer | Leasing | Total |
| | (In thousands) | | | | |
| **Allowance for loan and lease losses for acquired Eurobank loans:** | | | | | |
| **Balance at beginning of period** | $ 17,593 | $ 53,470 | $ 389 | $ - | $ 71,452 |
| Provision for acquired Eurobank loans and lease losses, net | 15,813 | 17,398 | 279 | - | 33,490 |
| Loan pools fully charged-off | (721) | (13,588) | (301) | - | (14,610) |
| **Balance at end of period** | **$ 32,685** | **$ 57,280** | **$ 367** | **$ -** | **$ 90,332** |

| | Nine-Month Period Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Loans Secured by 1-4 Family Residential Properties | Commercial | Consumer | Leasing | Total |
| | (In thousands) | | | | |
| **Allowance for loan and lease losses for acquired Eurobank loans:** | | | | | |
| **Balance at beginning of period** | $ 15,522 | $ 48,334 | $ 389 | $ - | $ 64,245 |
| Provision for acquired Eurobank loans and lease losses, net | 17,779 | $ 20,136 | 279 | - | 38,194 |
| Loan pools fully charged-off | (721) | (13,588) | (301) | - | (14,610) |
| FDIC shared-loss portion of provision for loan and lease losses, net | 105 | 2,398 | - | - | 2,503 |
| **Balance at end of period** | **$ 32,685** | **$ 57,280** | **$ 367** | **$ -** | **$ 90,332** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | Quarter Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Leasing | Total |
| | (In thousands) | | | | |
| **Allowance for loan and lease losses for acquired Eurobank loans:** | | | | | |
| **Balance at beginning of period** | $ 14,924 | $43,976 | $ 615 | $- | $59,515 |
| Provision for (recapture of) acquired Eurobank loans and lease losses, net | (165) | 1,461 | (181) | - | 1,115 |
| FDIC shared-loss portion of provision for loan and lease losses, net | 493 | 1,149 | (45) | - | 1,597 |
| **Balance at end of period** | **$ 15,252** | **$46,586** | **$ 389** | **$-** | **$62,227** |

| | Nine-Month Period Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Mortgage | Commercial | Consumer | Leasing | Total |
| | (In thousands) | | | | |
| **Allowance for loan and lease losses for Eurobank loans:** | | | | | |
| **Balance at beginning of period** | $ 12,495 | $39,619 | $ 615 | $- | $52,729 |
| Provision for Eurobank loans and lease losses, net | 2,144 | 2,376 | (181) | - | 4,339 |
| FDIC shared-loss portion of provision for Eurobank loans and lease losses, net | 613 | 4,591 | (45) | - | 5,159 |
| **Balance at end of period** | **$ 15,252** | **$46,586** | **$ 389** | **$-** | **$62,227** |

The FDIC shared-loss portion of provision for (recapture of) acquired Eurobank loans and lease losses, net, represents the credit impairment losses to be covered under the FDIC loss-share agreement which is increasing (decreasing) the FDIC loss-share indemnification asset. The FDIC loss sharing obligations, related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. The coverage for the single family residential loans will expire on June 30, 2020. The remaining covered loans are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties." At September 30, 2015, allowance for loan losses on loans covered by the FDIC shared-loss agreement amounted $32.7 million and the provision for loan losses for the quarter and nine-month period ended September 30, 2015 was $15.8 million and $18.1 million, respectively.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 6- FDIC INDEMNIFICATION ASSET AND TRUE-UP PAYMENT OBLIGATION

In connection with the FDIC assisted acquisition, the Bank and the FDIC entered into shared-loss agreements pursuant to which the FDIC covers a substantial portion of any losses on loans (and related unfunded loan commitments), foreclosed real estate and other repossessed properties covered by the agreements.

The acquired loans, foreclosed real estate, and other repossessed properties subject to the shared-loss agreements are collectively referred to as "covered assets." Under the terms of the shared-loss agreements, the FDIC absorbs 80% of losses and shares in 80% of loss recoveries on covered assets. The term of the shared-loss agreement covering single family residential mortgage loans is ten years with respect to losses and loss recoveries, while the term of the shared-loss agreement covering commercial loans is five years with respect to losses and eight years with respect to loss recoveries, from the April 30, 2010 acquisition date. The shared-loss agreements also provide for certain costs directly related to the collection and preservation of covered assets to be reimbursed at an 80% level. The FDIC indemnification asset represents the portion of estimated losses covered by the shared-loss agreements between the Bank and the FDIC.

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the quarters and nine-month periods ended September 30, 2015 and 2014:

| | **Quarter Ended September 30,** | | **Nine-Month Period Ended September 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | (In thousands) | | | |
| **FDIC indemnification asset:** | | | | |
| **Balance at beginning of period** | $ 22,704 | $ 143,660 | $ 97,378 | $ 189,240 |
| Shared-loss agreements reimbursements from the FDIC | - | (12,837) | (17,171) | (31,537) |
| Shared-loss agreements reimbursements expected from the FDIC | - | - | (20,917) | - |
| Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net | - | 1,597 | 2,503 | 5,159 |
| FDIC indemnification asset expense | (1,215) | (16,059) | (35,948) | (51,180) |
| Incurred expenses to be reimbursed under shared-loss agreements | 1,406 | 4,258 | (2,950) | 8,937 |
| **Balance at end of period** | **$ 22,895** | **$ 120,619** | **$ 22,895** | **$ 120,619** |
| | | | | |
| **True-up payment obligation:** | | | | |
| **Balance at beginning of period** | $ 23,577 | $ 20,231 | $ 21,981 | $ 18,510 |
| Change in true-up payment obligation | 864 | 875 | 2,460 | 2,596 |
| **Balance at end of period** | **$ 24,441** | **$ 21,106** | **$ 24,441** | **$ 21,106** |

The FDIC shared- loss expense bears an inverse relationship with a change in the yield of covered loan pools in accordance with ASC 310-30. ASC 310-30 dictates that such pools should be subject to increases in their yield when the present value of the expected cash flows is higher than the pool's carrying balance. When the increases in cash flow expectations are driven by reductions in the expected credit losses, the Bank recognizes that such losses are no longer expected to be collected from the FDIC. Accordingly, the Bank reduces the FDIC indemnification asset by amortizing the reduction in expected collections throughout the remaining life of the underlying pools. This amortization is recognized in the FDIC shared-loss expense.

The underlying factors that caused an increase in the expected cash flows and resulting reduction in projected losses are derived from the pool-level cash flow forecasts. Credit loss assumptions used to develop each pool-level cash flow forecast are based on the behavior of defaults, recoveries and losses of the corresponding pool of covered loans.

The FDIC loss share coverage for the commercial loans and other non-single family loans was in effect until June 30, 2015. The coverage for the single family residential loans will expire on June 30, 2020. Accordingly, the Company amortized the remaining portion of the FDIC indemnification asset attributable to non-single family loans at the close of the second quarter of 2015. At September 30, 2015, the Company had a $25 million receivable from the FDIC, included in other assets in the unaudited statements of financial condition, corresponding to the loss-share certifications for commercial and other non-single family loans for the second quarter of 2015. At September 30, 2015, the FDIC indemnification asset reflects only the balance for single family residential mortgage loans. Notwithstanding the expiration of loss share coverage of non-single family 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 non-single family loss share agreement. Pursuant to such agreement, the FDIC agreed to pay up to $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 and a $20 million receivable from the FDIC was included in other assets in the unaudited statements of financial condition related to this reimbursement.

The FDIC indemnification asset expense of $1.2 million and $35.9 million for the quarter and nine-month period ended September 30, 2015, respectively, decreased when compared to $16.1 million and $51.2 million for the same periods in 2014. The decrease during the quarter and nine-month period was principally driven by the expiration of the FDIC loss share coverage for commercial loans and other non-single family loans. During the nine-month periods ended September 30, 2015 and 2014, the amortization expense totaled $2.3 million and $594 thousand, respectively, primarily as a result of stepped up cost recoveries on certain construction, commercial, and leasing pools.

Also in connection with the FDIC assisted acquisition, the Bank agreed to make a true-up payment, also known as a clawback liability or clawback provision, to the FDIC on the date that is 45 days following the last day (such day, the “True-Up Measurement Date”) of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of $906.0 million (or $181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset premium (discount) of ($227.5 million) (or ($56.9 million)); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of $24.4 million and $22.0 million, net of discount, as of September 30, 2015 and December 31, 2014, respectively. The estimated liability is included within accrued expenses and other liabilities in the unaudited consolidated statements of financial condition.

The true-up payment obligation, also known as clawback liability, may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value. During the quarters and nine-month periods ended September 30, 2015 and 2014 the fair value of the true-up payment obligation increased by $864 thousand and

$2.5 million and $875 thousand and $2.6 million, respectively. These changes in fair value are included as change in true-up payment obligation within FDIC shared-loss expense, net, in the unaudited consolidated statements of operations.

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at September 30, 2015 and December 31, 2014:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| Carrying amount (fair value) | $ 24,441 | $ 21,981 |
| Undiscounted amount | $ 33,385 | $ 40,266 |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 7 - SERVICING ASSETS

The Company periodically sells or securitizes mortgage loans while retaining the obligation to perform the servicing of such loans. In addition, the Company may purchase or assume the right to service mortgage loans originated by others. Whenever the Company undertakes an obligation to service a loan, management assesses whether a servicing asset and/or liability should be recognized. A servicing asset is recognized whenever the compensation for servicing is expected to more than adequately compensate the Company for servicing the loans and leases. Likewise, a servicing liability would be recognized in the event that servicing fees to be received are not expected to adequately compensate the Company for its expected cost.

All separately recognized servicing assets are recognized at fair value using the fair value measurement method. Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date, reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and includes these changes, if any, with mortgage banking activities in the consolidated statements of operations. The fair value of servicing rights is subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

The fair value of servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions.

At September 30, 2015, the servicing asset amounted to $6.5 million ($14.0 million — December 31, 2014) related to mortgage servicing rights.

During the second quarter of 2015, the Company completed the sale of certain servicing assets for approximately $7.0 million. The Company recognized a loss of $2.7 million related to this transaction, which is included as other non-interest (loss) income in the unaudited consolidated statements of operations.

The following table presents the changes in servicing rights measured using the fair value method for the quarters and nine-month periods ended September 30, 2015 and 2014:

| | Quarter Ended September 30, | Nine-Month Period Ended September 30, |
|---|---|---|

| | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|
| | (In thousands) | | (In thousands) | |
| **Fair value at beginning of year** | $ 5,791 | $ 13,970 | $ 13,992 | $ 13,801 |
| Sale of mortgage servicing rights | - | - | (6,985) | - |
| Servicing from mortgage securitizations or asset transfers | 748 | 554 | 2,808 | 1,608 |
| Changes due to payments on loans | (242) | (427) | (974) | (799) |
| Changes in fair value related to price of MSR's held for sale | - | - | (2,716) | - |
| Changes in fair value due to changes in valuation model inputs or assumptions | 166 | (111) | 338 | (624) |
| **Fair value at end of year** | **$ 6,463** | **$ 13,986** | **$ 6,463** | **$ 13,986** |

The following table presents key economic assumption ranges used in measuring the mortgage-related servicing asset fair value for nine-month periods ended September 30, 2015 and 2014:

| | Nine-Month Period Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| **Constant prepayment rate** | 5.49% - 10.58% | 5.60% - 10.08% |
| **Discount rate** | 10.00% - 12.00% | 10.00% - 12.00% |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The sensitivity of the current fair value of servicing assets to immediate 10 percent and 20 percent adverse changes in the above key assumptions were as follows:

| | | September 30, 2015 (In thousands) |
|---|---|---|
| **Mortgage-related servicing asset** | | |
| **Carrying value of mortgage servicing asset** | $ | 6,463 |
| **Constant prepayment rate** | | |
| Decrease in fair value due to 10% adverse change | $ | (183) |
| Decrease in fair value due to 20% adverse change | $ | (356) |
| **Discount rate** | | |
| Decrease in fair value due to 10% adverse change | $ | (256) |
| Decrease in fair value due to 20% adverse change | $ | (493) |

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption.

Changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or offset the sensitivities. Mortgage banking activities, a component of total banking and financial service revenue in the consolidated statements of operations, include the changes from period to period in the fair value of the mortgage loan servicing rights, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, including changes due to collection/realization of expected cash flows.

Servicing fee income is based on a contractual percentage of the outstanding principal balance and is recorded as income when earned. Servicing fees on mortgage loans for the quarter and nine-month period ended September 30, 2015 totaled $374 thousand and $705 thousand, respectively. Servicing fees on mortgage loans for the quarter and nine-month period ended September 30, 2014 totaled $190 thousand and $341 thousand, respectively.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**NOTE 8 — DERIVATIVES**

The following table presents the Company's derivative assets and liabilities at September 30, 2015 and December 31, 2014:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| **Derivative assets:** | | |
| Options tied to S&P 500 Index | $ 1,115 | $ 5,555 |
| Interest rate swaps not designated as hedges | 2,139 | 2,399 |
| Interest rate caps | 36 | 152 |
| Other | - | 1 |
| | **$ 3,290** | **$ 8,107** |
| **Derivative liabilities:** | | |
| Interest rate swaps designated as cash flow hedges | 6,395 | 8,585 |
| Interest rate swaps not designated as hedges | 2,139 | 2,399 |
| Interest rate caps | 36 | 152 |
| Other | 52 | 85 |
| | **$ 8,622** | **$ 11,221** |

***Interest Rate Swaps***

The Company enters into interest rate swap contracts to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in a predetermined variable index rate. The interest rate swaps effectively fix the Company's interest payments on an amount of forecasted interest expense attributable to the variable index rate corresponding to the swap notional stated rate. These swaps are designated as cash flow hedges for the forecasted wholesale borrowing transactions, are properly documented as such, and therefore, qualify for cash flow hedge accounting. Any gain or loss associated with the effective portion of the cash flow hedges is recognized in other comprehensive income (loss) and is subsequently reclassified into operations in the period during which the hedged forecasted transactions affect earnings. Changes in the fair value of these derivatives are recorded in accumulated other comprehensive income to the extent there is no significant ineffectiveness in the cash flow hedging relationships. Currently, the Company does not expect to reclassify any amount included in other comprehensive income (loss) related to these interest rate swaps to operations in the next twelve months.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table shows a summary of these swaps and their terms at September 30, 2015:

| Type | | Notional Amount (In thousands) | Fixed Rate | Variable Rate Index | Trade Date | Settlement Date | Maturity Date |
|---|---|---|---|---|---|---|---|
| **Interest Rate Swaps** | $ | 25,000 | 2.4400% | 1-Month LIBOR | 05/05/11 | 05/04/12 | 05/04/16 |
| | | 25,000 | 2.6200% | 1-Month LIBOR | 05/05/11 | 07/24/12 | 07/24/16 |
| | | 25,000 | 2.6400% | 1-Month LIBOR | 05/05/11 | 07/30/12 | 07/30/16 |
| | | 50,000 | 2.6600% | 1-Month LIBOR | 05/05/11 | 08/10/12 | 08/10/16 |
| | | 100,000 | 2.6800% | 1-Month LIBOR | 05/05/11 | 08/16/12 | 08/16/16 |
| | | 38,322 | 2.4200% | 1-Month LIBOR | 07/03/13 | 07/03/13 | 08/01/23 |
| | **$** | **263,322** | | | | | |

An accumulated unrealized loss of $6.4 million and $8.6 million was recognized in accumulated other comprehensive income (loss) related to the valuation of these swaps at September 30, 2015 and December 31, 2014, respectively, and the related liability is being reflected in the accompanying unaudited consolidated statements of financial condition.

For September 30, 2015 and December 31, 2014, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $2.1 million and $2.4 million, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At September 30, 2015 and December 31, 2014, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $2.1 million and $2.4 million, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition.

The following table shows a summary of these interest rate swaps not designated as hedging instruments and their terms at September 30, 2015:

| Type | Notional Amount (In thousands) | Fixed Rate | Variable Rate Index | Settlement Date | Maturity Date |
|---|---|---|---|---|---|
| **Interest Rate Swaps - Derivatives Offered to Clients** | $ 3,819 | 5.1300% | 1-Month LIBOR | 07/03/06 | 07/03/16 |
| | 12,500 | 5.5100% | 1-Month LIBOR | 04/11/09 | 04/11/19 |
| | **$ 16,319** | | | | |
| **Interest Rate Swaps - Mirror Image Derivatives** | $ 3,819 | 5.1300% | 1-Month LIBOR | 07/03/06 | 07/03/16 |

| | | | | |
|---|---|---|---|---|
| 12,500 | 5.5100% | 1-Month LIBOR | 04/11/09 | 04/11/19 |
| **$ 16,319** | | | | |

55

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

***Options Tied to Standard & Poor's 500 Stock Market Index***

The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. The Company uses option agreements with major broker-dealers to manage its exposure to changes in this index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the index in exchange for a fixed premium. The changes in fair value of the option agreements used to manage the exposure in the stock market in the certificates of deposit are recorded in earnings. At September 30, 2015 and December 31, 2014, the purchased options used to manage exposure to the S&P 500 Index on stock indexed deposits represented an asset of $1.1 million (notional amount of $3.4 million) and $5.6 million (notional amount of $10.7 million), respectively, and the options sold to customers embedded in the certificates of deposit and recorded as deposits in the unaudited consolidated statements of financial condition, represented a liability of $1.0 million (notional amount of $3.2 million) and $5.5 million (notional amount of $10.5 million), respectively.

***Interest Rate Caps***

The Company has entered into interest rate cap transactions with various clients with floating-rate debt who wish to protect their financial results against increases in interest rates. In these cases, the Company simultaneously enters into mirror-image interest rate cap transactions with financial counterparties. None of these cap transactions qualify for hedge accounting, and therefore, they are marked to market through earnings. For both September 30, 2015 and December 31, 2014, the outstanding total notional amount of interest rate caps was $109.9 million. At September 30, 2015 and December 31, 2014, the interest rate caps sold to clients represented a liability of $36 thousand and $152 thousand, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition. At September 30, 2015 and December 31, 2014, the interest rate caps purchased as mirror-images represented an asset of $36 thousand and $152 thousand, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial condition.

**NOTE 9 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS**

Accrued interest receivable at September 30, 2015 and December 31, 2014 consists of the following:

| | | September 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Loans, excluding loans accounted for under ASC 310-30 | $ | 13,953 | $ | 17,005 |
| Investments | | 4,672 | | 4,340 |

| | | | | |
|---|---|---|---|---|
| | **$** | **18,625** | **$** | **21,345** |

Other assets at September 30, 2015 and December 31, 2014 consist of the following:

| | | September 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| | | (In thousands) | | |
| FDIC receivable | $ | 44,849 | $ | 14,974 |
| Prepaid expenses | | 14,151 | | 16,018 |
| Receivable from sale of non-performing loans and foreclosed real estate | | 12,989 | | - |
| Other repossessed assets | | 8,948 | | 21,800 |
| Core deposit and customer relationship intangibles | | 8,314 | | 9,743 |
| Mortgage tax credits | | 6,277 | | 6,277 |
| Investment in Statutory Trust | | 1,083 | | 1,083 |
| Accounts receivable and other assets | | 44,433 | | 38,830 |
| | **$** | **141,044** | **$** | **108,725** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

At September 30, 2015, the FDIC receivable included a $24.9 million receivable corresponding to the FDIC loss-share certification from the second quarter of 2015 for non-single family residential loans, as the loss share period on these loans was in effect until June 30, 2015. In addition, the FDIC receivable included $20.0 million corresponding to FDIC shared-loss portion of losses in the sale of certain covered non-performing commercial loans during the quarter ended September 30, 2015 as part of an agreement made with the FDIC in July 2015. At December 31, 2014, the FDIC receivable included a $15.0 million receivable corresponding to the FDIC loss-share certification from the third quarter of 2014 that was received in January 2015.

At September 30, 2015, the Company had a $13.0 million receivable related to the bulk sale of non-performing covered and non-covered commercial loans and foreclosed real estate during the quarter ended September 30, 2015.

Prepaid expenses amounting to $14.2 million and $16.0 million at September 30, 2015 and December 31, 2014, respectively, include prepaid municipal, property and income taxes aggregating to $9.3 million and $9.6 million, respectively.

In connection with the FDIC-assisted acquisition and the BBVAPR Acquisition, the Company recorded a core deposit intangible representing the value of checking and savings deposits acquired. At September 30, 2015 and December 31, 2014, this core deposit intangible amounted to $5.6 million and $6.5 million, respectively. In addition, the Company recorded a customer relationship intangible amounting to $5.0 million representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition as of December 31, 2012. At September 30, 2015 and December 31, 2014, this customer relationship intangible amounted to $2.7 million and $3.3 million, respectively.

Other repossessed assets totaled $8.9 million and $21.8 million at September 30, 2015 and December 31, 2014, respectively, include repossessed automobiles amounting to $8.3 million and $20.7 million, respectively, which are recorded at their net realizable value.

At both September 30, 2015 and December 31, 2014, tax credits for the Company totaled $6.3 million. These tax credits do not have an expiration date.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 10— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of September 30, 2015 and December 31, 2014 consist of the following:

| | | September 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Non-interest bearing demand deposits | $ | 792,110 | $ | 745,570 |
| Interest-bearing savings and demand deposits | | 2,330,018 | | 2,544,664 |
| Individual retirement accounts | | 272,276 | | 302,622 |
| Retail certificates of deposit | | 456,320 | | 452,150 |
| Institutional certificates of deposit | | 213,224 | | 260,090 |
| **Total core deposits** | | **4,063,948** | | **4,305,096** |
| Brokered deposits | | 653,126 | | 619,310 |
| **Total deposits** | $ | **4,717,074** | $ | **4,924,406** |

Brokered deposits include $577.6 million in certificates of deposits and $75.5 million in money market accounts at September 30, 2015, and $526.2 million in certificates of deposits and $93.1 million in money market accounts at December 31, 2014.

The weighted average interest rate of the Company's deposits was 0.56% at September 30, 2015 and 0.66% at December 31, 2014. Interest expense for the quarters and nine-month periods ended September 30, 2015 and 2014 was as follows:

| | | Quarter Ended September 30, | | | | Nine-Month Period Ended September 30, | | |
|---|---|---|---|---|---|---|---|---|
| | | 2015 | | 2014 | | 2015 | | 2014 |
| | | (In thousands) | | | | (In thousands) | | |
| Demand and savings deposits | $ | 2,987 | $ | 4,003 | $ | 9,469 | $ | 13,834 |
| Certificates of deposit | | 3,664 | | 3,658 | | 10,890 | | 11,970 |
| | **$** | **6,651** | **$** | **7,661** | **$** | **20,359** | **$** | **25,804** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

At September 30, 2015 and December 31, 2014, demand and interest-bearing deposits and certificates of deposit included deposits of Puerto Rico Cash & Money Market Fund, Inc., which amounted to $102.8 million and $96.8 million, respectively, with a weighted average rate of 0.77% and 0.78%, and were collateralized with investment securities with a fair value of $83.2 million and $76.3 million, respectively.

At September 30, 2015 and December 31, 2014, time deposits in denominations of $100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $574.4 million and $608.1 million, respectively. Such amounts include public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of $9.8 million at a weighted average rate of 0.52% at September 30, 2015, and $6.9 million at a weighted average rate of 0.50% at December 31, 2014.

At September 30, 2015 and December 31, 2014, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $175.0 million and $318.5 million, respectively. These public funds were collateralized with commercial loans amounting to $411.4 million and $414.5 million at September 30, 2015 and December 31, 2014, respectively.

Excluding equity indexed options in the amount of $1.0 million, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interest of $1.1 million and unamortized deposit discount in the amount of $381 thousand, the scheduled maturities of certificates of deposit at September 30, 2015 are as follows:

| | | **September 30, 2015** |
|---|---|---|
| | | **(In thousands)** |
| Within one year: | | |
| Three (3) months or less | $ | 207,581 |
| Over 3 months through 1 year | | 738,878 |
| | | **946,459** |
| Over 1 through 2 years | | 396,619 |
| Over 2 through 3 years | | 113,719 |
| Over 3 through 4 years | | 13,027 |
| Over 4 through 5 years | | 47,020 |
| | **$** | **1,516,844** |

The table of scheduled maturities of certificates of deposits above includes brokered deposits.

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans amounted to $682 thousand and $845 thousand as of September 30, 2015 and December 31, 2014, respectively.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 11 — BORROWINGS AND RELATED INTEREST

***Securities Sold under Agreements to Repurchase***

At September 30, 2015, securities underlying agreements to repurchase were delivered to, and are being held by, the counterparties with whom the repurchase agreements were transacted. The counterparties have agreed to resell to the Company the same or similar securities at the maturity of these agreements.

At September 30, 2015 and December 31, 2014, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $2.1 million and $2.3 million, respectively, were as follows:

| | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **Borrowing Balance** | **Fair Value of Underlying Collateral** | **Borrowing Balance** | **Fair Value of Underlying Collateral** |
| | | **(In thousands)** | | |
| JP Morgan Chase Bank NA | 328,532 | 354,353 | 307,816 | 328,198 |
| Credit Suisse Securities (USA) LLC | 670,000 | 745,025 | 670,000 | 760,327 |
| **Total** | **$ 998,532** | **$ 1,099,378** | **$ 977,816** | **$ 1,088,525** |

The following table shows a summary of the Company's repurchase agreements and their terms, excluding accrued interest in the amount of $2.1 million, at September 30, 2015:

| **Year of Maturity** | **Borrowing Balance (In thousands)** | **Weighted-Average Coupon** | **Settlement Date** | **Maturity Date** |
|---|---|---|---|---|
| 2015 | $ 57,400 | 0.500% | 8/20/2015 | 10/1/2015 |
| | 31,132 | 0.470% | 9/22/2015 | 10/22/2015 |
| 2016 | 170,000 | 1.500% | 12/6/2012 | 12/8/2016 |
| | 240,000 | 0.950% | 12/10/2012 | 9/30/2016 |

| | | | | | |
|---|---|---|---|---|---|
| 2017 | | 500,000 | 4.780% | 3/2/2007 | 3/2/2017 |
| | **$** | **998,532** | **2.921%** | | |

60

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table presents the repurchase liability associated with the repurchase agreement transactions (excluding accrued interest) by maturity. Also, it includes the carrying value and approximate market value of collateral (excluding accrued interest) at September 30, 2015 and December 31, 2014. The information excludes repurchase agreement transactions which were collateralized with cash.

| | September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | | | Market Value of Underlying Collateral | | |
| | Repurchase Liability | Weighted Average Rate | FNMA and FHLMC Certificates | GNMA Certificates | Total |
| | (Dollars in thousands) | | | | |
| Less than 90 days | 88,532 | 0.49% | 95,023 | - | 95,023 |
| Over 90 days | 910,000 | 3.16% | 1,001,926 | 2,429 | 1,004,355 |
| **Total** | **$ 998,532** | **2.92%** | **$ 1,096,949** | **$ 2,429** | **$ 1,099,378** |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | | | Market Value of Underlying Collateral | | |
| | Repurchase Liability | Weighted Average Rate | FNMA and FHLMC Certificates | GNMA Certificates | Total |
| | (Dollars in thousands) | | | | |
| Less than 90 days | $ 52,816 | 0.39% | $ 56,066 | $ - | $ 56,066 |
| Over 90 days | 925,000 | 2.83% | 1,031,206 | 1,253 | 1,032,459 |
| **Total** | **$ 977,816** | **2.89%** | **$ 1,087,272** | **$ 1,253** | **$ 1,088,525** |

***Advances from the Federal Home Loan Bank of New York***

Advances are received from the Federal Home Loan Bank of New York (the "FHLB-NY") under an agreement whereby the Company is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At September 30, 2015 and December 31, 2014, these advances were secured by mortgage and commercial loans amounting to $1.1 billion and $1.2 billion, respectively. Also, at September 30, 2015 and December 31, 2014, the Company had an additional borrowing capacity with the FHLB-NY of $600.4 million and $606.6 million, respectively. At September 30, 2015 and December 31, 2014, the weighted average remaining maturity of FHLB's advances was 6.9 months and 8.8 months, respectively. The original terms of these advances range between one day and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of September 30, 2015.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $343 thousand, at September 30, 2015:

| Year of Maturity | | Borrowing Balance | Weighted-Average Coupon | Settlement Date | Maturity Date |
|---|---|---|---|---|---|
| | | (In thousands) | | | |
| 2015 | $ | 25,000 | 0.47% | 9/4/2015 | 10/5/2015 |
| | | 50,000 | 0.48% | 9/10/2015 | 10/13/2015 |
| | | 100,000 | 0.53% | 9/16/2015 | 10/16/2015 |
| | | 25,000 | 0.44% | 9/24/2015 | 10/26/2015 |
| | | 25,000 | 0.40% | 9/30/2015 | 10/30/2015 |
| | | 38,322 | 0.41% | 9/1/2015 | 10/1/2015 |
| | | 263,322 | | | |
| 2017 | | 4,326 | 1.24% | 4/3/2012 | 4/3/2017 |
| 2018 | | 30,000 | 2.19% | 1/16/2013 | 1/16/2018 |
| | | 25,000 | 2.18% | 1/16/2013 | 1/16/2018 |
| | | 55,000 | | | |
| 2020 | | 9,945 | 2.59% | 7/19/2013 | 7/20/2020 |
| | **$** | **332,593** | **0.83%** | | |

All of the advances referred to above with maturity dates up to the date of this report were renewed as one-month short-term advances.

***Subordinated Capital Notes***

Subordinated capital notes amounted to $102.4 million at September 30, 2015 and $101.6 million at December 31, 2014.

Under the requirements of Puerto Rico Banking Act, the Bank must establish a redemption fund for the subordinated capital notes by transferring from undivided profits pre-established amounts as follows:

| | | Redemption fund (In thousands) |
|---|---|---|
| Redemption fund - September 30, 2015 | $ | 60,300 |
| 2015 | | 1,675 |
| 2016 | | 5,025 |
| | **$** | **67,000** |

***Other borrowings***

Other borrowings, presented in the unaudited consolidated statements of financial condition amounted to $1.7 million and $4.0 million at September 30, 2015 and December 31, 2014, respectively, which mainly consists of unsecured fixed-rate borrowings.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**NOTE 12 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES**

The Company's derivatives are subject to agreements which allow a right of set-off with each respective counterparty. In addition, the Company's securities purchased under agreements to resell and securities sold under agreements to repurchase have a right of set-off with the respective counterparty under the supplemental terms of the master repurchase agreements. In an event of default, each party has a right of set-off against the other party for amounts owed in the related agreements and any other amount or obligation owed in respect of any other agreement or transaction between them. Security collateral posted to open and maintain a master netting agreement with a counterparty, in the form of cash and securities, may from time to time be segregated in an account at a third-party custodian pursuant to a an account control agreement.

The following table presents the potential effect of rights of set-off associated with the Company's recognized financial assets and liabilities at September 30, 2015 and December 31, 2014:

| | September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Statement of Financial Condition | | |
| | Gross Amount of Recognized Assets | Gross Amounts Offset in the Statement of Financial Condition | Net Amount of Assets Presented in Statement of Financial Condition | Financial Instruments | Cash Collateral Received | Net Amount |
| | (In thousands) | | | | | |
| **Derivatives** | $ 3,290 | $ - | $ 3,290 | $ 2,016 | $ - | $ 1,274 |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Statement of Financial Condition | |
| | Gross Amount | Gross Amounts Offset in the Statement of | Net amount of Assets Presented in Statement | | Cash |

| | of Recognized Assets | Financial Condition | of Financial Condition | Financial Instruments | Collateral Received | Net Amount |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| **Derivatives** | **$ 8,107** | **$ -** | **$ 8,107** | **$ 2,006** | **$ -** | **$ 6,101** |

63

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**September 30, 2015**

| | Gross Amount of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Condition | Net Amount of Liabilities Presented in Statement of Financial Condition | Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments | Gross Amounts Not Offset in the Statement of Financial Condition: Cash Collateral Provided | Net Amount |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| Derivatives | $ 9,663 | $ - | $ 9,663 | $ - | $ 2,980 | $ 6,683 |
| Securities sold under agreements to repurchase | 998,532 | - | 998,532 | 1,099,378 | - | (100,846) |
| **Total** | **$ 1,008,195** | **$ -** | **$ 1,008,195** | **$ 1,099,378** | **$ 2,980** | **$ (94,163)** |

**December 31, 2014**

| | Gross Amount of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Condition | Net Amount of Liabilities Presented in Statement of Financial Condition | Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments | Gross Amounts Not Offset in the Statement of Financial Condition: Cash Collateral Provided | Net Amount |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| Derivatives | $ 16,698 | $ - | $ 16,698 | $ - | $ 2,980 | $ 13,718 |
| Securities sold under agreements to repurchase | 977,816 | - | 977,816 | 1,088,525 | - | (110,709) |
| **Total** | **$ 994,514** | **$ -** | **$ 994,514** | **$ 1,088,525** | **$ 2,980** | **$ (96,991)** |

**NOTE 13 — RELATED PARTY TRANSACTIONS**

The Bank grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. The activity and balance of these loans for the quarters and the nine-month periods ended September 30, 2015 and 2014 was as follows:

| | Quarter Ended September 30, | | | | Nine-Month Period Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | (In thousands) | | | | (In thousands) | | | |
| **Balance at the beginning of period** | $ | 33,318 | $ | 24,151 | $ | 27,011 | $ | 18,963 |
| New loans and disbursements | | 5,866 | | 319 | | 13,489 | | 14,166 |
| Repayments | | (7,450) | | 1,174 | | (8,766) | | (7,485) |
| **Balance at the end of period** | **$** | **31,734** | **$** | **25,644** | **$** | **31,734** | **$** | **25,644** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 14 — INCOME TAXES

On May 29, 2015 the Governor signed Act No. 72 of 2015. The main purpose of this Act is to increase government collections in order to alleviate the structural deficit. The most relevant provisions of the Act, as applicable to the Company, for taxable years beginning after December 31, 2014, are as follows: (1) establishes a new definition of "large taxpayers," which require them to file its tax return following a special procedure established by the Secretary of the Treasury, (2) net operating losses carried forward may be deducted up to 70% of the alternative minimum net income for purposes of computing the alternative minimum tax, and (3) net operating losses carried forward may be deducted up to 80% of the net income for purposes of computing the regular corporate income tax.

At September 30, 2015 and December 31, 2014, the Company's net deferred tax asset amounted to $143.9 million and $108.7 million, respectively. In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax asset are deductible, management believes it is more likely than not that the Company will realize the deferred tax asset, net of the existing valuation allowances recorded at September 30, 2015 and December 31, 2014. The amount of the deferred tax asset that is considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

At September 30, 2015 and December 31, 2014, Oriental International Bank Inc. ("OIB"), the Bank's international banking entity subsidiary, had $153 thousand and $186 thousand, respectively, in income tax effect of unrecognized gain on available-for-sale securities included in other comprehensive income. Following the change in OIB's applicable tax rate from 5% to 0% as a result of a Puerto Rico law adopted in 2011, this remaining tax balance will flow through income as these securities are repaid or sold in future periods. For both quarters ended September 30, 2015 and 2014, $11 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income (loss) into income tax provision. During the period ended September 30, 2015 and 2014, $33 thousand and $158 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income (loss) into income tax provision.

The Company classifies unrecognized tax benefits in income taxes payable. These gross unrecognized tax benefits would affect the effective tax rate if realized. The balance of unrecognized tax benefits at September 30, 2015 and December 31, 2014 was $2.1 million and $2.6 million, respectively. The Company had accrued $122 thousand at September 30, 2015 and $470 thousand at December 31, 2014 for the payment of interest and penalties relating to unrecognized tax benefits. During this quarter $200 thousand was released based on negotiations with the IRS.

For the quarter ended September 30, 2015, income tax expense was $562 thousand compared to $8.0 million for the same period in 2014. For the nine-month period ended September 30, 2015, income tax expense was $2.3 million compared to $30.4 million for the same period in 2014.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**NOTE 15 — REGULATORY CAPITAL REQUIREMENTS**

***Regulatory Capital Requirements***

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and Puerto Rico banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Pursuant to the Dodd-Frank Act, federal banking regulators have adopted new capital rules that became effective January 1, 2015 for the Company and the Bank (subject to certain phase-in periods through January 1, 2019) and that replaced their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules. Among other matters, the new capital rules: (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to prior regulations. The new capital rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, and resulting in higher risk weights for a variety of asset classes.

Pursuant to the new capital rules, the minimum capital ratios requirements as of January 1, 2015 are as follows:

4.5% CET1 to risk-weighted assets;

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

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

4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

As of September 30, 2015 and December 31, 2014, the Company and the Bank met all capital adequacy requirements to which they are subject. As of September 30, 2015 and December 31, 2014, the Bank is “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the tables presented below.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The Company's and the Bank's actual capital amounts and ratios as of September 30, 2015 and December 31, 2014 are as follows:

| | Actual | | Minimum Capital Requirement | | Minimum to be Well Capitalized | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (Dollars in thousands) | | | |
| **Company Ratios** | | | | | | |
| **As of September 30, 2015** | | | | | | |
| Total capital to risk-weighted assets | $ 847,167 | **16.96%** | $ 399,615 | **8.00%** | $ 499,519 | **10.00%** |
| Tier 1 capital to risk-weighted assets | $ 782,560 | **15.67%** | $ 299,711 | **6.00%** | $ 399,615 | **8.00%** |
| Common equity tier 1 capital to risk-weighted assets | $ 601,788 | **12.05%** | $ 224,783 | **4.50%** | $ 324,687 | **6.50%** |
| Tier 1 capital to average total assets | $ 782,560 | **10.93%** | $ 286,493 | **4.00%** | $ 358,117 | **5.00%** |
| **As of December 31, 2014** | | | | | | |
| Total capital to risk-weighted assets | $ 851,437 | **17.57%** | $ 387,772 | **8.00%** | $ 484,715 | **10.00%** |
| Tier 1 capital to risk-weighted assets | $ 776,525 | **16.02%** | $ 193,886 | **4.00%** | $ 290,829 | **6.00%** |
| Tier 1 capital to average total assets | $ 776,525 | **10.61%** | $ 292,738 | **4.00%** | $ 365,922 | **5.00%** |

| | Actual | | Minimum Capital Requirement | | Minimum to be Well Capitalized | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (Dollars in thousands) | | | |
| **Bank Ratios** | | | | | | |
| **As of September 30, 2015** | | | | | | |
| Total capital to risk-weighted assets | $ 811,297 | **16.28%** | $ 398,677 | **8.00%** | $ 498,346 | **10.00%** |
| Tier 1 capital to risk-weighted assets | $ 746,921 | **14.99%** | $ 299,008 | **6.00%** | $ 398,677 | **8.00%** |
| Common equity tier 1 capital to risk-weighted assets | $ 746,921 | **14.99%** | $ 224,256 | **4.50%** | $ 323,925 | **6.50%** |
| Tier 1 capital to average total assets | $ 746,921 | **10.50%** | $ 284,481 | **4.00%** | $ 355,601 | **5.00%** |
| **As of December 31, 2014** | | | | | | |
| Total capital to risk-weighted assets | $ 820,884 | **16.99%** | $ 386,444 | **8.00%** | $ 483,055 | **10.00%** |
| Tier 1 capital to risk-weighted assets | $ 746,177 | **15.45%** | $ 193,222 | **4.00%** | $ 289,833 | **6.00%** |
| Tier 1 capital to average total assets | $ 746,177 | **10.26%** | $ 290,879 | **4.00%** | $ 363,599 | **5.00%** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 16 – STOCKHOLDERS’ EQUITY

***Additional Paid-in Capital***

Additional paid-in capital represents contributed capital in excess of par value of common and preferred stock net of the costs of issuance. As of September 30, 2015 and December 31, 2014 accumulated issuance costs charged against additional paid in capital amounted to $10.1 million and $13.6 million for preferred and common stock, respectively.

***Legal Surplus***

The Puerto Rico Banking Act requires that a minimum of 10% of the Bank’s net income or loss for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid in capital on common and preferred stock. At September 30, 2015 and December 31, 2014, the Bank’s legal surplus amounted to $70.4 million and $70.5 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

***Treasury Stock***

Under the Company’s current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock, of which approximately $7.7 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. During the nine-month period ended September 30, 2015 the Company purchased 803,985 shares under this program for a total of $8.9 million, at an average price of $11.10 per share. During the nine-month period ended September 30, 2014 the Company purchased 707,500 shares at an average price of $14.66 per share.

The number of shares that may yet be purchased under the $70 million program is estimated at 885,550 and was calculated by dividing the remaining balance of $7.7 million by $8.73 (closing price of the Company common stock at September 30, 2015). The Company did not purchase any shares of its common stock during the nine-month periods ended September 30, 2015 or 2014, other than through its publicly announced stock repurchase program.

The activity in connection with common shares held in treasury by the Company for the nine-month periods ended September 30, 2015 and 2014 is set forth below:

| | Nine-Month Period Ended September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Shares | Dollar Amount | Shares | Dollar Amount |
| | (In thousands, except shares data) | | | |
| **Beginning of period** | 8,012,254 | $ 97,070 | 7,030,101 | $ 80,642 |
| Common shares used upon lapse of restricted stock units | (58,279) | (641) | (36,294) | (384) |
| Common shares repurchased as part of the stock repurchase program | 803,985 | 8,950 | 707,500 | 10,394 |
| **End of period** | **8,757,960** | **$ 105,379** | **7,701,307** | **$ 90,652** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income tax, as of September 30, 2015 and December 31, 2014 consisted of:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired | $ 25,173 | $ 28,743 |
| Unrealized loss on securities available-for-sale which are other-than-temporarily impaired | (338) | - |
| Income tax effect of unrealized gain on securities available-for-sale | (2,349) | (2,978) |
| Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired | 22,486 | 25,765 |
| Unrealized loss on cash flow hedges | (6,395) | (8,585) |
| Income tax effect of unrealized loss on cash flow hedges | 2,065 | 2,531 |
| Net unrealized loss on cash flow hedges | (4,330) | (6,054) |
| Accumulated other comprehensive income, net of taxes | **$ 18,156** | **$ 19,711** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters and nine-month periods ended September 30, 2015 and 2014:

| | Quarter | | |
|---|---|---|---|
| | 2015 | | |
| | Net unrealized gains on securities available-for-sale | Net unrealized loss on cash flow hedges | Accu o compr in ( |
| **Beginning balance** | $ 18,832 | $ (4,531) | $ 1 |
| Other comprehensive income (loss) before reclassifications | 3,175 | (1,346) | |
| Other-than-temporary impairment amount reclassified from accumulated other comprehensive income | 584 | - | |
| Amounts reclassified out of accumulated other comprehensive income (loss) | (105) | 1,547 | |
| Other comprehensive income | 3,654 | 201 | |
| **Ending balance** | **$ 22,486** | **$ (4,330)** | **$ 1** |

| | Nine-Month P | | |
|---|---|---|---|
| | 2015 | | |
| | Net unrealized gains on securities available-for-sale | Net unrealized loss on cash flow hedges | Accu o compr in ( |
| **Beginning balance** | $ 25,765 | $ (6,054) | $ 1 |
| Other comprehensive income before reclassifications | (4,037) | (2,894) | ( |
| Other-than-temporary impairment amount reclassified from accumulated other comprehensive income | 584 | - | |
| Amounts reclassified out of accumulated other comprehensive income | 174 | 4,618 | |
| Other comprehensive income (loss) | (3,279) | 1,724 | ( |
| **Ending balance** | **$ 22,486** | **$ (4,330)** | **$ 1** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table presents reclassifications out of accumulated other comprehensive income for the quarters and nine-month periods ended September 30, 2015 and 2014:

| | Amount reclassified out of accumulated other comprehensive income Quarter Ended September 30, | | Affected Line Item in Consolidated Statement of Operations |
|---|---|---|---|
| | 2015 | 2014 | |
| | (In thousands) | | |
| **Cash flow hedges:** | | | |
| Interest-rate contracts | $ 1,622 | $ 1,656 | Net interest expense |
| Tax effect from increase in capital gains tax rate | (75) | - | Income tax expense |
| **Available-for-sale securities:** | | | |
| Other-than-temporary impairment losses on investment securities | (246) | - | Net impairment losses recognized in earning |
| Residual tax effect from OIB's change in applicable tax rate | 11 | 11 | Income tax expense |
| Tax effect from increase in capital gains tax rate | 130 | - | Income tax expense |
| | **$ 1,442** | **$ 1,667** | |

| | Amount reclassified out of accumulated other comprehensive income Nine-Month Period Ended September 30, | | Affected Line Item in Consolidated Statement of Operations |
|---|---|---|---|
| | 2015 | 2014 | |
| | (In thousands) | | |
| **Cash flow hedges:** | | | |
| Interest-rate contracts | $ 4,842 | $ 4,919 | Net interest expense |
| Tax effect from increase in capital gains tax rate | (224) | - | Income tax expense |
| **Available-for-sale securities:** | | | |
| Other-than-temporary impairment losses on investment securities | (246) | - | Net impairment losses recognized in earning |
| Residual tax effect from OIB's change in applicable tax rate | 33 | 158 | Income tax expense |

| | | | |
|---|---|---|---|
| Tax effect from increase in capital gains tax rate | 387 | - | Income tax expense |
| | **$ 4,792** | **$ 5,077** | |

71

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 18 – EARNINGS (LOSS) PER COMMON SHARE

The calculation of (loss) earnings per common share for the quarters and nine-month periods ended September 30, 2015 and 2014 is as follows:

| | Quarter Ended September 30, | |
|---|---|---|
| | **2015** | **2014** |
| | **(In thousands, ex** | |
| **Net income (loss)** | $ 4,569 | $ 19,532 |
| Less: Dividends on preferred stock | | |
| Non-convertible preferred stock (Series A, B, and D) | (1,627) | (1,627 |
| Convertible preferred stock (Series C) | (1,838) | (1,838 |
| **Income (loss) available to common shareholders** | **$ 1,104** | **$ 16,067** |
| Effect of assumed conversion of the convertible preferred stock | 1,838 | 1,838 |
| **Income (loss) available to common shareholders assuming conversion** | $ **2,942** | $ **17,905** |
| | | |
| **Weighted average common shares and share equivalents:** | | |
| Average common shares outstanding | 43,929 | 45,05 |
| Effect of dilutive securities: | | |
| Average potential common shares-options | 46 | 160 |
| Average potential common shares-assuming conversion of convertible preferred stock | 7,171 | 7,147 |
| **Total weighted average common shares outstanding and equivalents** | **51,146** | **52,362** |
| **Earnings (loss) per common share - basic** | **$ 0.03** | **$ 0.36** |
| **Earnings (loss) per common share - diluted** | **$ 0.03** | **$ 0.34** |

In computing diluted (loss) earnings per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at September 30, 2015, with a conversion rate, subject to certain conditions, of 86.4225 shares of common stock per share, were included as average potential common shares from the date they were issued and outstanding. Moreover, in computing diluted earnings per common share, the dividends declared during the quarters ended September 30, 2015 and 2014 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended September 30, 2015 and 2014, weighted-average stock options with an anti-dilutive effect on (loss) earnings per share not included in the calculation amounted to 973,200 and 397,766, respectively. For the nine-month periods ended September 30, 2015 and 2014, weighted-average stock options with an anti-dilutive effect on (loss) earnings per share not included in the calculation amounted to 648,563 and 325,994, respectively.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 19 – GUARANTEES

At September 30, 2015, the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $15.0 million (December 31, 2014 - $33.0 million).

As a result of the BBVAPR Acquisition, the Company assumed a liability for residential mortgage loans sold subject to credit recourse, pursuant to FNMA's residential mortgage loan sales and securitization programs. At September 30, 2015 and December 31, 2014, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $25.0 million and $67.8 million, respectively.

The following table shows the changes in the Company's liability for estimated losses from these credit recourse agreements, included in the unaudited consolidated statements of financial condition during the quarters and nine-month periods ended September 30, 2015 and 2014.

| | Quarter Ended September 30, | | Nine-Month Period Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| **Balance at beginning of period** | $ 289 | $ 1,310 | $ 927 | $ 1,955 |
| Net (charge-offs/terminations) recoveries | 140 | (232) | (498) | (877) |
| **Balance at end of period** | **$ 429** | **$ 1,078** | **$ 429** | **$ 1,078** |

The estimated losses to be absorbed under the credit recourse arrangements were recorded as a liability when the credit recourse was assumed, and are updated on a quarterly basis. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 120 days delinquent, in which case the Company is obligated to repurchase the loan. The recourse obligation will be fully extinguished before the end of 2017.

If a borrower defaults, pursuant to the credit recourse provided, the Company is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Company would be required to make under the recourse arrangements is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and nine-month period ended September 30, 2015 the Company repurchased approximately $165 thousand and $3.4 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions. During the quarter and nine-month period ended September 30, 2014 the Company repurchased approximately $1.9 million and $5.6 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions. If a borrower defaults, the Company has rights to the underlying collateral securing the mortgage loan. The Company suffers losses on these mortgage loans when the proceeds from a foreclosure sale of the collateral property are less than the outstanding principal balance of the loan, any uncollected interest advanced, and the costs of holding and disposing the related property. At September 30, 2015, the Company's liability for estimated credit losses related to loans sold with credit recourse amounted to $429 thousand (December 31, 2014– $927 thousand).

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

When the Company sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Company's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under such mortgage backed securities programs, quality review procedures are performed by the Company to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Company may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. At September 30, 2015, the Company’s representation and warranty arrangements, excluding mortgage loans subject to credit recourse provisions referred to above, approximated $19.5 million in unpaid principal balance (December 31, 2014 – $10.7 million). A substantial amount of these loans are reinstated to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter and nine-month period ended September 30, 2015, the Company recognized $418 thousand and $1.0 million in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $500 thousand and $2.0 million in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties. During the quarter and nine-month period ended September 30, 2014, the Company recognized $115 thousand and $261 thousand, respectively, in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $979 thousand and $1.9 thousand in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including the Federal Home Loan Mortgage Corporation (“FHLMC”), require the Company to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At September 30, 2015, the Company serviced $625.3 million in mortgage loans for third-parties. The Company generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Company must absorb the cost of the funds it advances during the time the advance is outstanding. The Company must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Company would not receive any future servicing income with respect to that loan. At September 30, 2015, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately $305 thousand (December 31, 2014 - $391 thousand). To the extent the mortgage loans underlying the Company's servicing portfolio experience increased delinquencies, the Company would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

## NOTE 20— COMMITMENTS AND CONTINGENCIES

***Loan Commitments***

In the normal course of business, the Company becomes a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby and commercial letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated statements of financial condition. The contract or notional amount of those instruments reflects the extent of the Company's involvement in particular types of financial instruments.

The Company's exposure to credit losses in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit, including commitments under credit card arrangements, and commercial letters of credit is represented by the contractual notional amounts of those instruments, which do not necessarily represent the amounts potentially subject to risk. In addition, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are identified. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Credit-related financial instruments at September 30, 2015 and December 31, 2014 were as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| Commitments to extend credit | $ 432,006 | $ 493,248 |
| Commercial letters of credit | 1,443 | 885 |

Commitments to extend credit represent agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon the extension of credit, is based on management's credit evaluation of the counterparty.

At September 30, 2015 and December 31, 2014, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused commitments does not necessarily represent future cash requirements. These lines of credit had a reserve of $667 thousand at September 30, 2015 and $621 thousand at December 31, 2014.

Commercial letters of credit are issued or confirmed to guarantee payment of customers' payables or receivables in short-term international trade transactions. Generally, drafts will be drawn when the underlying transaction is consummated as intended. However, the short-term nature of this instrument serves to mitigate the risk associated with these contracts.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, at September 30, 2015 and December 31, 2014, is as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| Standby letters of credit and financial guarantees | $ 15,007 | $ 32,970 |
| Loans sold with recourse | 24,996 | 67,803 |
| Commitments to sell or securitize mortgage loans | 61,597 | 10,207 |

Standby letters of credit and financial guarantees are written conditional commitments issued by the Company to guarantee the payment and/or performance of a customer to a third party ("beneficiary"). If the customer fails to comply with the agreement, the beneficiary may draw on the standby letter of credit or financial guarantee as a remedy. The amount of credit risk involved in issuing letters of credit in the event of nonperformance is the face amount of the letter of credit or financial guarantee. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

***Lease Commitments***

The Company has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the quarters ended September 30, 2015 and 2014, amounted to $2.3 million and $2.4 million, respectively. For the nine-month periods ended September 30, 2015 and 2014, rent expense amounted to $7.0 million and $7.3 million, respectively, and is included in the "occupancy and equipment" caption in the unaudited consolidated statements of operations. Future rental commitments under leases in effect at September 30, 2015, exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

| Year Ending December 31, | Minimum Rent (In thousands) |
|---|---|
| 2015 | $ 2,832 |
| 2016 | 7,697 |
| 2017 | 7,081 |
| 2018 | 6,066 |
| 2019 | 5,829 |
| Thereafter | 16,637 |
| | **$ 46,142** |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

***Contingencies***

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their business. In the ordinary course of business, the Company and its subsidiaries are also subject to governmental and regulatory examinations. Certain subsidiaries of the Company, including the Bank (and its subsidiary OIB), Oriental Financial Services, and Oriental Insurance, are subject to regulation by various U.S., Puerto Rico and other regulators.

The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interests of the Company and its shareholders, and contests allegations of liability or wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.

Subject to the accounting and disclosure framework under the provisions of ASC 450, it is the opinion of the Company's management, based on current knowledge and after taking into account its current legal accruals, that the eventual outcome of all matters would not be likely to have a material adverse effect on the consolidated statements of financial condition of the Company. Nonetheless, given the substantial or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of such matters, an adverse outcome in certain of these matters could, from time to time, have a material adverse effect on the Company's consolidated results of operations or cash flows in particular quarterly or annual periods. The Company has evaluated all litigation and regulatory matters where the likelihood of a potential loss is deemed reasonably possible. The Company has determined that the estimate of the reasonably possible loss is not significant.

**NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company follows the fair value measurement framework under GAAP.

***Fair Value Measurement***

The fair value measurement framework defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This framework also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

***Money market investments***

The fair value of money market investments is based on the carrying amounts reflected in the unaudited consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

***Investment securities***

The fair value of investment securities is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. Such securities are classified as level 1 or level 2 depending on the basis for determining fair value. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument, and such securities are classified as level 3. At September 30, 2015 and December 31, 2014, the Company did not have investment securities classified as Level 3.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

***Derivative instruments***

The fair value of the interest rate swaps is largely a function of the financial market's expectations regarding the future direction of interest rates. Accordingly, current market values are not necessarily indicative of the future impact of derivative instruments on earnings. This will depend, for the most part, on the shape of the yield curve, the level of interest rates, as well as the expectations for rates in the future. The fair value of most of these derivative instruments is based on observable market parameters, which include discounting the instruments' cash flows using the U.S. dollar LIBOR-based discount rates, and also applying yield curves that account for the industry sector and the credit rating of the counterparty and/or the Company.

Certain other derivative instruments with limited market activity are valued using externally developed models that consider unobservable market parameters. Based on their valuation methodology, derivative instruments are classified as Level 2 or Level 3. The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P Index and uses equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value is obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which are uncertain and require a degree of judgment, include primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage.

***Servicing assets***

Servicing assets do not trade in an active market with readily observable prices. Servicing assets are priced using a discounted cash flow model. The valuation model considers servicing fees, portfolio characteristics, prepayment assumptions, delinquency rates, late charges, other ancillary revenues, cost to service and other economic factors. Due to the unobservable nature of certain valuation inputs, the servicing rights are classified as Level 3.

***Impaired Loans.***

Impaired loans are carried at the present value of expected future cash flows using the loan's existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value described in Accounting Standards Codification ("ASC") 820-10 and would generally result in a higher value than the exit-price approach. For loans measured using the estimated fair value of collateral less costs to sell, fair value is generally determined based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC 310-10-35 less disposition costs. Currently, the associated loans considered impaired are classified as Level 3.

***Foreclosed real estate***

Foreclosed real estate includes real estate properties securing residential mortgage and commercial loans. The fair value of foreclosed real estate may be determined using an external appraisal, broker price option or an internal valuation. These foreclosed assets are classified as Level 3 given certain internal adjustments that may be made to external appraisals.

***Other repossessed assets***

Other repossessed assets include repossessed automobile loans and leases. The fair value of the repossessed automobiles may be determined using internal valuation and an external appraisal. These repossessed assets are classified as Level 3 given certain internal adjustments that may be made to external appraisals.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Assets and liabilities measured at fair value on a recurring and non-recurring basis, are summarized below:

| | September 30, 2015 Fair Value Measurements (In thousands) | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Recurring fair value measurements: | | | | |
| Investment securities available-for-sale | $ - | $ 1,007,705 | $ - | $ 1,007,705 |
| Money market investments | 4,736 | - | - | 4,736 |
| Derivative assets | - | 2,175 | 1,115 | 3,290 |
| Servicing assets | - | - | 6,463 | 6,463 |
| Derivative liabilities | - | (8,622) | (1,041) | (9,663) |
| | **$ 4,736** | **$ 1,001,258** | **$ 6,537** | **$ 1,012,531** |
| Non-recurring fair value measurements: | | | | |
| Impaired commercial loans | $ - | $ - | $ 233,598 | $ 233,598 |
| Foreclosed real estate | - | - | 64,117 | 64,117 |
| Other repossessed assets | - | - | 8,948 | 8,948 |
| | **$ -** | **$ -** | **$ 306,663** | **$ 306,663** |

| | December 31, 2014 Fair Value Measurements (In thousands) | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Recurring fair value measurements: | | | | |
| Investment securities available-for-sale | $ - | $ 1,216,538 | $ - | $ 1,216,538 |
| Money market investments | 4,675 | - | - | 4,675 |
| Derivative assets | - | 2,552 | 5,555 | 8,107 |
| Servicing assets | - | - | 13,992 | 13,992 |
| Derivative liabilities | - | (11,221) | (5,477) | (16,698) |
| | **$ 4,675** | **$ 1,207,869** | **$ 14,070** | **$ 1,226,614** |
| Non-recurring fair value measurements: | | | | |
| Impaired commercial loans | $ - | $ - | $ 236,942 | $ 236,942 |
| Foreclosed real estate | - | - | 95,661 | 95,661 |
| Other repossessed assets | - | - | 21,800 | 21,800 |
| | **$ -** | **$ -** | **$ 354,403** | **$ 354,403** |

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters and nine-month periods ended September 30, 2015 and 2014:

| | Quarter Ended September 30, 2015 | | | |
|---|---|---|---|---|
| **Level 3 Instruments Only** | **Derivative asset (S&P Purchased Options)** | **Servicing assets** | **Derivative liability (S&P Embedded Options)** | **Total** |
| **Balance at beginning of period** | $ 2,138 | $ 5,791 | $ (2,044) | $ 5,885 |
| (Losses) gains included in earnings | (1,023) | - | 972 | (51) |
| New instruments acquired | - | 748 | - | 748 |
| Changes due to payments on loans | - | (242) | - | (242) |
| Amortization | - | - | 31 | 31 |
| Changes in fair value of servicing assets | - | 166 | - | 166 |
| **Balance at end of period** | **$ 1,115** | **$ 6,463** | **$ (1,041)** | **$ 6,537** |

| | Nine-Month Period Ended September 30, 2015 | | | |
|---|---|---|---|---|
| **Level 3 Instruments Only** | **Derivative asset (S&P Purchased Options)** | **Servicing assets** | **Derivative liability (S&P Embedded Options)** | **Total** |
| **Balance at beginning of period** | $ 5,555 | $ 13,992 | $ (5,477) | $ 14,070 |
| (Losses) gains included in earnings | (4,440) | - | 4,271 | (169) |
| Sale of mortgage servicing rights held-for-sale | - | (6,985) | - | (6,985) |
| Changes due to payments on loans | - | (974) | - | (974) |
| New instruments acquired | - | 2,808 | - | 2,808 |
| Amortization | - | - | 165 | 165 |
| Changes in fair value related to price of MSRs held for sale | - | (2,716) | - | (2,716) |
| Changes in fair value of servicing assets | - | 338 | - | 338 |
| **Balance at end of period** | **$ 1,115** | **$ 6,463** | **$ (1,041)** | **$ 6,537** |

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | Quarter Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| **Level 3 Instruments Only** | **Other debt securities available-for-sale** | **Derivative asset (S&P Purchased Options)** | **Servicing assets** | **Derivative liability (S&P Embedded Options)** | **Total** |
| **Balance at beginning of period** | $ - | $ 6,580 | $ 13,970 | $ (6,368) | $ 14,182 |
| (Losses) gains included in earnings | - | (818) | - | 675 | (143) |
| New instruments acquired | - | - | 554 | - | 554 |
| Principal repayments | - | - | (427) | - | (427) |
| Amortization | - | - | - | 105 | 105 |
| Changes in fair value of servicing assets | - | - | (111) | - | (111) |
| **Balance at end of period** | $ **-** | $ **5,762** | $ **13,986** | $ **(5,588)** | $ **14,160** |

| | Nine-Month Period Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| **Level 3 Instruments Only** | **Other debt securities available-for-sale** | **Derivative asset (S&P Purchased Options)** | **Servicing assets** | **Derivative liability (S&P Embedded Options)** | **Total** |
| **Balance at beginning of period** | $ 19,680 | $ 16,430 | $ 13,801 | $ (15,736) | $ 34,175 |
| Gains (losses) included in earnings | - | (10,668) | - | 9,639 | (1,029) |
| Changes in fair value of investment securities available for sale included in other comprehensive income | 320 | - | - | - | 320 |
| New instruments acquired | - | - | 1,608 | - | 1,608 |
| Principal repayments | (20,000) | - | (799) | - | (20,799) |
| Amortization | - | - | - | 509 | 509 |
| Changes in fair value of servicing assets | - | - | (624) | - | (624) |
| **Balance at end of period** | $ **-** | $ **5,762** | $ **13,986** | $ **(5,588)** | $ **14,160** |

During the quarters and nine-month periods ended September 30, 2015 and 2014, there were purchases and sales of assets and liabilities measured at fair value on a recurring basis. There were no transfers into and out of Level 1 and Level 2 fair value measurements during such periods.

81

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The table below presents quantitative information for all assets and liabilities measured at fair value on a recurring and non-recurring basis using significant unobservable inputs (Level 3) at September 30, 2015:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | **Fair Value (In thousands)** | **Valuation Technique** | **Unobservable Input** | **Range** |
| Derivative assets (S&P Purchased Options) | $ 1,115 | Option pricing model | Implied option volatility | 32.29%- 35.32% |
| | | | Counterparty credit risk (based on 5-year credit default swap ("CDS") spread) | 79.96%- 89.03% |
| Servicing assets | $ 6,463 | Cash flow valuation | Constant prepayment rate | 5.49% - 10.00% |
| | | | Discount rate | 10.58% - 12.00% |
| Derivative liability (S&P Embedded Options) | $ (1,041) | Option pricing model | Implied option volatility | 32.29%- 35.32% |
| | | | Counterparty credit risk (based on 5-year CDS spread) | 79.96%- 89.03% |
| Collateral dependant impaired loans | $ 34,906 | Fair value of property or collateral | Appraised value less disposition costs | 23.20% - 29.20% |
| Puerto Rico Electric Power Authority line of credit | $ 174,183 | Cash flow valuation | Discount rate | 7.25% |
| Other non-collateral dependant | $ 4,788 | Cash flow valuation | Discount rate | 5.75% - 16.95% |

impaired loans

| | | | | |
|---|---|---|---|---|
| Foreclosed real estate | $ 64,117 | Fair value of property or collateral | Appraised value less disposition costs | 23.20% - 29.20% |
| Other repossessed assets | $ 8,948 | Fair value of property or collateral | Appraised value less disposition costs | 23.20% - 29.20% |

82

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

***Information about Sensitivity to Changes in Significant Unobservable Inputs***

Other debt securities – The significant unobservable inputs used in the fair value measurement of one of the Company's other debt securities are indicative comparable pricing, option adjusted spread ("OAS"), yield to maturity, and spread to maturity. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for indicative comparable pricing is accompanied by a directionally opposite change in the assumption used for OAS and a directionally, although not equally proportional, opposite change in the assumptions used for yield to maturity and spread to maturity.

Derivative asset (S&P Purchased Options) – The significant unobservable inputs used in the fair value measurement of the Company's derivative assets related to S&P purchased options are implied option volatility and counterparty credit risk. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for implied option volatility is not necessarily accompanied by directionally similar or opposite changes in the assumption used for counterparty credit risk.

Servicing assets – The significant unobservable inputs used in the fair value measurement of the Company's servicing assets are constant prepayment rates and discount rates. Changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or offset the sensitivities. Mortgage banking activities, a component of total banking and financial service revenue in the consolidated statements of operations, include the changes from period to period in the fair value of the mortgage loan servicing rights, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, including changes due to collection/realization of expected cash flows.

Derivative liability (S&P Embedded Options) – The significant unobservable inputs used in the fair value measurement of the Company's derivative liability related to S&P purchased options are implied option volatility and counterparty credit risk. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for implied option volatility is not necessarily accompanied by directionally similar or opposite changes in the assumption used for counterparty credit risk.

***Fair Value of Financial Instruments***

The information about the estimated fair value of financial instruments required by GAAP is presented hereunder. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Company.

The estimated fair value is subjective in nature, involves uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect these fair value estimates. The fair value estimates do not take into consideration the value of future business and the value of assets and liabilities that are not financial instruments. Other significant tangible and intangible assets that are not considered financial instruments are the value of long-term customer relationships of retail deposits, and premises and equipment.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The estimated fair value and carrying value of the Company's financial instruments at September 30, 2015 and December 31, 2014 is as follows:

| | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| | (In thousands) | | | |
| **Level 1** | | | | |
| **Financial Assets:** | | | | |
| Cash and cash equivalents | $ 526,196 | $ 526,196 | $ 573,427 | $ 573,427 |
| Restricted cash | 4,349 | 4,349 | 8,407 | 8,407 |
| **Level 2** | | | | |
| **Financial Assets:** | | | | |
| Trading securities | 583 | 583 | 1,594 | 1,594 |
| Investment securities available-for-sale | 1,007,705 | 1,007,705 | 1,216,538 | 1,216,538 |
| Investment securities held-to-maturity | 595,148 | 594,639 | 164,154 | 162,752 |
| Federal Home Loan Bank (FHLB) stock | 20,804 | 20,804 | 21,169 | 21,169 |
| Other investments | 3 | 3 | 3 | 3 |
| Derivative assets | 2,175 | 2,175 | 2,552 | 2,552 |
| **Financial Liabilities:** | | | | |
| Derivative liabilities | 8,622 | 8,622 | 11,221 | 11,221 |
| **Level 3** | | | | |
| **Financial Assets:** | | | | |
| Total loans (including loans held-for-sale) | 4,408,998 | 4,468,676 | 4,909,361 | 4,826,646 |
| Derivative assets | 1,115 | 1,115 | 5,555 | 5,555 |
| FDIC indemnification asset | 14,151 | 22,895 | 75,969 | 97,378 |
| Accrued interest receivable | 18,625 | 18,625 | 21,345 | 21,345 |
| Servicing assets | 6,463 | 6,463 | 13,992 | 13,992 |
| **Financial Liabilities:** | | | | |
| Deposits | 4,714,106 | 4,717,074 | 4,893,247 | 4,924,406 |
| Securities sold under agreements to repurchase | 1,029,439 | 1,000,664 | 1,020,621 | 980,087 |
| Advances from FHLB | 336,859 | 332,936 | 339,172 | 334,331 |
| Other borrowings | 1,842 | 1,734 | 3,979 | 4,004 |
| Subordinated capital notes | 94,127 | 102,371 | 104,288 | 101,584 |
| Accrued expenses and other liabilities | 113,450 | 113,450 | 133,290 | 133,290 |
| Derivative liabilities | 1,041 | 1,041 | 5,477 | 5,477 |

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following methods and assumptions were used to estimate the fair values of significant financial instruments at September 30, 2015 and December 31, 2014:

- Cash and cash equivalents (including money market investments and time deposits with other banks), restricted cash, accrued interest receivable, and accrued expenses and other liabilities have been valued at the carrying amounts reflected in the unaudited consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

- Investments in FHLB-NY stock are valued at their redemption value.

- The fair value of investment securities, including trading securities and other investments, is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument.

- The fair value of the FDIC indemnification asset represents the present value of the net estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit assumptions on estimated cash flows for each covered asset pool and the loss sharing percentages. The ultimate collectability of the FDIC indemnification asset is dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC which are impacted by the Bank's adherence to certain guidelines established by the FDIC.

- The fair value of servicing asset is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions.

- The fair values of the derivative instruments are provided by valuation experts and counterparties. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters. The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P Index, and uses equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value is obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which are uncertain and require a degree of judgment, include primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage.

- Fair value of derivative liabilities, which include interest rate swaps and forward-settlement swaps, are based on the net discounted value of the contractual projected cash flows of both the pay-fixed receive-variable legs of the contracts. The projected cash flows are based on the forward yield curve, and discounted using current estimated market rates.

- The fair value of the loan portfolio (including loans held-for-sale) is estimated by segregating by type, such as mortgage, commercial, consumer, auto and leasing. Each loan segment is further segmented into fixed and adjustable interest rates and by performing and non-performing categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for prepayment estimates (voluntary and involuntary), if any, using estimated current market discount rates that reflect the credit and interest rate risk inherent in the loan. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate. Non-performing loans have been valued at the carrying amounts.

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

- The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is based on the discounted value of the contractual cash flows, using estimated current market discount rates for deposits of similar remaining maturities.

- The fair value of long-term borrowings, which include securities sold under agreements to repurchase, advances from FHLB-NY, other borrowings, and subordinated capital notes, is based on the discounted value of the contractual cash flows using current estimated market discount rates for borrowings with similar terms, remaining maturities and put dates.

**NOTE 22 – BUSINESS SEGMENTS**

The Company segregates its businesses into the following major reportable segments of business: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Company’s organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated. The Company’s methodology for allocating non-interest expenses among segments is based on several factors such as revenue, employee headcount, occupied space, dedicated services or time, among others. These factors are reviewed on a periodical basis and may change if the conditions warrant.

Banking includes the Bank’s branches and traditional banking products such as deposits and commercial, consumer and mortgage loans. Mortgage banking activities are carried out by the Bank’s mortgage banking division, whose principal activity is to originate mortgage loans for the Company’s own portfolio. As part of its mortgage banking activities, the Company may sell loans directly into the secondary market or securitize conforming loans into mortgage-backed securities.

Wealth Management is comprised of the Bank’s trust division, Oriental Financial Services, Oriental Insurance, and OPC. The core operations of this segment are financial planning, money management and investment banking, brokerage services, insurance sales activity, corporate and individual trust and retirement services, as well as retirement plan administration services.

The Treasury segment encompasses all of the Company’s asset/liability management activities, such as purchases and sales of investment securities, interest rate risk management, derivatives, and borrowings. Intersegment sales and transfers, if any, are accounted for as if the sales or transfers were to third parties, that is, at current market prices.

86

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Following are the results of operations and the selected financial information by operating segment for the quarters and nine-month periods ended September 30, 2015 and 2014:

| | Quarter Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Banking | Wealth Management | Treasury | Total Major Segments | Eliminations | Consolidated Total |
| | (In thousands) | | | | | |
| Interest income | $ 97,264 | $ 25 | $ 9,958 | $ 107,247 | $ - | $ **107,247** |
| Interest expense | (7,036) | - | (10,388) | (17,424) | - | **(17,424)** |
| Net interest income | 90,228 | 25 | (430) | 89,823 | **-** | **89,823** |
| Provision for loan and lease losses | (51,579) | - | - | (51,579) | - | **(51,579)** |
| Non-interest income (loss) | 30,098 | 6,513 | (634) | 35,977 | - | **35,977** |
| Non-interest expenses | (63,106) | (5,063) | (921) | (69,090) | - | **(69,090)** |
| Intersegment revenue | 351 | - | 69 | 420 | (420) | **-** |
| Intersegment expenses | (69) | (252) | (99) | (420) | 420 | **-** |
| **Income before income taxes** | **$ 5,923** | **$ 1,223** | **$ (2,015)** | **$ 5,131** | **$ -** | **$ 5,131** |
| **Total assets** | **$ 5,990,125** | **$ 20,594** | **$ 2,117,569** | **$ 8,128,288** | **(924,466)** | **$ 7,203,822** |

| | Quarter Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Banking | Wealth Management | Treasury | Total Major Segments | Eliminations | Consolidated Total |
| | (In thousands) | | | | | |
| Interest income | $ 108,548 | $ 44 | $ 11,709 | $ 120,301 | $ - | $ **120,301** |
| Interest expense | (7,892) | - | (10,538) | (18,430) | - | **(18,430)** |
| Net interest income | 100,656 | 44 | 1,171 | 101,871 | **-** | **101,871** |
| Provision for loan and lease losses | (17,257) | - | - | (17,257) | - | **(17,257)** |
| Non-interest income (loss) | (3,242) | 6,208 | (475) | 2,491 | - | **2,491** |
| Non-interest expenses | (53,669) | (4,483) | (1,423) | (59,575) | - | **(59,575)** |
| Intersegment revenue | 431 | - | 290 | 721 | (721) | - |
| Intersegment expenses | (290) | (330) | (101) | (721) | 721 | - |
| **Income before income taxes** | **$ 26,629** | **$ 1,439** | **$ (538)** | **$ 27,530** | **$ -** | **$ 27,530** |
| **Total assets** | **$ 6,494,141** | **$ 26,800** | **$ 2,098,341** | **$ 8,619,282** | **(945,943)** | **$ 7,673,339** |

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| | Nine-Month Period Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Banking | Wealth Management | Treasury | Total Major Segments | Eliminations | Consolidated Total |
| | (In thousands) | | | | | |
| Interest income | $ 285,251 | $ 71 | $ 28,339 | $ 313,661 | $ - | $ **313,661** |
| Interest expense | (21,600) | - | (30,311) | (51,911) | - | **(51,911)** |
| Net interest income | 263,651 | 71 | (1,972) | 261,750 | **-** | **261,750** |
| Provision for loan and lease losses | (109,311) | - | - | (109,311) | - | **(109,311)** |
| Non-interest income(loss) | 16,136 | 20,416 | 1,650 | 38,202 | - | **38,202** |
| Non-interest expenses | (169,264) | (16,586) | (4,009) | (189,859) | - | **(189,859)** |
| Intersegment revenue | 1,058 | - | 228 | 1,286 | (1,286) | **-** |
| Intersegment expenses | (228) | (770) | (288) | (1,286) | 1,286 | **-** |
| **Income before income taxes** | **$ 2,042** | **$ 3,131** | **$ (4,391)** | **$ 782** | **$ -** | **$ 782** |

| | Nine-Month Period Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Banking | Wealth Management | Treasury | Total Major Segments | Eliminations | Consolidated Total |
| | (In thousands) | | | | | |
| Interest income | $ 330,148 | $ 132 | $ 38,995 | $ 369,275 | $ - | $ **369,275** |
| Interest expense | (26,235) | - | (31,693) | (57,928) | - | **(57,928)** |
| Net interest income | 303,913 | 132 | 7,302 | 311,347 | **-** | **311,347** |
| Provision for loan and lease losses | (43,763) | - | - | (43,763) | - | **(43,763)** |
| Non-interest income(loss) | (14,845) | 20,232 | 2,840 | 8,227 | - | **8,227** |
| Non-interest expenses | (156,867) | (15,629) | (8,331) | (180,827) | - | **(180,827)** |
| Intersegment revenue | 1,410 | - | 290 | 1,700 | (1,700) | - |
| Intersegment expenses | (290) | (1,089) | (321) | (1,700) | 1,700 | - |
| **Income (loss) before income taxes** | **$ 89,558** | **$ 3,646** | **$ 1,780** | **$ 94,984** | **$ -** | **$ 94,984** |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INTRODUCTION

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the Company's unaudited consolidated financial statements and related notes. This discussion and analysis contains forward-looking statements. Please see "Forward-Looking Statements" and the risk factors set forth in our Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K"), for discussion of the uncertainties, risks and assumptions associated with these statements.

The Company is a publicly-owned financial holding company that provides a full range of banking and financial services through its subsidiaries, including commercial, consumer, auto and mortgage lending; checking and savings accounts; financial planning, insurance and securities brokerage services; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Wealth Management, and Treasury, and distinguishes itself based on quality service. The Company has 52 branches in Puerto Rico and a subsidiary in Boca Raton, Florida. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

The Company's diversified mix of businesses and products generates both the interest income traditionally associated with a banking institution and non-interest income traditionally associated with a financial services institution (generated by such businesses as securities brokerage, fiduciary services, investment banking, insurance agency, and retirement plan administration). Although all of these businesses, to varying degrees, are affected by interest rate and financial market fluctuations and other external factors, the Company's commitment is to continue producing a balanced and growing revenue stream.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in "Note 1—Summary of Significant Accounting Policies" of our 2014 Form 10-K.

In the "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" section of our 2014 Form 10-K, we identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition:

- Business combination
- Allowance for loan and lease losses
- Financial instruments

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed its judgments and assumptions with the Audit Committee of our Board of Directors. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended June 30, 2015, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer and commercial loan portfolios. The analysis was based on the trends observed and their relation with the economic cycle as of the period ended June 30, 2015. As a result, for the commercial portfolio, the look-back period was changed to 36 months from the previously determined 12 months. For auto and leasing and consumer, a look back period of 24 months was maintained. In addition, during the quarter ended June 30, 2015, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration the current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others. These changes in the allowance for loan and lease losses' look-back period and the result of the assessment in economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively. No changes were made for the quarter ended September 30, 2015. Apart from these changes, there have been no other material changes in the methods used to formulate these critical accounting estimates from those discussed in our 2014 Form 10-K.

**OVERVIEW OF FINANCIAL PERFORMANCE**

**SELECTED FINANCIAL DATA**

| | Quarter Ended September 30, | | | Nine-Month Period Ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **Variance %** | **2015** | **2014** | **Variance %** |
| **EARNINGS DATA:** | (In thousands, except per share data) | | | | | |
| Interest income | $ 107,247 | $ 120,301 | -10.9% | $ 313,661 | $ 369,275 | -15.1% |
| Interest expense | 17,424 | 18,430 | -5.5% | 51,911 | 57,928 | -10.4% |
| **Net interest income** | **89,823** | **101,871** | **-11.8%** | **261,750** | **311,347** | -15.9% |
| Provision for loan and lease losses | 51,579 | 17,257 | 198.9% | 109,311 | 43,763 | 149.8% |
| **Net interest income after provision for loan and lease losses** | **38,244** | **84,614** | **-54.8%** | **152,439** | **267,584** | -43.0% |
| Non-interest income | 35,977 | 2,491 | 1344.3% | 38,202 | 8,227 | 364.3% |
| Non-interest expenses | 69,090 | 59,575 | 16.0% | 189,859 | 180,827 | 5.0% |
| **Income before taxes** | **5,131** | **27,530** | **-81.4%** | **782** | **94,984** | -99.2% |
| Income tax expense | 562 | 7,998 | -93.0% | 2,310 | 30,396 | -92.4% |
| **Net income (loss)** | **4,569** | **19,532** | **-76.6%** | **(1,528)** | **64,588** | -102.4% |
| Less: dividends on preferred stock | (3,465) | (3,465) | 153.0% | (10,396) | (10,396) | 153.0% |
| **Income (loss) available to common shareholders** | **$ 1,104** | **$ 16,067** | **-93.1%** | **$ (11,924)** | **$ 54,192** | -122.0% |
| **PER SHARE DATA:** | | | | | | |
| **Basic** | **$ 0.03** | **$ 0.36** | **-93.0%** | **$ (0.27)** | **$ 1.20** | **-122.4%** |
| **Diluted** | **$ 0.03** | **$ 0.34** | **-92.7%** | **$ (0.27)** | **$ 1.14** | **-123.6%** |
| **Average common shares outstanding** | **43,929** | **45,054** | **-2.5%** | **44,353** | **45,131** | **-1.7%** |
| **Average common shares outstanding and equivalents** | **51,146** | **52,362** | **-2.3%** | **51,609** | **52,440** | **-1.6%** |
| **Cash dividends declared per common share** | **$ 0.10** | **$ 0.08** | **26.2%** | **$ 0.30** | **$ 0.24** | **26.2%** |
| **Cash dividends declared on common shares** | **$ 4,378** | **$ 3,605** | **21.4%** | **$ 13,298** | **$ 10,822** | **22.9%** |
| **PERFORMANCE RATIOS:** | | | | | | |
| **Return on average assets (ROA)** | **0.25%** | **1.02%** | **-75.6%** | **-0.03%** | **1.10%** | **-102.5%** |
| **Return on average tangible common equity** | **0.68%** | **9.78%** | **-93.1%** | **-2.38%** | **11.17%** | **-121.3%** |
| **Return on average common equity (ROE)** | **0.59%** | **8.52%** | **-93.1%** | **-2.08%** | **9.71%** | **-121.4%** |
| **Equity-to-assets ratio** | **12.60%** | **12.12%** | **4.0%** | **12.60%** | **12.12%** | **4.0%** |
| **Efficiency ratio** | **63.66%** | **49.30%** | **29.1%** | **59.51%** | **49.10%** | **21.2%** |
| **Interest rate spread** | **5.21%** | **5.78%** | **-9.9%** | **5.11%** | **5.85%** | **-12.6%** |
| **Interest rate margin** | **5.29%** | **5.84%** | **-9.4%** | **5.19%** | **5.90%** | **-12.0%** |

**SELECTED FINANCIAL DATA - (Continued)**

| PERIOD END BALANCES AND CAPITAL RATIOS: | September 30, 2015 | December 31, 2014 | Variance % |
|---|---|---|---|
| | (In thousands, except per share data) | | |
| **Investments and loans** | | | |
| Investment securities | $ 1,623,734 | $ 1,402,056 | 15.8% |
| Loans and leases , net | 4,468,676 | 4,826,646 | -7.4% |
| **Total investments and loans** | **$ 6,092,410** | **$ 6,228,702** | **-2.2%** |
| **Deposits and borrowings** | | | |
| Deposits | $ 4,717,074 | $ 4,924,406 | -4.2% |
| Securities sold under agreements to repurchase | 1,000,664 | 980,087 | 2.1% |
| Other borrowings | 437,041 | 439,919 | -0.7% |
| **Total deposits and borrowings** | **$ 6,154,779** | **$ 6,344,412** | **-3.0%** |
| **Stockholders’ equity** | | | |
| Preferred stock | $ 176,000 | $ 176,000 | 0.0% |
| Common stock | 52,626 | 52,626 | 0.0% |
| Additional paid-in capital | 540,088 | 539,311 | 0.1% |
| Legal surplus | 70,423 | 70,467 | -0.1% |
| Retained earnings | 155,974 | 181,152 | -13.9% |
| Treasury stock, at cost | (105,379) | (97,070) | -8.6% |
| Accumulated other comprehensive income | 18,156 | 19,711 | -7.9% |
| **Total stockholders' equity** | **$ 907,888** | **$ 942,197** | **-3.6%** |
| **Per share data** | | | |
| **Book value per common share** | **$ 16.91** | **$ 17.40** | **-2.8%** |
| **Tangible book value per common share** | **$ 14.76** | **$ 15.25** | **-3.2%** |
| **Market price at end of period** | **$ 8.73** | **$ 16.65** | **-47.6%** |
| **Capital ratios** | | | |
| **Leverage capital** | **10.93%** | **10.61%** | **3.0%** |
| **Tier 1 common equity to risk-weighted assets** | **N/A** | **11.88%** | **N/A** |
| **Common equity Tier 1 capital ratio** | **12.05%** | **N/A** | **N/A** |
| **Tier 1 risk-based capital** | **15.67%** | **16.02%** | **-2.2%** |
| **Total risk-based capital** | **16.96%** | **17.57%** | **-3.5%** |
| **Financial assets managed** | | | |
| Trust assets managed | $ 2,712,567 | $ 2,841,111 | -4.5% |
| Broker-dealer assets gathered | $ 2,442,131 | $ 2,622,001 | -6.9% |

91

**FINANCIAL HIGHLIGHTS OF THE THIRD QUARTER OF 2015**

During the third quarter of 2015, the Company reported income to common shareholders of $1.1 million, or $0.03 per share, compared to a loss of $6.6 million, or $0.15 per share, in the second quarter of 2015, and to a profit of $16.1 million, or $0.34 per share diluted, in the third quarter of 2014.

Our core results were impacted by the following non-recurring transactions:

o The previously announced $20.2 million pre-tax net loss impact on the bulk sale of commercial non-performing assets (NPAs) from the 2010 FDIC-assisted Eurobank and the 2012 BBVAPR acquisitions.

o A combined $3.2 million pre-tax benefit from a cost recovery and prepayment penalty from full repayment of a 3.75%, tax free $77.6 million loan to Puerto Rico State Insurance Fund Corporation.

The Company continued to grow in part through:

o Strong loan production of $251.0 million in line with previous quarters, incuding the retention of securitized GNMA pools totaling $27.8 million at a yield of 3.06% from its own originations.

o Introduction of the new My Status mobile app for tracking the progress of residential mortgage loan applications. This feature, combined with shorter closing cycles, is part of Oriental’s strategy to differentiate itself through customer service and innovation.

In the third quarter of 2015, net interest margin increased to 5.29% from 4.92% in the second quarter of 2015.

Tangible book value and book value per common share increased to $14.76 and $16.91, respectively, from $14.67 and $16.81 in the preceding quarter.

Puerto Rico (PR) central government and public corporation loan balances declined 28.4% to $215.6 million at September 30, 2015, from $301.3 million at June 30, 2015. Loans to PR municipalities fell 5.2% to $202.9 million from $214.0 million.

Credit metrics for loans were stable on a linked quarter basis, with no apparent deterioration from Puerto Rico’s economic challenges.

The Company changed its loan presentation for the quarter ending September 30, 2015. The FDIC loss sharing agreement, related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. As a result, covered loans are no longer a material amount. Remaining covered loans are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties".

*Comparison of quarters ended September 30, 2015 and 2014*

**Interest Income**

Total interest income decreased by $13.1 million to $107.3 million, compared to $120.3 million in the third quarter of 2014, reflecting the transition in our loan portfolio as originated loans with more normal yields grow as higher-yielding acquired loans decrease, due to repayments and maturities. The yield on interest-earning assets decreased to 6.31% from 6.89%.

**Interest Expense**

Total interest expense of $17.4 million decreased by 5.5%. Such decrease reflects the lower cost of deposits before fair value premium amortization and core deposit intangible amortization (0.65% vs. 0.79%). Such lower cost reflects continuing progress in the repricing of the Company’s core retail deposits and other reductions in its cost of funds.

**Net Interest Income**

Net interest income decreased $12.0 million for the third quarter of 2015. Such decrease reflects a decrease in net interest margin of 55 basis points to 5.29%.

**Provision for Loan and Lease Losses**

Provision for loan and lease losses increased $34.3 million to $51.6 million, reflecting a $32.9 million provision for loan and lease losses on non-performing acquired Eurobank loans and $5.2 million provision for loan and lease losses on non-performing acquired BBVAPR loans as a result of the bulk sale of commercial NPAs during the quarter ended September 30, 2015.

**Non-Interest Income**

Core banking and wealth management revenues decreased $260 thousand to $18.7 million, primarily reflecting decrease of $1.1 million in mortgage banking service revenues and $227 thousand wealth management revenue, partially offset by an increase of $1.1 million in banking service revenues. The decrease in mortgage banking service revenues is mostly due to lower securitization income as the Company retained securitized GNMA pools totaling $27.8 million at a yield of 3.06% from its own originations during the quarter ended September 30, 2015.

During the third quarter of 2015, the Company recognized an other-than-temporary impairment charge of $246 thousand on its portfolio of investment securities available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions. The Company determined that $246 thousand of the unrealized loss carried by these securities was attributed to estimated credit losses.

The decrease in the FDIC shared-loss expense to $2.1 million, compared to $16.9 million in 2014, was principally driven by the expiration of the FDIC loss share coverage for commercial loans and other non-single family loans on June 30, 2015.

A $20.0 million reimbursement from the FDIC was recognized in the statement of operations during the quarter ended September 30, 2015 related to the sale of a portion of covered non-performing commercial loans on September 28, 2015, as the FDIC agreed to cover $20.0 million of losses as part of its loss-share agreement with the Company.

**Non-Interest Expense**

Non-interest expense of $69.1 million, increased $9.5 million or 16.0 % compared to the same period in 2014, primarily reflecting a $9.3 million loss related to the bulk sale during the quarter ended September 30, 2015, which included the sale of real estate owned with a carrying amount of $11.0 million from the BBVAPR acquisition. Increase, also reflects an increase in compensation and employee benefits of $3.7 million. The Company's efficiency ratio for the third quarter of 2015 was 63.66%, compared to 49.30%.

**Income Tax Expense**

Income tax expense was $562 thousand, compared to $8.0 million for the same period in 2014. The decrease in income tax expense reflects the decrease in income before income taxes of $22.4 million to $5.1 million for the third quarter of 2015, compared to net income before income taxes of $27.5 million for the year ago quarter.

**Income Available to Common Shareholders**

The Company's net income available to common shareholders amounted to $1.1 million, compared to net income available to common shareholders of $16.1 million. Both income per basic common share and fully diluted common share were $0.03, compared to income per basic common share and fully diluted common share of $0.36 and $0.34, respectively, for the third quarter of 2014.

**Return on Average Assets and Common Equity**

Return on average common equity (“ROE”) was 0.59% compared to 8.52% for the quarter ended September 30, 2014. Return on average assets (“ROA”) was 0.25% compared to 1.02% for the same period in 2014. Both decreases reflect the decrease in income in the third quarter of 2015, mostly as a result of the bulk sale.

**Lending**

Total loan production of $251.0 million increased by 3.5% compared to the same period in 2014. Total commercial loan production of $83.2 million decreased by 7.6% from $90.1 million for the same period in 2014. Mortgage loan production of $65.2 million increased by 18.0% from $55.3 million. In the aggregate, consumer loan and auto and leasing production totaled $102.5 million, a decrease of 5.4% from the same period in 2014.

**Credit Quality on Non-Acquired Loans**

Net credit losses, excluding acquired loans, increased $169 thousand to $9.1 million, representing 1.23% of average non-acquired loans outstanding versus 1.34%. The allowance for loan and lease losses, excluding acquired loans, at September 30, 2015, increased to $80.4 million (2.65% of total non-covered loans, excluding acquired loans) compared to $51.4 million (1.81% of total non-covered loans, excluding acquired loans) at December 31, 2014, mostly from the increase in PREPA allowance of $24 million in the first quarter of 2015.

***Comparison of September 30, 2015 and December 31, 2014***

**Interest Earning Assets**

The loan portfolio declined to $4.469 billion at September 30, 2015, compared to $4.827 billion at December 31, 2014, primarily due to the bulk sale of covered non-performing commercial loans with an unpaid principal balance amounting to $197.1 million unpaid principal balance and the sale of non-performing commercial loans from the BBVAPR acquisition with an unpaid principal balance amounting to $38.1 million unpaid principal balance, as part of the same transaction, in addition to repayments and maturities as the Company continues to execute on its strategy to reduce its exposure to the Puerto Rico government. The investment portfolio of $1.623 billion at September 30, 2015 increased 15.7% compared to $1.402 billion at December 31, 2014.

**Interest Bearing Liabilities**

Total deposits amounted to $4.717 billion at September 30, 2015, a decrease of 4.2% compared to $4.924 billion at December 31, 2014. Interest bearing deposits decreased 6.1% to $3.924 billion. Cost of deposits, which averaged 0.79% at December 31, 2014, decreased to 0.65% at September 30, 2015.

**Stockholders' Equity**

Stockholders' equity at September 30, 2015 was $907.9 million compared to $942.2 million at December 31, 2014, a decrease of 3.6%. This reflects a decrease of $25.2 million in retained earnings and an increase of $8.3 million in treasury stock. Book value per share was $16.91 at September 30, 2015 compared to $17.40 at December 31, 2014.

The Company maintains capital ratios in excess of regulatory requirements. At September 30, 2015, Tier 1 Leverage Capital Ratio was 10.93% (December 31, 2014 – 10.61%), Tier 1 Risk-Based Capital Ratio was 15.67% (December 31, 2014 – 16.02%), and Total Risk-Based Capital Ratio was 16.96% (December 31, 2014 – 17.57%). Common Equity Tier 1 capital ratio under the new capital rules was 12.05% at September 30, 2015.

**Assets under Management**

At September 30, 2015, total assets managed by the Company's trust division and OPC decreased to $2.713 billion compared to $2.841 billion at December 31, 2014. At September 30, 2015, total assets gathered by the securities broker-dealer subsidiary from its customer investment accounts decreased by 6.9% to $2.442 billion, compared to $2.622 billion at December 31, 2014. Changes in trust and broker-dealer related assets primarily reflect a decrease in portfolio balances and fluctuations in market values.

**Non-GAAP Measures**

The Company uses certain non-GAAP measures of financial performance to supplement the unaudited consolidated financial statements presented in accordance with GAAP. The Company presents non-GAAP measures that management believes are useful and meaningful to investors. Non-GAAP measures do not have any standardized meaning, are not required to be uniformly applied, and are not audited. Therefore, they are unlikely to be comparable to similar measures presented by other companies. The presentation of non-GAAP measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP.

The Company's management has reported and discussed the results of operations herein both on a GAAP basis and on a pre-tax pre-provision operating income basis (defined as net interest income, plus banking and financial services revenue, less non-interest expenses, as calculated on the table below). The Company's management believes that, given the nature of the items excluded from the definition of pre-tax pre-provision operating income, it is useful to state what the results of operations would have been without them so that investors can see the financial trends from the Company's continuing business.

During the quarter ended September 30, 2015, the Company's pre-tax pre-provision operating income decreased 35.6% to $39.4 million as compared to $61.3 million for the same period in 2014. Pre-tax pre-provision operating income is calculated as follows:

| | Quarter Ended September 30, | | Nine-Month Period Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | (In thousands) | |
| ***PRE-TAX PRE-PROVISION OPERATING INCOME*** | | | | |
| Net interest income | $ 89,823 | $ 101,871 | $ 261,750 | $ 311,347 |

| | | | | |
|---|---|---|---|---|
| Core non-interest income: | | | | |
| Banking service revenue | 10,826 | 9,753 | 31,243 | 30,305 |
| Wealth management revenue | 6,885 | 7,113 | 21,325 | 21,316 |
| Mortgage banking activities | 992 | 2,097 | 4,717 | 5,346 |
| **Total core non-interest income** | **18,703** | **18,963** | **57,285** | **56,967** |
| Non-interest expenses | 69,090 | 59,575 | 189,859 | 180,827 |
| **Total pre-tax pre-provision operating income** | **$ 39,436** | **$ 61,259** | **$ 129,176** | **$ 187,487** |

Tangible common equity consists of common equity less goodwill, core deposit intangibles and customer relationship intangible. Tangible book value per common share consists of tangible common equity divided by common stock outstanding at the end of the period. Ratios of tangible common equity to total assets, tangible common equity to risk-weighted assets, total equity to risk-weighted assets, tier 1 common equity to risk-weighted assets, and common equity tier 1 to risk-weighted assets and tangible book value per common share are non-GAAP measures.

At September 30, 2015, tangible common equity to total assets increased to 8.99% from 9.14% and tangible common equity to risk-weighted assets decreased to 12.94% from 14.04% at December 31, 2014. Total equity to risk-weighted assets decreased to 18.15% from 19.44% at December 31, 2014.

Management and many stock analysts use tangible common equity in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Tangible common equity or related measures should not be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP.

**ANALYSIS OF RESULTS OF OPERATIONS**

The following tables show major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the quarters and nine-month periods ended September 30, 2015 and 2014:

**TABLE 1 - QUARTERLY ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE**
**FOR THE QUARTERS ENDED SEPTEMBER 30, 2015 AND 2014**

| | Interest | | Average rate | | Average balance | |
|---|---|---|---|---|---|---|
| | September 2015 | September 2014 | September 2015 | September 2014 | September 2015 | September 2014 |
| | | | (Dollars in thousands) | | | |
| **A - TAX EQUIVALENT SPREAD** | | | | | | |
| **Interest-earning assets** | $ 107,247 | $ 120,301 | 6.31% | 6.89% | $ 6,740,932 | $ 6,923,413 |
| Tax equivalent adjustment | 1,130 | 376 | 0.07% | 0.02% | - | - |
| **Interest-earning assets - tax equivalent** | 108,377 | 120,677 | 6.38% | 6.91% | 6,740,932 | 6,923,413 |
| Interest-bearing liabilities | 17,424 | 18,430 | 1.10% | 1.11% | 6,277,679 | 6,571,666 |
| **Tax equivalent net interest income / spread** | 90,953 | 102,247 | 5.28% | 5.80% | 463,253 | 351,747 |
| **Tax equivalent interest rate margin** | | | 5.35% | 5.86% | | |
| **B - NORMAL SPREAD** | | | | | | |
| **Interest-earning assets:** | | | | | | |
| **Investments:** | | | | | | |
| Investment securities | 9,674 | 11,437 | 2.39% | 3.26% | 1,603,838 | 1,390,124 |
| Interest bearing cash and money market investments | 308 | 316 | 0.25% | 0.21% | 482,959 | 593,391 |
| **Total investments** | 9,982 | 11,753 | 1.90% | 2.35% | 2,086,797 | 1,983,515 |
| **Non-acquired loans** | | | | | | |
| Mortgage | 10,059 | 10,287 | 5.26% | 5.17% | 758,689 | 789,204 |
| Commercial | 14,623 | 16,538 | 4.30% | 5.51% | 1,349,511 | 1,190,607 |
| Consumer | 5,432 | 4,142 | 10.22% | 10.20% | 210,933 | 161,147 |
| Auto and leasing | 15,922 | 13,739 | 9.86% | 10.25% | 640,828 | 531,914 |
| **Total non-acquired loans** | 46,036 | 44,706 | 6.17% | 6.64% | 2,959,961 | 2,672,872 |
| **Acquired loans:** | | | | | | |
| **Acquired BBVAPR** | | | | | | |
| Mortgage | 8,614 | 9,627 | 5.50% | 5.58% | 621,706 | 684,536 |
| Commercial | 14,654 | 18,643 | 13.16% | 11.83% | 441,876 | 625,472 |
| Consumer | 3,335 | 3,731 | 16.90% | 13.88% | 78,306 | 106,640 |
| Auto | 8,612 | 10,955 | 9.56% | 8.38% | 357,511 | 518,599 |
| **Total acquired BBVAPR loans** | 35,215 | 42,956 | 9.32% | 8.81% | 1,499,399 | 1,935,247 |
| **Acquired Eurobank** | 16,014 | 20,886 | 32.62% | 24.98% | 194,775 | 331,779 |
| **Total loans** | 97,265 | 108,548 | 8.29% | 8.72% | 4,654,135 | 4,939,898 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total interest earning assets** | **107,247** | **120,301** | **6.31%** | **6.89%** | **6,740,932** | **6,923,413** |

96

| | Interest | | Average rate | | Average balance | |
|---|---|---|---|---|---|---|
| | **September 2015** | **September 2014** | **September 2015** | **September 2014** | **September 2015** | **September 2014** |
| | | | **(Dollars in thousands)** | | | |
| **Interest-bearing liabilities:** | | | | | | |
| **Deposits:** | | | | | | |
| Now Accounts | 1,034 | 1,817 | 0.37% | 0.51% | 1,110,804 | 1,413,776 |
| Savings and money market | 1,592 | 1,780 | 0.51% | 0.61% | 1,234,772 | 1,154,712 |
| Individual retirement accounts | 564 | 906 | 0.82% | 1.12% | 274,387 | 320,756 |
| Retail certificates of deposits | 1,411 | 1,620 | 1.40% | 1.36% | 400,698 | 473,456 |
| **Total core deposits** | 4,601 | 6,123 | 0.60% | 0.72% | 3,020,661 | 3,362,700 |
| Institutional deposits | 638 | 1,244 | 0.96% | 1.48% | 263,990 | 334,121 |
| Brokered deposits | 1,211 | 1,400 | 0.74% | 0.79% | 648,083 | 700,256 |
| **Total wholesale deposits** | 1,849 | 2,644 | 0.80% | 1.01% | 912,073 | 1,034,377 |
| | 6,450 | 8,767 | 0.65% | 0.79% | 3,932,734 | 4,397,077 |
| Non-interest bearing deposits | - | - | 0.00% | 0.00% | 772,545 | 716,681 |
| Deposits fair value premium amortization | (91) | (1,441) | 0.00% | 0.00% | - | - |
| Core deposit intangible amortization | 292 | 335 | 0.00% | 0.00% | - | - |
| **Total deposits** | **6,651** | **7,661** | 0.56% | 0.59% | **4,705,279** | **5,113,758** |
| **Borrowings:** | | | | | | |
| Securities sold under agreements to repurchase | 7,605 | 7,453 | 2.66% | 2.93% | 1,132,373 | 1,010,000 |
| Advances from FHLB and other borrowings | 2,283 | 2,314 | 2.68% | 2.65% | 337,829 | 346,977 |
| Subordinated capital notes | 885 | 1,002 | 3.44% | 3.94% | 102,198 | 100,931 |
| **Total borrowings** | **10,773** | **10,769** | 2.72% | 2.93% | **1,572,400** | **1,457,908** |
| **Total interest bearing liabilities** | **17,424** | **18,430** | 1.10% | 1.11% | **6,277,679** | **6,571,666** |
| **Net interest income / spread** | **$ 89,823** | **$ 101,871** | **5.21%** | **5.78%** | | |
| **Interest rate margin** | | | **5.29%** | **5.84%** | | |
| **Excess of average interest-earning assets over average interest-bearing liabilities** | | | | | **$ 463,253** | **$ 351,747** |
| **Average interest-earning assets to average interest-bearing liabilities ratio** | | | | | **107.38%** | **105.35%** |

**C - CHANGES IN NET INTEREST INCOME DUE TO:**

| | Volume | Rate | Total |
|---|---|---|---|
| | | **(In thousands)** | |
| **Interest Income:** | | | |
| Investments | $ 612 | $ (2,383) | $ (1,771) |
| Loans | (13,497) | 2,214 | (11,283) |
| **Total interest income** | **(12,885)** | **(169)** | **(13,054)** |
| **Interest Expense:** | | | |
| Deposits | (612) | (398) | (1,010) |
| Repurchase agreements | 903 | (751) | 152 |
| Other borrowings | (58) | (90) | (148) |
| **Total interest expense** | **233** | **(1,239)** | **(1,006)** |
| **Net Interest Income** | **$ (13,118)** | **$ 1,070** | **$ (12,048)** |

97

**TABLE 1/A - YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE**
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**

| | Interest | | Average rate | | Average balance | |
|---|---|---|---|---|---|---|
| | September 2015 | September 2014 | September 2015 | September 2014 | September 2015 | September 2014 |
| | (Dollars in thousands) | | | | | |
| **A - TAX EQUIVALENT SPREAD** | | | | | | |
| **Interest-earning assets** | $ 313,661 | $ 369,275 | 6.22% | 7.00% | $ 6,740,516 | $ 7,051,561 |
| Tax equivalent adjustment | 5,734 | 1,461 | 0.11% | 0.03% | - | - |
| **Interest-earning assets - tax equivalent** | 319,395 | 370,736 | 6.34% | 7.03% | 6,740,516 | 7,051,561 |
| Interest-bearing liabilities | 51,911 | 57,929 | 1.11% | 1.15% | 6,266,725 | 6,741,332 |
| **Tax equivalent net interest income / spread** | 267,484 | 312,807 | 5.23% | 5.89% | 473,791 | 310,229 |
| **Tax equivalent interest rate margin** | | | 5.31% | 5.93% | | |
| **B - NORMAL SPREAD** | | | | | | |
| **Interest-earning assets:** | | | | | | |
| **Investments:** | | | | | | |
| Investment securities | 27,402 | 38,088 | 2.48% | 3.48% | 1,475,059 | 1,464,938 |
| Trading securities | 55 | 114 | 7.37% | 8.56% | 998 | 1,780 |
| Interest bearing cash and money market investments | 953 | 951 | 0.25% | 0.22% | 508,598 | 580,872 |
| **Total investments** | 28,410 | 39,153 | 1.91% | 2.56% | 1,984,655 | 2,047,590 |
| **Non-acquired loans** | | | | | | |
| Mortgage | 29,967 | 31,085 | 5.16% | 5.28% | 776,152 | 786,434 |
| Commercial | 45,953 | 47,335 | 4.66% | 5.39% | 1,317,591 | 1,174,220 |
| Consumer | 14,970 | 10,923 | 10.26% | 10.03% | 195,098 | 145,659 |
| Auto and leasing | 45,669 | 37,378 | 9.88% | 10.44% | 618,280 | 478,592 |
| **Total non-acquired loans** | 136,559 | 126,721 | 6.28% | 6.55% | 2,907,121 | 2,584,905 |
| **Acquired loans:** | | | | | | |
| **Acquired BBVAPR** | | | | | | |
| Mortgage | 26,414 | 28,359 | 5.56% | 5.43% | 635,299 | 698,762 |
| Commercial | 40,996 | 56,315 | 11.19% | 11.11% | 489,767 | 677,570 |
| Consumer | 9,970 | 11,939 | 16.03% | 13.60% | 83,132 | 117,379 |
| Auto | 27,037 | 37,635 | 8.91% | 8.65% | 405,581 | 581,888 |
| **Total acquired BBVAPR loans** | 104,417 | 134,248 | 8.65% | 8.65% | 1,613,780 | 2,075,599 |
| **Acquired Eurobank** | 44,275 | 69,153 | 25.19% | 26.92% | 234,960 | 343,467 |
| **Total loans** | 285,251 | 330,122 | 8.02% | 8.82% | 4,755,861 | |