OFG BANCORP
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

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

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

Large Accelerated Filer Accelerated Filer ý Non-Accelerated Filer Smaller Reporting Company

(Do not check if a smaller reporting company)

Emerging Growth Company

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

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

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

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

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:

- additional credit defaults or a restructuring by the Commonwealth of Puerto Rico or any of its agencies, municipalities or instrumentalities;
- possible legislative, tax or regulatory changes;
- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in Puerto Rico;
- competition in the financial services industry;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in interest rates, as well as the magnitude of such changes;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the industry regulations on the Company's businesses, business practices and cost of operations;
- the performance of the securities markets; and
- additional Federal Deposit Insurance Corporation ("FDIC") assessments.

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

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

ITEM 1. ***FINANCIAL STATEMENTS***

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2017 AND DECEMBER 31, 2016

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

See notes to unaudited financial statements

1

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

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

	June 30, 2017	December 31, 2016
	(In thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 1,844,996	$ 1,939,764
Savings accounts	1,169,002	1,196,232
Time deposits	1,568,688	1,528,491
Total deposits	**4,582,686**	**4,664,487**
Borrowings:		
Securities sold under agreements to repurchase	453,492	653,756
Advances from FHLB	137,540	105,454
Subordinated capital notes	36,083	36,083
Other borrowings	177	61
Total borrowings	**627,292**	**795,354**
Other liabilities:		
Derivative liabilities	1,881	2,437
Acceptances executed and outstanding	22,739	23,765
Accrued expenses and other liabilities	62,259	95,370
Total liabilities	**5,296,857**	**5,581,413**
Commitments and contingencies (See Note 18)		
Stockholders' equity:		
Preferred stock; 10,000,000 shares authorized; 1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D issued and outstanding, December 31, 2016 - 1,340,000 shares; 1,380,000 shares; and 960,000 shares) $25 liquidation value	92,000	92,000
84,000 shares of Series C issued and outstanding (December 31, 2016 - 84,000 shares); $1,000 liquidation value	84,000	84,000
Common stock, $1 par value; 100,000,000 shares authorized; 52,625,869 shares issued: 43,947,442 shares outstanding (December 31, 2016 - 52,625,869; 43,914,844)	52,626	52,626
Additional paid-in capital	541,005	540,948

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

See notes to unaudited financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

See notes to unaudited financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES

IN STOCKHOLDERS' EQUITY

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

	Six-Month Period Ended June 30,			
	2017		2016	
	(In thousands)			
Preferred stock:				
Balance at beginning of period	$	176,000	$	176,000
Balance at end of period		**176,000**		**176,000**
Common stock:				
Balance at beginning of period		52,626		52,626
Balance at end of period		**52,626**		**52,626**
Additional paid-in capital:				
Balance at beginning of period		540,948		540,512
Stock-based compensation expense		515		698
Stock-based compensation excess tax benefit recognized in income		(100)		-
Lapsed restricted stock units		(358)		(505)
Balance at end of period		**541,005**		**540,705**
Legal surplus:				
Balance at beginning of period		76,293		70,435
Transfer from retained earnings		3,167		2,830
Balance at end of period		**79,460**		**73,265**
Retained earnings:				
Balance at beginning of period		177,808		148,886
Net income		32,254		28,510
Cash dividends declared on common stock		(5,277)		(5,272)
Cash dividends declared on preferred stock		(6,931)		(6,931)
Transfer to legal surplus		(3,167)		(2,830)
Balance at end of period		**194,687**		**162,363**
Treasury stock:				
Balance at beginning of period		(104,860)		(105,379)
Lapsed restricted stock units		358		505
Balance at end of period		**(104,502)**		**(104,874)**
Accumulated other comprehensive (loss) income, net of tax:				
Balance at beginning of period		1,596		13,997
Other comprehensive (loss) income, net of tax		(1,903)		1,808
Balance at end of period		**(307)**		**15,805**
Total stockholders' equity	**$**	**938,969**	**$**	**915,890**

See notes to unaudited consolidated financial statements

6

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See notes to unaudited consolidated financial statements

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

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

On April 30, 2010, the Bank acquired certain assets and assumed certain deposits and other liabilities of Eurobank, a Puerto Rico commercial bank, in an FDIC-assisted acquisition. On February 6, 2017, the Bank and the FDIC agreed to terminate the shared-loss agreements related to the Eurobank Acquisition. On December 18, 2012, the Company acquired a group of Puerto Rico-based entities that included Banco Bilbao Vizcaya Argentaria Puerto Rico ("BBVAPR"), a Puerto Rico commercial bank, as well as a securities broker-dealer and an insurance agency, which is referred to herein as the "BBVAPR Acquisition." The businesses acquired in these acquisitions have been integrated with the Company's existing business.

Recent Accounting Developments

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

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

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

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

	June 30, 2017	December 31, 2016
	(In thousands)	
Cash pledged as collateral to other financial institutions to secure:		
Derivatives	$ 1,980	$ 1,980
Obligations under agreement of loans sold with recourse	1,050	1,050
	$ 3,030	**$ 3,030**

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

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At both June 30, 2017 and December 31, 2016, the Company had delivered approximately $2.0 million of cash as collateral for such derivatives activities.

As part of the BBVA Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At both June 30, 2017 and December 31, 2016, the Company delivered as collateral cash amounting to approximately $1.1 million.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover demand deposits. The amount of those minimum average reserve balances for the week that covered June 30, 2017 was $163.2 million (December 31, 2016 - $161.0 million). At June 30, 2017 and December 31, 2016, the Bank complied with the requirement. Cash and due from bank as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 3 – INVESTMENT SECURITIES

Money Market Investments

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At June 30, 2017 and December 31, 2016, money market instruments included as part of cash and cash equivalents amounted to $6.5 million and $5.6 million, respectively.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at June 30, 2017 and December 31, 2016 were as follows:

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 422,168	$ 6,354	$ 3,036	$ 425,486	2.59%
GNMA certificates	163,614	2,241	620	165,235	2.95%
CMOs issued by US government-sponsored agencies	103,990	64	2,223	101,831	1.88%
Total mortgage-backed securities	**689,772**	**8,659**	**5,879**	**692,552**	**2.57%**
Investment securities					
US Treasury securities	49,672	-	618	49,054	1.73%
Obligations of US government-sponsored agencies	3,903	-	19	3,884	1.38%
Obligations of Puerto Rico government and public instrumentalities	4,680	-	607	4,073	5.55%
Other debt securities	1,840	81	-	1,921	3.00%
Total investment securities	**60,095**	**81**	**1,244**	**58,932**	**2.04%**
Total securities available-for-sale	**$ 749,867**	**$ 8,740**	**$ 7,123**	**$ 751,484**	**2.53%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	**$ 599,884**	**$ 145**	**$ 7,266**	**$ 592,763**	**2.15%**

The amortized cost and fair value of the Company's investment securities at June 30, 2017, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

During the six-month period ended June 30, 2017, the Company sold $166.0 million of mortgage-backed securities and $39.3 million of US Treasury securities, and recorded a net gain on sale of securities of $6.9 million. During the six-month period ended June 30, 2016, the Company sold $277.2 million on mortgage-backed securities and $11.1 million of Puerto Rico government bonds, and recorded a net gain on sale of securities of $12.2 million.

	Six-Month Period Ended June 30, 2017			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
		(In thousands)		
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 107,510	$ 102,311	$ 5,199	$ -
GNMA certificates	65,284	63,704	1,580	-
Investment securities				
US Treasury securities	39,409	39,297	112	-
Total	**$ 212,203**	**$ 205,312**	**$ 6,891**	**$ -**

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

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at June 30, 2017 and December 31, 2016:

17

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company performs valuations of the investment securities on a monthly basis. Moreover, the Company conducts quarterly reviews to identify and evaluate each investment in an unrealized loss position for other-than-temporary impairment. Any portion of a decline in value associated with credit loss is recognized in the statements of operations with the remaining noncredit-related component recognized in other comprehensive income (loss). A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered by comparing the present value of cash flows expected to be collected from the security, discounted at the rate equal to the yield used to accrete current and prospective beneficial interest for the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the “credit loss.” Other-than-temporary impairment analysis is based on estimates that depend on market conditions and are subject to further change over time. In addition, while the Company believes that the methodology used to value these exposures is reasonable, the methodology is subject to continuing refinement, including those made as a result of market developments. Consequently, it is reasonably possible that changes in estimates or conditions could result in the need to recognize additional other-than-temporary impairment charges in the future.

Most of the investments ($777.8 million, amortized cost, or 99.4%) with an unrealized loss position at June 30, 2017 consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The sole exposure to PR bond ($4.7 million, amortized cost, or 0.6%) with an unrealized loss position at June 30, 2017 consists of an obligation issued by the Puerto Rico Highways and Transportation Authority ("PRHTA") secured by a pledge of toll revenues from the Teodoro Moscoso Bridge operated through a public-private partnership. The decline in the market value of this security is mainly attributed to the significant economic and fiscal challenges that Puerto Rico is facing, which is expected to result in a significant restructuring of the government under the supervision of a federally created Fiscal Oversight Board. All other Puerto Rico government securities were sold during the first quarter of 2016. The PRHTA bond had an aggregate fair value of $4.3 million at June 30, 2017 (93% of the bond's amortized cost) and matures on July 1, 2018. The discounted cash flow analysis for the investment showed a cumulative default probability at maturity of 6.4%, thus reflecting that it is more likely than not that the bond will not default during its remaining term. Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in this Puerto Rico government bond and is, therefore, not required to recognize a credit loss as of June 30, 2017. Also, the Company’s conclusion is based on the assessment of the specific source of repayment of the outstanding bond, which continues to perform. PRHTA started principal repayments on July 1, 2014. All scheduled principal and interest payments to date have been collected. On July 1, 2017, the Company received a scheduled principal payment of $2.2 million. As a result of the aforementioned analysis, no other-than-temporary losses were recorded during the period ended June 30, 2017.

As of June 30, 2017, the Company performed a cash flow analysis of its Puerto Rico government bond to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of this investment was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investment, and included the following components:

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

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

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

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

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

NOTE 4 - LOANS

The Company's loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred to as "originated and other" loans) and loans acquired (referred to as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans. Acquired Eurobank loans were purchased subject to loss-sharing agreements with the FDIC, which were terminated on February 6, 2017.

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Originated and Other Loans and Leases Held for Investment

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

The following tables present the aging of the recorded investment in gross originated and other loans held for investment at June 30, 2017 and December 31, 2016, by class of loans. Mortgage loans past due include delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	June 30, 2017							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
				(In thousands)				
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 193	$ 1,406	$ 2,930	$ 4,529	$ -	$ 43,252	$ 47,781	$ 168
Years 2003 and 2004	333	3,162	6,319	9,814	299	76,028	86,141	-
Year 2005	106	2,247	3,500	5,853	284	39,796	45,933	-
Year 2006	262	1,641	5,882	7,785	185	56,871	64,841	-
Years 2007, 2008 and 2009	435	1,693	8,653	10,781	38	60,375	71,194	335
Years 2010, 2011, 2012, 2013	324	1,506	6,845	8,675	-	124,191	132,866	164
Years 2014, 2015, 2016 and 2017	-	184	1,380	1,564	-	115,824	117,388	-

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Consumer								
Credit cards	$ 442	$ 288	$ 636	$ 1,366	$ -	$ 26,308	$ 27,674	$ -
Overdrafts	29	13	20	62	-	167	229	-
Personal lines of credit	59	-	29	88	-	2,188	2,276	-
Personal loans	2,693	1,752	1,096	5,541	699	262,728	268,968	-
Cash collateral personal loans	216	3	-	219	-	14,901	15,120	-
	3,439	2,056	1,781	7,276	699	306,292	314,267	-
Auto and leasing	45,914	20,458	8,205	74,577	90	732,537	807,204	-
Total	**$ 64,912**	**$ 43,895**	**$ 86,342**	**$ 195,149**	**$ 11,568**	**$ 2,884,888**	**$ 3,091,605**	**$ 1,884**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 196	$ 2,176	$ 3,371	$ 5,743	$ -	$ 44,542	$ 50,285	$ 158
Years 2003 and 2004	156	3,872	7,272	11,300	181	79,226	90,707	-
Year 2005	-	1,952	4,306	6,258	180	43,571	50,009	-
Year 2006	506	2,905	6,261	9,672	94	59,534	69,300	-
Years 2007, 2008 and 2009	409	1,439	11,732	13,580	111	63,038	76,729	398
Years 2010, 2011, 2012, 2013	349	1,772	10,417	12,538	126	127,196	139,860	583
Years 2014, 2015 and 2016	47	123	1,357	1,527	-	106,672	108,199	-
	1,663	14,239	44,716	60,618	692	523,779	585,089	1,139
Non-traditional	-	498	4,730	5,228	-	17,631	22,859	-
Loss mitigation program	8,911	7,205	16,541	32,657	3,599	67,272	103,528	1,724
	10,574	21,942	65,987	98,503	4,291	608,682	711,476	2,863
Home equity secured personal loans	-	-	-	-	-	337	337	-
GNMA's buy-back option program	-	-	9,681	9,681	-	-	9,681	-
	10,574	**21,942**	**75,668**	**108,184**	**4,291**	**609,019**	**721,494**	**2,863**
Commercial								
Commercial secured by real estate:								

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
				(In thousands)				
Consumer								
Credit cards	$ 527	$ 283	$ 525	$ 1,335	$ -	$ 25,023	$ 26,358	$ -
Overdrafts	16	12	5	33	-	174	207	-
Personal lines of credit	41	4	32	77	-	2,327	2,404	-
Personal loans	2,474	1,489	1,081	5,044	259	240,969	246,272	-
Cash collateral personal loans	240	20	4	264	-	15,010	15,274	-
	3,298	**1,808**	**1,647**	**6,753**	**259**	**283,503**	**290,515**	**-**
Auto and leasing	**42,714**	**19,014**	**8,173**	**69,901**	**181**	**686,313**	**756,395**	**-**
Total	**$ 57,678**	**$ 43,274**	**$ 96,685**	**$ 197,637**	**$ 12,245**	**$ 2,836,388**	**$ 3,046,270**	**$ 2,863**

At June 30, 2017 and December 31, 2016, the Company had carrying balance of $132.2 million and $136.6 million, respectively, in originated and other loans held for investment granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All originated and other loans granted to the Puerto Rico government are general obligations of municipalities secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations. On June 30, 2017, the Company was opportunistic and entered into an agreement to sell a performing originated municipal loan, which was due in July 2018, for $28.8 million. The sale reduced near-term risk associated with a likely refinancing. The loan was moved to other loans held-for-sale at June 30, 2017 with a balance of $33.7 million, and included a principal payment of $4.8 million received by the Company in July 1, 2017. The sale transaction settled in July 5, 2017. In addition, on July 1, 2017, the Company received $3.7 million principal payments from the remaining municipal loans.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Loans

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

Acquired BBVAPR Loans

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

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

The following tables present the aging of the recorded investment in gross acquired BBVAPR loans accounted for under ASC 310-20 as of June 30, 2017 and December 31, 2016, by class of loans:

	June 30, 2017							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
				(In thousands)				

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Commercial								
Commercial secured by real estate								
Retail	$ 33	$ -	$ 110	$ 143	$ -	$ -	$ 143	$ -
Floor plan	-	-	219	219	929	1,242	2,390	-
	33	-	329	362	929	1,242	2,533	-
Other commercial and industrial								
Retail	97	34	121	252	-	2,775	3,027	-
Floor plan	-	-	2	2	-	-	2	-
	97	34	123	254	-	2,775	3,029	-
	130	**34**	**452**	**616**	**929**	**4,017**	**5,562**	**-**
Consumer								
Credit cards	736	369	708	1,813	-	28,280	30,093	-
Personal loans	48	14	120	182	-	2,587	2,769	-
	784	**383**	**828**	**1,995**	**-**	**30,867**	**32,862**	**-**
Auto	**3,652**	**1,355**	**517**	**5,524**	**15**	**47,487**	**53,026**	**-**
Total	**$ 4,566**	**$ 1,772**	**$ 1,797**	**$ 8,135**	**$ 944**	**$ 82,371**	**$ 91,450**	**$ -**

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

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

The carrying amount corresponding to acquired BBVAPR loans with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at June 30, 2017 and December 31, 2016 is as follows:

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At June 30, 2017 and December 31, 2016, the Company had $66.6 million and $66.2 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its acquired BBVAPR loans accounted for under ASC 310-30. These loans are primarily secured municipal general obligations and a $10.6 million participation in a loan to the Puerto Rico Housing Finance Authority ("PRHFA") legally required to be repaid from abandoned or unclaimed funds at financial institutions that revert to the government under a Puerto Rico escheat law. Such loan defaulted on an annual principal payment in the third quarter of 2016. On July 1, 2017, the Company received $5.2 million principal payments from acquired BBVAPR loans to municipalities.

The following tables describe the accretable yield and non-accretable discount activity of acquired BBVAPR loans accounted for under ASC 310-30 for the quarters and six-month periods ended June 30, 2017, and 2016:

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

32

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Acquired Eurobank Loans

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 50,787	$ 33,203	$ 2,237	-	$ -	$ 86,227
Accretion	(2,263)	(4,528)	(33)	2	(76)	(6,898)
Change in actual and expected losses	(198)	1,619	-	(77)	81	1,425
Transfer from (to) non-accretable discount	10	(1,152)	-	75	(5)	(1,072)
Balance at end of period	**$ 48,336**	**$ 29,142**	**$ 2,204**	**$ -**	**$ -**	**$ 79,682**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 12,703	$ -	$ -	$ -	$ -	$ 12,703
Change in actual and expected losses	(1,138)	(1,152)	-	75	(5)	(2,220)
Transfer (to) from accretable yield	(10)	1,152	-	(75)	5	1,072
Balance at end of period	**$ 11,555**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 11,555**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

The following table presents the recorded investment in loans in non-accrual status by class of loans as of June 30, 2017 and December 31, 2016:

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Delinquent residential mortgage loans insured or guaranteed under applicable FHA and VA programs are classified as non-performing loans when they become 90 days or more past due, but are not placed in non-accrual status until they become 18 months or more past due, since they are insured loans. Therefore, these loans are included as non-performing loans but excluded from non-accrual loans. In addition, these loans are excluded from the impairment analysis.

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

The Company evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans that were individually evaluated for impairment was $58.1 million and $54.3 million at June 30, 2017 and December 31, 2016, respectively. The impairments on these commercial loans were measured based on the fair value of collateral or the present value of cash flows, including those identified as troubled-debt restructurings. The allowance for loan and lease losses for these impaired commercial loans amounted to $1.9 million and $1.8 million at June 30, 2017 and December 31, 2016, respectively. The total investment in impaired mortgage loans that were individually evaluated for impairment was $87.0 million and $91.6 million at June 30, 2017 and December 31, 2016, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The allowance for loan losses for these impaired mortgage loans amounted to $8.6 million and $7.8 million at June 30, 2017 and December 31, 2016, respectively.

Originated and Other Loans and Leases Held for Investment

The Company's recorded investment in commercial and mortgage loans categorized as originated and other loans and leases held for investment that were individually evaluated for impairment and the related allowance for loan and lease losses at June 30, 2017 and December 31, 2016 are as follows:

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company's recorded investment in acquired BBVAPR commercial loans accounted for under ASC 310-20 that were individually evaluated for impairment and the related allowance for loan and lease losses at June 30, 2017 and December 31, 2016 are as follows:

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

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

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

The Company's recorded investment in acquired BBVAPR loan pools accounted for under ASC 310-30 that have recorded impairments and their related allowance for loan and lease losses at June 30, 2017 and December 31, 2016 are as follows:

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Acquired Eurobank Loans

The Company’s recorded investment in acquired Eurobank loan pools that have recorded impairments and their related allowance for loan and lease losses as of June 30, 2017 and December 31, 2016 are as follows:

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

December 31, 2016

	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance				
Loans secured by 1-4 family residential properties	$ 88,017	$ 73,018	$ 11,947	16%
Commercial	81,992	72,140	9,328	13%
Consumer	29	1,372	6	0%
Total investment in impaired loan pools	**$ 170,038**	**$ 146,530**	**$ 21,281**	15%

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Six-Month Period Ended June 30,			
	2017		2016	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Originated and other loans held for investment:				

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

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

	Quarter Ended June 30, 2017						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	27	$ 3,349	6.00%	382	$ 3,313	4.21%	367
Commercial	9	2,155	5.96%	55	2,155	5.12%	68
Consumer	37	477	12.83%	65	477	10.87%	68
Auto	4	66	6.39%	61	66	12.91%	37

	Six-Month Period Ended June 30, 2017						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	59	$ 7,353	6.29%	387	$ 7,328	4.26%	378
Commercial	18	3,373	6.44%	55	3,374	5.41%	67
Consumer	62	869	11.98%	65	907	10.62%	70
Auto	7	111	7.41%	67	113	12.48%	38

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

As of June 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of gross originated and other loans and BBVAPR acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016					
		Risk Ratings				
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 242,770	$ 226,768	$ 16,002	$ -	$ -	$ -
Institutional	26,800	16,067	9,090	-	-	1,643
Middle market	234,981	194,913	9,437	514	-	30,117
Retail	249,728	221,687	7,860	4,318	-	15,863
Floor plan	2,989	2,989	-	-	-	-
Real estate	16,395	16,395	-	-	-	-
	773,663	678,819	42,389	4,832	-	47,623
Other commercial and industrial:						
Corporate	136,438	136,438	-	-	-	-
Institutional	180,285	180,185	100	-	-	-
Middle market	81,633	63,556	16,150	149	-	1,778
Retail	73,705	68,529	731	740	-	3,705
Floor plan	32,142	29,267	2,814	28	-	33
	504,203	477,975	19,795	917	-	5,516
Total	1,277,866	1,156,794	62,184	5,749	-	53,139
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	143	-	-	143	-	-
Floor plan	2,390	905	337	-	-	1,148
	2,533	905	337	143	-	1,148
Other commercial and						

industrial:											
Retail		3,027		3,014		-		13		-	-
Floor plan		2		-		-		-		-	2
		3,029		3,014		-		13		-	2
Total		5,562		3,919		337		156		-	1,150
Total	**$**	**1,283,428**	**$**	**1,160,713**	**$**	**62,521**	**$**	**5,905**	**$**	**- $**	**54,289**

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of June 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of gross originated and other loans and acquired BBVAPR loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017							
		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	$ 47,781	$ 42,873	$ -	$ 1,346	$ 372	$ 585	$ 1,972	$ 633
Years 2003 and 2004	86,141	75,434	-	3,023	744	3,103	2,077	1,760
Year 2005	45,933	39,918	-	2,247	591	1,421	1,257	499
Year 2006	64,841	55,454	-	1,523	972	1,585	2,852	2,455
Years 2007, 2008 and 2009	71,194	59,629	-	1,447	524	1,462	5,325	2,807
Years 2010, 2011, 2012 2013	132,866	123,813	242	1,427	340	1,251	3,279	2,514
Years 2014, 2015, 2016 and 2017	117,388	115,824	-	184	122	432	665	161
	566,144	512,945	242	11,197	3,665	9,839	17,427	10,829
Non-traditional	20,475	16,009	-	161	29	895	3,381	-
Loss mitigation program	103,110	17,823	1,640	2,512	471	958	3,493	76,213
	689,729	546,777	1,882	13,870	4,165	11,692	24,301	87,042
Home equity secured personal loans	332	332	-	-	-	-	-	-
	9,229	-	-	-	1,383	3,776	4,070	-

GNMA's buy-back option program								
	699,290	**547,109**	**1,882**	**13,870**	**5,548**	**15,468**	**28,371**	**87,042**
Consumer								
Credit cards	27,674	26,308	442	288	234	402	-	-
Overdrafts	229	167	29	13	5	13	2	-
Unsecured personal lines of credit	2,276	2,188	59	-	-	29	-	-
Unsecured personal loans	268,968	263,427	2,693	1,752	1,083	13	-	-
Cash collateral personal loans	15,120	14,901	216	3	-	-	-	-
	314,267	**306,991**	**3,439**	**2,056**	**1,322**	**457**	**2**	**-**
Auto and Leasing	**807,204**	**732,627**	**45,914**	**20,458**	**6,181**	**2,006**	**18**	**-**
	1,820,761	**1,586,727**	**51,235**	**36,384**	**13,051**	**17,931**	**28,391**	**87,042**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	27,574	26,206	676	203	181	308	-	-
Personal loans	2,659	2,469	133	10	5	42	-	-
	30,233	**28,675**	**809**	**213**	**186**	**350**	**-**	**-**
Auto	**33,661**	**29,670**	**2,435**	**1,231**	**260**	**65**	**-**	**-**
	63,894	**58,345**	**3,244**	**1,444**	**446**	**415**	**-**	**-**
Total	**$ 1,884,655**	**$ 1,645,072**	**$ 54,479**	**$ 37,828**	**$ 13,497**	**$ 18,346**	**$ 28,391**	**$ 87,042**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016							
	Delinquency							
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 50,285	$ 44,248	$ -	$ 2,095	$ 368	$ 1,315	$ 1,552	$ 707
Years 2003 and 2004	90,707	78,501	-	3,712	1,767	2,675	2,100	1,952
Year 2005	50,009	43,177	-	1,952	561	1,024	2,181	1,114
Year 2006	69,300	57,271	82	2,397	353	2,210	3,410	3,577
Years 2007, 2008 and 2009	76,729	61,547	83	1,439	865	2,330	6,459	4,006
Years 2010, 2011, 2012 2013	139,860	127,375	60	1,451	1,459	1,667	3,584	4,264
Year 2014, 2015 and 2016	108,199	106,672	-	123	386	210	761	47
	585,089	518,791	225	13,169	5,759	11,431	20,047	15,667
Non-traditional	22,859	17,631	-	498	366	1,263	3,101	-
Loss mitigation program	103,528	17,814	2,304	1,681	388	1,599	3,759	75,983
	711,476	554,236	2,529	15,348	6,513	14,293	26,907	91,650
Home equity secured personal loans	337	337	-	-	-	-	-	-
GNMA's buy-back	9,681	-	-	-	2,440	3,141	4,100	-

option program	**721,494**	**554,573**	**2,529**	**15,348**	**8,953**	**17,434**	**31,007**	**91,650**
Consumer								
Credit cards	26,358	25,023	527	283	191	334	-	-
Overdrafts	207	174	16	12	1	4	-	-
Unsecured personal lines of credit	2,404	2,327	41	4	3	25	4	-
Unsecured personal loans	246,272	241,227	2,474	1,489	1,074	8	-	-
Cash collateral personal loans	15,274	15,010	240	20	4	-	-	-
	290,515	**283,761**	**3,298**	**1,808**	**1,273**	**371**	**4**	**-**
Auto and Leasing	**756,395**	**686,493**	**42,714**	**19,014**	**6,253**	**1,921**	**-**	**-**
	1,768,404	**1,524,827**	**48,541**	**36,170**	**16,479**	**19,726**	**31,011**	**91,650**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	30,093	28,281	736	369	227	480	-	-
Personal loans	2,769	2,587	48	14	21	99	-	-
	32,862	**30,868**	**784**	**383**	**248**	**579**	**-**	**-**
Auto	**53,026**	**47,503**	**3,652**	**1,355**	**415**	**101**	**-**	**-**
	85,888	**78,371**	**4,436**	**1,738**	**663**	**680**	**-**	**-**
Total	**$ 1,854,292**	**$ 1,603,198**	**$ 52,977**	**$ 37,908**	**$ 17,142**	**$ 20,406**	**$ 31,011**	**$ 91,650**

OFG BANCORP

NOTES TO 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 June 30, 2017 and December 31, 2016 was as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Allowance for loans and lease losses:		
Originated and other loans and leases held for investment:		
Mortgage	$ 18,664	$ 17,344
Commercial	17,279	8,995
Consumer	14,981	13,067
Auto and leasing	18,742	19,463
Unallocated	-	431
Total allowance for originated and other loans and lease losses	**69,666**	**59,300**
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	41	169
Consumer	2,623	3,028
Auto	684	1,103
	3,348	**4,300**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	4,141	2,682
Commercial	25,614	23,452
Auto	7,739	4,922
	37,494	**31,056**
Total allowance for acquired BBVAPR loans and lease losses	**40,842**	**35,356**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	13,651	11,947
Commercial	8,131	9,328
Consumer	5	6
Total allowance for acquired Eurobank loan and lease losses	**21,787**	**21,281**
Total allowance for loan and lease losses	**$ 132,295**	**$ 115,937**

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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Quarter Ended June 30, 2017					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 18,578	$ 9,888	$ 13,394	$ 18,621	$ 2	$ 60,483
Charge-offs	(2,162)	(4,841)	(4,012)	(7,775)	-	(18,790)
Recoveries	63	136	780	4,176	-	5,155
Provision for originated and other loans and lease losses	2,185	12,096	4,819	3,720	(2)	22,818
Balance at end of period	**$ 18,664**	**$ 17,279**	**$ 14,981**	**$ 18,742**	**$ -**	**$ 69,666**

	Six-Month Period Ended June 30, 2017					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 17,344	$ 8,995	$ 13,067	$ 19,463	$ 431	$ 59,300
Charge-offs	(4,541)	(5,697)	(7,368)	(15,339)	-	(32,945)
Recoveries	119	226	945	7,470	-	8,760
Provision for originated and other loans and lease losses	5,742	13,755	8,337	7,148	(431)	34,551
Balance at end of period	**$ 18,664**	**$ 17,279**	**$ 14,981**	**$ 18,742**	**$ -**	**$ 69,666**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 8,630	$ 1,940	$ -	$ -	$ -	$ 10,570
Collectively evaluated for impairment	10,034	15,339	14,981	18,742	-	59,096
Total ending allowance balance	**$ 18,664**	**$ 17,279**	**$ 14,981**	**$ 18,742**	**$ -**	**$ 69,666**
Loans:						
Individually evaluated for impairment	$ 87,042	$ 57,328	$ -	$ -	$ -	$ 144,370
Collectively evaluated for impairment	612,248	1,213,516	314,267	807,204	-	2,947,235
Total ending loan balance	**$ 699,290**	**$ 1,270,844**	**$ 314,267**	**$ 807,204**	**$ -**	**$ 3,091,605**

	Quarter Ended June 30, 2016					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 18,784	$ 64,206	$ 11,414	$ 18,716	$ 118	$ 113,238
Charge-offs	(1,374)	(833)	(2,811)	(8,100)	-	(13,118)
Recoveries	36	228	133	3,243	-	3,640
	1,091	(457)	3,035	5,400	(17)	9,052

Provision (recapture) for originated and other loan and lease losses						
Balance at end of period	**$ 18,537**	**$ 63,144**	**$ 11,771**	**$ 19,259**	**$ 101**	**$ 112,812**

	Six-Month Period Ended June 30, 2016					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 18,352	$ 64,791	$ 11,197	$ 18,261	$ 25	$ 112,626
Charge-offs	(3,036)	(1,844)	(5,138)	(16,462)	-	(26,480)
Recoveries	181	316	235	6,222	-	6,954
Provision (recapture) for originated and other loan and lease losses	3,040	(119)	5,477	11,238	76	19,712
Balance at end of period	**$ 18,537**	**$ 63,144**	**$ 11,771**	**$ 19,259**	**$ 101**	**$ 112,812**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 7,761	$ 1,626	$ -	$ -	$ -	$ 9,387
Collectively evaluated for impairment	9,583	7,369	13,067	19,463	431	49,913
Total ending allowance balance	**$ 17,344**	**$ 8,995**	**$ 13,067**	**$ 19,463**	**$ 431**	**$ 59,300**
Loans:						
Individually evaluated for impairment	$ 91,650	$ 53,139	$ -	$ -	$ -	$ 144,789
Collectively evaluated for impairment	629,844	1,224,727	290,515	756,395	-	2,901,481
Total ending loan balance	**$ 721,494**	**$ 1,277,866**	**$ 290,515**	**$ 756,395**	**$ -**	**$ 3,046,270**

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 accounted for under ASC 310-20, for the periods indicated:

	Quarter Ended June 30, 2017			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of period	$ 183	$ 2,591	$ 841	$ 3,615
Charge-offs	(126)	(771)	(205)	(1,102)
Recoveries	2	295	597	894
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	(18)	508	(549)	(59)
Balance at end of period	**$ 41**	**$ 2,623**	**$ 684**	**$ 3,348**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2017			
	Commercial	**Consumer**	**Auto**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 169	$ 3,028	$ 1,103	$ 4,300
Charge-offs	(132)	(1,656)	(483)	(2,271)
Recoveries	3	359	1,049	1,411
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	1	892	(985)	(92)
Balance at end of year	**$ 41**	**$ 2,623**	**$ 684**	**$ 3,348**

	June 30, 2017			
	Commercial	**Consumer**	**Auto**	**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	41	2,623	684	3,348
Total ending allowance balance	**$ 41**	**$ 2,623**	**$ 684**	**$ 3,348**
Loans:				
Individually evaluated for impairment	$ 761	$ -	$ -	$ 761
Collectively evaluated for impairment	4,589	30,233	33,661	68,483

Total ending loan balance	**$**	**5,350**	**$**	**30,233**	**$**	**33,661**	**$**	**69,244**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of period	$ 23	$ 3,243	$ 1,727	$ 4,993
Charge-offs	(12)	(1,013)	(571)	(1,596)
Recoveries	8	88	446	542
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	2	684	(138)	548
Balance at end of period	**$ 21**	**$ 3,002**	**$ 1,464**	**$ 4,487**

	Six-Month Period Ended June 30, 2016			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 26	$ 3,429	$ 2,087	$ 5,542
Charge-offs	(19)	(1,825)	(1,308)	(3,152)
Recoveries	40	169	1,044	1,253
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	(26)	1,229	(359)	844
Balance at end of period	**$ 21**	**$ 3,002**	**$ 1,464**	**$ 4,487**

	December 31, 2016			
	Commercial	Consumer	Auto	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:				
Individually evaluated for impairment	$ 141	$ -	$ -	$ 141
Collectively evaluated for impairment	28	3,028	1,103	4,159
Total ending allowance balance	**$ 169**	**$ 3,028**	**$ 1,103**	**$ 4,300**
Loans:				
Individually evaluated for impairment	$ 1,150	$ -	$ -	$ 1,150
Collectively evaluated for impairment	4,412	32,862	53,026	90,300
Total ending loan balance	**$ 5,562**	**$ 32,862**	**$ 53,026**	**$ 91,450**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

For loans accounted for under ASC 310- 30, as part of the evaluation of actual versus expected cash flows, the Company assesses on a quarterly basis the credit quality of these loans based on delinquency, severity factors and risk ratings, among other assumptions. Migration and credit quality trends are assessed at the pool level, by comparing information from the latest evaluation period through the end of the reporting period.

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

	Quarter Ended June 30, 2017			
	Mortgage	Commercial	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	$ 3,573	$ 23,528	$ 7,829	$ 34,930
Provision for BBVAPR loans and lease losses accounted for under ASC 310-30	630	2,735	-	3,365
Allowance de-recognition	(62)	(649)	(90)	(801)
Balance at end of period	**$ 4,141**	**$ 25,614**	**$ 7,739**	**$ 37,494**

	Six-Month Period Ended June 30, 2017			
	Mortgage	Commercial	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	$ 2,682	$ 23,452	$ 4,922	$ 31,056
Provision (recapture) for BBVAPR loans	1,552	2,958	3,186	7,696
and lease losses accounted for				

under ASC 310-30								
Allowance de-recognition		(93)		(796)		(369)		(1,258)
Balance at end of period	**$**	**4,141**	**$**	**25,614**	**$**	**7,739**	**$**	**37,494**

57

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016 (In thousands)			
	Mortgage	**Commercial**	**Auto**	**Total**
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:				
Balance at beginning of period	$ 1,762	$ 20,430	$ 5,555	$ 27,747
Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	(163)	3,977	-	3,814
Loan pools fully charged-off	(14)	-	(202)	(216)
Allowance de-recognition	-	(8,544)	-	(8,544)
Balance at end of period	**$ 1,585**	**$ 15,863**	**$ 5,353**	**$ 22,801**

	Six-Month Period Ended June 30, 2016 (In thousands)			
	Mortgage	**Commercial**	**Auto**	**Total**
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:				
Balance at beginning of period	$ 1,678	$ 21,245	$ 2,862	$ 25,785
Provision for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	(79)	3,228	2,693	5,842
Loan pools fully charged-off	(14)	(66)	(202)	(282)
Allowance de-recogntion	-	(8,544)	-	(8,544)
Balance at end of period	**$ 1,585**	**$ 15,863**	**$ 5,353**	**$ 22,801**

OFG BANCORP

NOTES TO 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 six-month periods ended June 30, 2017 and 2016 were as follows:

	Quarter Ended June 30, 2017			
	Loans Secured by 1-4 Family Residential Properties	**Commercial**	**Consumer**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired Eurobank loans:				
Balance at beginning of period	$ 14,168	$ 7,833	$ 5	$ 22,006
Provision for (recapture) acquired Eurobank loans and lease losses, net	474	(62)	-	412
Allowance de-recognition	(991)	360	-	(631)
Balance at end of period	**$ 13,651**	**$ 8,131**	**$ 5**	**$ 21,787**

	Six-Month Period Ended June 30, 2017			
	Loans Secured by 1-4 Family Residential Properties	**Commercial**	**Consumer**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired Eurobank loans:				
Balance at beginning of period	$ 11,947	$ 9,328	$ 6	$ 21,281
Provision for (recapture) acquired Eurobank loans and lease losses, net	2,872	$ (840)	-	2,032
Allowance de-recognition	(1,168)	(357)	(1)	(1,526)
Balance at end of period	**$ 13,651**	**$ 8,131**	**$ 5**	**$ 21,787**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016			
	Loans secured by 1-4 Family Residential Properties	**Commercial**	**Consumer**	**Total**
		(In thousands)		
Allowance for loan and lease losses for acquired Eurobank loans:				
Balance at beginning of period	$ 23,961	$ 68,089	$ 243	$ 92,293
Provision for (recapture) acquired Eurobank loan and lease losses, net	237	801	(7)	1,031
Loan pools fully charged-off	951	-	-	951
Allowance de-recognition	(14,133)	(57,794)	(232)	(72,159)
Balance at end of period	**$ 11,016**	**$ 11,096**	**$ 4**	**$ 22,116**

	Six-Month Period Ended June 30, 2016			
	Loans secured by 1-4 Family Residential Properties	**Commercial**	**Consumer**	**Total**
		(In thousands)		
Allowance for loan and lease losses for Eurobank loans:				
Balance at beginning of period	$ 22,570	$ 67,365	$ 243	$ 90,178
Provision for (recapture) acquired Eurobank loan and lease losses, net	184	1,659	(7)	1,836
FDIC shared-loss portion of provision for covered loan and lease losses, net	2,395	-	-	2,395
Loan pools fully charged-off	-	(134)	-	(134)
Allowance de-recognition	(14,133)	(57,794)	(232)	(72,159)
Balance at end of period	**$ 11,016**	**$ 11,096**	**$ 4**	**$ 22,116**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6- FDIC INDEMNIFICATION ASSET, TRUE-UP PAYMENT OBLIGATION, AND FDIC SHARED-LOSS EXPENSE

On February 6, 2017, the Bank and the FDIC agreed to terminate the single family and commercial shared-loss agreements related to the FDIC assisted acquisition of Eurobank on April 30, 2010. As part of the loss share termination transaction, the Bank made a payment of $10.1 million to the FDIC and recorded a net benefit of $1.4 million. Such termination payment took into account the anticipated reimbursements over the life of the shared-loss agreements and the true-up payment liability of the Bank anticipated at the end of the ten year term of the single family shared-loss agreement. All rights and obligations of the parties under the shared-loss agreements terminated as of the closing date of the agreement.

Pursuant to the terms of the shared-loss agreements, the FDIC would reimburse the Bank for 80% of all qualifying losses with respect to assets covered by such agreements, and the Bank would reimburse the FDIC for 80% of qualifying recoveries with respect to losses for which the FDIC reimbursed the Bank. The single family shared-loss agreement provided for FDIC loss sharing and the Bank's reimbursement to the FDIC to last for ten years, and the commercial shared-loss agreement provided for FDIC loss sharing and the Bank's reimbursement to the FDIC to last for five years, with additional recovery sharing for three years thereafter.

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
<u>FDIC indemnification asset:</u>				
Balance at beginning of period	$ -	$ 20,923	$ 14,411	$ 22,599
Shared-loss agreements reimbursements from the FDIC	-	(332)	-	(737)
Increase in expected credit losses to be covered under shared-loss agreements, net	-	951	-	2,395
FDIC indemnification asset benefit (expense)	-	(1,405)	1,403	(4,269)
Net expenses incurred under shared-loss agreements	-	(1,711)	-	(1,562)
Shared-loss termination settlement	-	-	(15,814)	-
Balance at end of period	**$ -**	**$ 18,426**	**$ -**	**$ 18,426**

True-up payment obligation:								
Balance at beginning of period	$	-	$	25,235	$	26,786	$	24,658
Change in true-up payment obligation		-		537		-		1,114
Shared-loss termination settlement		-		-		(26,786)		-
Balance at end of period	**$**	**-**	**$**	**25,772**	**$**	**-**	**$**	**25,772**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company recognized an FDIC shared-loss (benefit) expense, net in the consolidated statements of operations, which consists of the following, for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2016
	(In thousands)			
FDIC indemnification asset expense (benefit)	$ -	$ 1,405	$ (1,403)	$ 4,269
Change in true-up payment obligation	-	537	-	1,114
Reimbursement to FDIC for recoveries	-	1,478	-	2,066
Total FDIC shared-loss expense (benefit), net	**$ -**	**$ 3,420**	**$ (1,403)**	**$ 7,449**

NOTE 7 — DERIVATIVES

The following table presents the Company's derivative assets and liabilities at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(In thousands)	
Derivative assets:		
Interest rate swaps not designated as hedges	$ 893	$ 1,187
Interest rate caps	64	143
	$ 957	**$ 1,330**
Derivative liabilities:		
Interest rate swaps designated as cash flow hedges	923	1,004
Interest rate swaps not designated as hedges	893	1,187
Interest rate caps	65	139
Other	-	107
	$ 1,881	**$ 2,437**

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.

The following table shows a summary of these swaps and their terms at June 30, 2017:

Type		**Notional Amount (In thousands)**	**Fixed Rate**	**Variable Rate Index**	**Trade Date**	**Settlement Date**	**Maturity Date**
Interest Rate Swaps	$	35,856	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$	**35,856**					

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

An accumulated unrealized loss of $923 thousand and $1.0 million was recognized in accumulated other comprehensive income (loss) related to the valuation of these swaps at June 30, 2017 and December 31, 2016, respectively, and the related liability is being reflected in the consolidated statements of financial condition.

At June 30, 2017 and December 31, 2016, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $893 thousand and $1.2 million, respectively, and were included as part of derivative assets in the consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At June 30, 2017 and December 31, 2016, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $893 thousand and $1.2 million, respectively, and were included as part of derivative liabilities in the 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 June 30, 2017:

Type		Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
Interest Rate Swaps - Derivatives Offered to Clients	$	12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**12,500**				
Interest Rate Swaps - Mirror Image Derivatives	$	12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**12,500**				

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. As of June 30, 2017 and December 31, 2016, the outstanding total notional amount of interest rate caps was $135.6 million and $136.1 million, respectively.

At June 30, 2017 and December 31, 2016, the interest rate caps sold to clients represented a liability of $65 thousand and $139 thousand, respectively, and were included as part of derivative liabilities in the consolidated statements of financial condition. At June 30, 2017 and December 31, 2016, the interest rate caps purchased as mirror-images represented an asset of $64 thousand and $143 thousand, respectively, and were included as part of derivative assets in the consolidated statements of financial condition.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at June 30, 2017 and December 31, 2016 consists of the following:

		June 30, 2017		December 31, 2016
		(In thousands)		
Loans, excluding acquired loans	$	16,835	$	16,706
Investments		2,963		3,521
	$	**19,798**	**$**	**20,227**

Other assets at June 30, 2017 and December 31, 2016 consist of the following:

		June 30, 2017		December 31, 2016
		(In thousands)		
Prepaid expenses	$	17,117	$	17,096
Other repossessed assets		3,225		3,224
Core deposit and customer relationship intangibles		5,424		6,160
Mortgage tax credits		6,277		6,277
Investment in Statutory Trust		1,083		1,083
Accounts receivable and other assets		33,162		46,525
	$	**66,288**	**$**	**80,365**

Prepaid expenses amounting to $17.1 million at both June 30, 2017 and December 31, 2016, include prepaid municipal, property and income taxes aggregating to $11.7 million and $12.5 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 June 30, 2017 and December 31, 2016 this core deposit intangible amounted to $3.8 million and $4.3 million, respectively. In addition, the Company recorded a customer relationship intangible representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition. At June 30, 2017 and December 31, 2016, this customer relationship intangible amounted to $1.6 million and $1.9 million, respectively.

Other repossessed assets totaled $3.2 million at June 30, 2017 and December 31, 2016, respectively, include repossessed automobiles amounting to $3.0 million, respectively, which are recorded at their net realizable value.

At June 30, 2017 and December 31, 2016, tax credits for the Company totaled $6.3 million for both periods. These tax credits do not have an expiration date.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 9— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of June 30, 2017 and December 31, 2016 consist of the following:

	June 30, 2017	December 31, 2016
	(In thousands)	
Non-interest bearing demand deposits	$ 845,375	$ 848,502
Interest-bearing savings and demand deposits	2,115,290	2,219,452
Individual retirement accounts	238,345	265,754
Retail certificates of deposit	607,910	563,965
Institutional certificates of deposit	206,855	190,419
Total core deposits	**4,013,775**	**4,088,092**
Brokered deposits	568,911	576,395
Total deposits	$ **4,582,686**	$ **4,664,487**

Brokered deposits include $515.6 million in certificates of deposits and $53.3 million in money market accounts at June 30, 2017, and $508.4 million in certificates of deposits and $68.0 million in money market accounts at December 31, 2016.

The weighted average interest rate of the Company’s deposits was 0.65% and 0.62% at June 30, 2017 and December 31, 2016 respectively. Interest expense for the quarters and six-month periods ended June 30, 2017 and 2016 was as follows:

	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2016
	(In thousands)			
Demand and savings deposits	$ 2,939	$ 3,184	$ 5,848	$ 6,026
Certificates of deposit	4,713	4,183	9,157	8,465
	$ 7,652	**$ 7,367**	**$ 15,005**	**$ 14,491**

At December 31, 2016, demand and interest-bearing deposits and certificates of deposit included uncollateralized deposits of Puerto Rico Cash & Money Market Fund, Inc. ("the Fund”), which amounted to $15.3 million, with a weighted average rate of 0.77%. On April 3, 2017, the Fund was liquidated in anticipation of its dissolution.

At June 30, 2017 and December 31, 2016, time deposits in denominations of $250 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $360.9 million and $344.0 million, respectively. Such amounts include public funds time deposits from various Puerto Rico government municipalities, agencies, and corporations of $16.8 million and $2.1 million at a weighted average rate of 0.63% and 0.50% at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017 and December 31, 2016, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $123.3 million and $170.7 million, respectively. These public funds were collateralized with commercial loans amounting to $215.8 million and $209.2 million at June 30, 2017 and December 31, 2016, respectively.

Excluding accrued interest of approximately $1.9 million, the scheduled maturities of certificates of deposit at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Within one year:		
Three (3) months or less	$ 262,406	$ 277,621
Over 3 months through 1 year	590,861	534,548
	853,267	**812,169**
Over 1 through 2 years	444,176	488,440
Over 2 through 3 years	195,287	154,545
Over 3 through 4 years	38,872	29,701
Over 4 through 5 years	35,145	41,949
	$ 1,566,747	**$ 1,526,804**

The table of scheduled maturities of certificates of deposits above includes brokered-deposits and individual retirement accounts.

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans amounted to $761 thousand and $575 thousand as of June 30, 2017 and December 31, 2016, respectively.

NOTE 10 — BORROWINGS AND RELATED INTEREST

Securities Sold under Agreements to Repurchase

At June 30, 2017, 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. The purpose of these transactions is to provide financing for the Company’s securities portfolio.

At June 30, 2017 and December 31, 2016, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $642 thousand and $1.5 million, respectively, were as follows:

	June 30, 2017		December 31, 2016	
	Borrowing Balance	**Fair Value of Underlying Collateral**	**Borrowing Balance**	**Fair Value of Underlying Collateral**
	(In thousands)			
Nomura	$ 37,001	$ 38,900	$ -	$ -
PR Cash and Money Market Fund	-	-	70,010	74,538
JP Morgan Chase Bank NA	239,781	257,976	350,219	376,674
Federal Home Loan Bank	110,000	115,881	-	-
Credit Suisse Securities (USA) LLC	-	-	232,000	249,286
Goldman SachsCredit Suisse Securities (USA) LLC	66,068	70,653	-	-
Total	**$ 452,850**	**$ 483,410**	**$ 652,229**	**$ 700,498**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of the Company's repurchase agreements and their terms, excluding accrued interest in the amount of $642 thousand, at June 30, 2017:

Year of Maturity		Borrowing Balance (In thousands)	Weighted-Average Coupon	Settlement Date	Maturity Date
2017	$	37,001	1.65%	6/27/2017	7/3/2017
		57,281	1.55%	6/28/2017	7/5/2017
		66,068	1.50%	6/28/2017	7/7/2017
2018		182,500	1.42%	12/10/2012	4/29/2018
2019		50,000	1.72%	3/2/2017	9/3/2019
2020		60,000	1.85%	3/2/2017	3/2/2020
	$	**452,850**	**1.56%**		

All the repurchase agreements referred above with maturity up to the date of this report were renewed by the Company.

A repurchase agreement in the original amount of $500 million with an original term of ten years was modified in February 2016 to terminate, before maturity, $268.0 million of this repurchase agreement at a cost of $12.0 million, included as a loss on early extinguishment of debt in the consolidated statements of operations. The remaining balance of this repurchase agreement of $232.0 million matured on March 2, 2017. At June 30, 2017, repurchase agreement in the original amount of $25.0 million and $75.0 million, respectively, with original term of June 2019 and December 2019, respectively, were terminated before maturity at a cost of $80 thousand, included as a loss on early extinguishment of debt in consolidated statement of operations.

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 June 30, 2017 and December 31, 2016. There was no cash collateral at June 30, 2017 and December 31, 2016.

		June 30, 2017
		Market Value of Underlying Collateral
Weighted	**FNMA and**	

	Repurchase Liability	Average Rate	FHLMC Certificates	GNMA Certificates	US Treasury Treasury Notes	Total
			(Dollars in thousands)			
Less than 90 days	$ 160,350	1.57%	$ 170,851	$ -	$ -	$ 170,851
Over 90 days	292,500	1.56%	312,467	92	-	312,559
Total	**$ 452,850**	**1.56%**	**$ 483,318**	**$ 92**	**$ -**	**$ 483,410**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016					
			Market Value of Underlying Collateral			
	Repurchase Liability	Weighted Average Rate	FNMA and FHLMC Certificates	GNMA Certificates	US Treasury Treasury Notes	Total
	(Dollars in thousands)					
Less than 90 days	$ 349,729	$ 3.35%	248,288	$ 75,536	$ 48,954	$ 372,778
Over 90 days	302,500	1.44%	327,627	93	-	327,720
Total	**$ 652,229**	**2.47%**	**$ 575,915**	**$ 75,629**	**48,954**	**700,498**

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 June 30, 2017 and December 31, 2016, these advances were secured by mortgage and commercial loans amounting to $1.3 billion and $1.4 billion, respectively. Also, at June 30, 2017 and December 31, 2016, the Company had an additional borrowing capacity with the FHLB-NY of $935.5 million and $1.2 billion, respectively. At June 30, 2017 and December 31, 2016, the weighted average remaining maturity of FHLB's advances was 5.2 months and 10.6 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 June 30, 2017.

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $308 thousand, at June 30, 2017:

Year of Maturity	Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
	(In thousands)			
2017	$ 35,856	1.20%	6/1/2017	7/3/2017
	37,000	1.24%	6/30/2017	7/3/2017
	72,856			
2018	30,000	2.19%	1/16/2013	1/16/2018

		25,000	2.18%	1/16/2013	1/16/2018
		55,000			
2020		9,376	2.59%	7/19/2013	7/20/2020
	$	**137,232**	**1.70%**		

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 $36.1 million at June 30, 2017 and December 31, 2016, for both periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 11 – 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 June 30, 2017 and December 31, 2016:

	June 30, 2017					
				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	$ 957	$ -	$ 957	$ 2,027	$ -	$ (1,070)

	December 31, 2016					
				Gross Amounts Not Offset in the Statement of Financial Condition		
		Gross Amounts Offset in the	Net amount of Assets Presented in Statement		Cash	

	Gross Amount of Recognized Assets		Statement of Financial Condition		of Financial Condition		Financial Instruments		Collateral Received		Net Amount
					(In thousands)						
Derivatives	$	**1,330**	$	**-**	$	**1,330**	$	**2,003**	$	**-**	$	**(673)**

69

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017					
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 1,881	$ -	$ 1,881	$ -	$ 1,980	$ (99)
Securities sold under agreements to repurchase	452,850	-	452,850	483,410	-	(30,560)
Total	**$ 454,731**	**$ -**	**$ 454,731**	**$ 483,410**	**$ 1,980**	**$ (30,659)**

	December 31, 2016					
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 2,437	$ -	$ 2,437	$ -	$ 1,980	$ 457
Securities sold under agreements to repurchase	652,229	-	652,229	700,498	-	(48,269)
Total	**$ 654,666**	**$ -**	**$ 654,666**	**$ 700,498**	**$ 1,980**	**$ (47,812)**

NOTE 12 — INCOME TAXES

At June 30, 2017 and December 31, 2016, the Company's net deferred tax asset amounted to $116.2 million and $124.2 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 June 30, 2017 and December 31, 2016. 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 June 30, 2017 and December 31, 2016, Oriental International Bank Inc. ("OIB"), the Bank's international banking entity subsidiary, had $6 thousand and $109 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. During the quarters ended June 30, 2017 and 2016, $95 thousand and $8 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income (loss) into income tax provision. During the six-month period ended June 30, 2017 and 2016, $103 thousand and $16 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 other liabilities. These gross unrecognized tax benefits would affect the effective tax rate if realized. At June 30, 2017 the amount of unrecognized tax benefits was $2.1 million (December 31, 2016 - $2.0 million). The Company had accrued $80 thousand at June 30, 2017 (December 31, 2016 - $229 thousand) for the payment of interest and penalties relating to unrecognized tax benefits.

The Company is subject to the dispositions of the 2011 Puerto Rico Internal Revenue Code, as amended (the "Code"). The Code imposes a maximum corporate tax rate of 39%. The Company maintained a lower effective tax rate for the six-month periods ended June 30, 2017 and 2016 of 29.0% and 28.8%, respectively.

Income tax expense for the quarters ended June 30, 2017 and 2016 was $4.0 million and $5.9 million, respectively. Income tax expense for the six-month periods ended June 30, 2017 and 2016 was $13.2 million and $11.5 million, respectively.

NOTE 13 — 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 adopted 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 current 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 current capital rules, the minimum capital ratios requirements 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 June 30, 2017 and December 31, 2016, the Company and the Bank met all capital adequacy requirements to which they are subject. As of June 30, 2017 and December 31, 2016, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's and the Bank's actual capital amounts and ratios as of June 30, 2017 and December 31, 2016 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 June 30, 2017						
Total capital to risk-weighted assets	$ 896,927	**20.42%**	$ 351,306	**8.00%**	$ 439,132	**10.00%**
Tier 1 capital to risk-weighted assets	$ 840,704	**19.14%**	$ 263,479	**6.00%**	$ 351,306	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 643,607	**14.66%**	$ 197,609	**4.50%**	$ 285,436	**6.50%**
Tier 1 capital to average total assets	$ 840,704	**13.69%**	$ 245,577	**4.00%**	$ 306,971	**5.00%**
As of December 31, 2016						
Total capital to risk-weighted assets	$ 876,657	**19.62%**	$ 357,404	**8.00%**	$ 446,756	**10.00%**
Tier 1 capital to risk-weighted assets	$ 819,662	**18.35%**	$ 268,053	**6.00%**	$ 357,404	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 627,733	**14.05%**	$ 201,040	**4.50%**	$ 290,391	**6.50%**
Tier 1 capital to average total assets	$ 819,662	**12.99%**	$ 252,344	**4.00%**	$ 315,430	**5.00%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Bank Ratios						
As of June 30, 2017						
Total capital to risk-weighted assets	$ 887,024	**20.20%**	$ 351,244	**8.00%**	$ 439,055	**10.00%**
Tier 1 capital to risk-weighted assets	$ 831,012	**18.93%**	$ 263,433	**6.00%**	$ 351,244	**8.00%**
	$ 831,012	**18.93%**	$ 197,575	**4.50%**	$ 285,386	**6.50%**

Common equity tier 1 capital to risk-weighted assets								
Tier 1 capital to average total assets	$	831,012	**13.59%**	$	244,618	**4.00%**	$	305,773	**5.00%**
<u>As of December 31, 2016</u>									
Total capital to risk-weighted assets	$	857,259	**19.23%**	$	356,596	**8.00%**	$	445,745	**10.00%**
Tier 1 capital to risk-weighted assets	$	800,544	**17.96%**	$	267,447	**6.00%**	$	356,596	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$	800,544	**17.96%**	$	200,585	**4.50%**	$	289,734	**6.50%**
Tier 1 capital to average total assets	$	800,544	**12.75%**	$	251,200	**4.00%**	$	314,000	**5.00%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 – 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 both periods, June 30, 2017 and December 31, 2016 accumulated issuance costs charged against additional paid in capital amounted to $13.6 million and $10.1 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 June 30, 2017 and December 31, 2016, the Bank's legal surplus amounted to $79.5 million and $76.3 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 $7.7 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by the Company as treasury shares. During the six-month periods ended June 30, 2017 and 2016, the Company did not purchase any shares under the program.

At June 30, 2017 the number of shares that may yet be purchased under the $70 million program is estimated at 773,085 and was calculated by dividing the remaining balance of $7.7 million by $10.00 (closing price of the Company common stock at June 30, 2017).

The activity in connection with common shares held in treasury by the Company for the six-month periods ended June 30, 2017 and 2016 is set forth below:

	Six-Month Period Ended June 30,			
	2017		2016	
	Shares	Dollar Amount	Shares	Dollar Amount
	(In thousands, except shares data)			
Beginning of period	8,711,025	$ 104,860	8,757,960	$ 105,379
Common shares used upon lapse of restricted stock units	(32,598)	(358)	(45,810)	(505)
End of period	**8,678,427**	**$ 104,502**	**8,712,150**	**$ 104,874**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income taxes, as of June 30, 2017 and December 31, 2016 consisted of:

		June 30, 2017		December 31, 2016
		(In thousands)		
Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	$	47	$	1,617
Income tax effect of unrealized gain on securities available-for-sale		209		592
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired		256		2,209
Unrealized loss on cash flow hedges		(923)		(1,004)
Income tax effect of unrealized loss on cash flow hedges		360		391
Net unrealized loss on cash flow hedges		(563)		(613)
Accumulated other comprehensive (loss) income, net of income taxes	$	**(307)**	**$**	**1,596**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30,					
	2017			2016		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive income
	(In thousands)					
Beginning balance	$ 3,850	$ (502)	$ 3,348	$ 15,089	$ (2,805)	$ 12,284
Other comprehensive loss before reclassifications	(3,618)	(189)	(3,807)	3,060	(949)	2,111
Amounts reclassified out of accumulated other comprehensive income (loss)	24	128	152	(64)	1,474	1,410
Other comprehensive income (loss)	(3,594)	(61)	(3,655)	2,996	525	3,521
Ending balance	**$ 256**	**$ (563)**	**$ (307)**	**$ 18,085**	**$ (2,280)**	**$ 15,805**

	Six-Month Period Ended June 30,					
	2017			2016		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive income
	(In thousands)					
Beginning balance	$ 2,209	(613)	1,596	16,924	(2,927)	13,997
Other comprehensive income (loss) before reclassifications	(1,911)	(227)	(2,138)	(1,266)	(2,406)	(3,672)
Amounts reclassified out of accumulated other comprehensive income (loss)	(42)	277	235	2,427	3,053	5,480
Other comprehensive income (loss)	(1,953)	50	(1,903)	1,161	647	1,808
Ending balance	**$ 256**	**$ (563)**	**$ (307)**	**$ 18,085**	**$ (2,280)**	**$ 15,805**

76

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents reclassifications out of accumulated other comprehensive income for the quarters and six-month periods ended June 30, 2017 and 2016:

	Amount reclassified out of accumulated other comprehensive (loss) income				Affected Line Item in Consolidated Statement of Operations
	Quarter Ended June 30,				
	2017		2016		
	(In thousands)				
Cash flow hedges:					
Interest-rate contracts	$	128	$	1,354	Net interest expense
Tax effect from increase in capital gains tax rate		-		120	Income tax expense
Available-for-sale securities:					
Residual tax effect from OIB's change in applicable tax rate		95		8	Income tax expense
Tax effect from increase in capital gains tax rate		(71)		(72)	Income tax expense
	$	**152**	**$**	**1,410**	

	Amount reclassified out of accumulated other comprehensive (loss) income				Affected Line Item in Consolidated Statement of Operations
	Six-Month Period Ended June 30,				
	2017		2016		
	(In thousands)				
Cash flow hedges:					
Interest-rate contracts	$	277	$	2,804	Net interest expense
Tax effect from increase in capital gains tax rate		-		249	Income tax expense
Available-for-sale securities:					
Other-than-temporary impairment losses on investment securities		-		2,557	Net impairment losses recognized in earnings
Residual tax effect from OIB's change in applicable tax rate		103		16	Income tax expense
Tax effect from increase in capital gains tax rate		(145)		(146)	Income tax expense
	$	**235**	**$**	**5,480**	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for the quarters and six-month periods ended June 30, 2017 and 2016 is as follows:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Net income	$ 17,104	$ 14,339	$ 32,254	$ 28,510
Less: Dividends on preferred stock				
Non-convertible preferred stock (Series A, B, and D)	(1,629)	(1,629)	(3,256)	(3,256)
Convertible preferred stock (Series C)	(1,837)	(1,837)	(3,675)	(3,675)
Income available to common shareholders	**$ 13,638**	**$ 10,873**	**$ 25,323**	**$ 21,579**
Effect of assumed conversion of the convertible preferred stock	1,837	1,837	3,675	3,675
Income available to common shareholders assuming conversion	$ **15,475**	$ **12,710**	$ **28,998**	$ **25,254**
Weighted average common shares and share equivalents:				
Average common shares outstanding	43,947	43,914	43,931	43,906
Effect of dilutive securities:				
Average potential common shares-options	15	43	24	37
Average potential common shares-assuming conversion of convertible preferred stock	7,138	7,138	7,138	7,138
Total weighted average common shares outstanding and equivalents	**51,100**	**51,095**	**51,093**	**51,081**
	$ 0.30	**$ 0.25**	**$ 0.58**	**$ 0.49**

Earnings per common share - basic								
Earnings per common share - diluted	**$**	**0.30**	**$**	**0.25**	**$**	**0.57**	**$**	**0.49**

In computing diluted earnings per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at June 30, 2017, 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 and six-month periods ended June 30, 2017 and 2016 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended June 30, 2017 and 2016, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 967,041 and 957,743, respectively. For the six-month period ended June 30, 2017 and 2016, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 890,472 and 957,783, respectively.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 17 – GUARANTEES

At June 30, 2017 and December 31, 2016 , the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $13.4 million and $4.0 million, respectively.

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 June 30, 2017 and December 31, 2016, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $6.6 million and $20.1 million, respectively.

The following table shows the changes in the Company's liability for estimated losses from these credit recourse agreements, included in the consolidated statements of financial condition during the quarters and six-month periods ended June 30, 2017 and 2016.

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Balance at beginning of period	$ 570	$ 181	$ 710	$ 439
Net (charge-offs/terminations) recoveries	(111)	(19)	(251)	(277)
Balance at end of period	**$ 459**	**$ 162**	**$ 459**	**$ 162**

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 quarters ended June 30, 2017 and 2016, the Company repurchased approximately $66 thousand and $83 thousand, respectively of unpaid principal balance in mortgage loans subject to the credit recourse provisions. During the six-month periods ended June 30, 2017 and 2016, the Company repurchased approximately $107 thousand and $288 thousand, 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 June 30, 2017, the Company’s liability for estimated credit losses related to loans sold with credit recourse amounted to $459 thousand (December 31, 2016– $710 thousand).

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. During the quarter ended June 30, 2017, the Company repurchased $1.4 million (June 30, 2016 – $817 thousand) of unpaid principal balance in mortgage loans, excluding mortgage loans subject to credit recourse provision referred above. During both the six-month periods ended June 30, 2017 and June 30, 2016, the Company repurchased $2.3 million of unpaid principal balance in mortgage loans, excluding mortgage loans subject to credit recourse provision referred before.

During the quarters ended June 30, 2017 and 2016, the Company recognized $254 thousand and $92 thousand, respectively, in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $283 thousand and $329 thousand, respectively, from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties. During the six-month periods ended June 30, 2017 and 2016, the Company recognized $354 thousand and $111 thousand, respectively, in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $590 thousand and $830 thousand, respectively, 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 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 June 30, 2017, the Company serviced $845.7 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 June 30, 2017, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately $366 thousand (December 31, 2016 - $334 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.

NOTE 18— 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 June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Commitments to extend credit	$ 434,051	$ 492,885
Commercial letters of credit	1,501	2,721

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 June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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 June 30, 2017 and December 31, 2016, is as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Standby letters of credit and financial guarantees	$ 13,420	$ 4,041
Loans sold with recourse	6,640	20,126

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 June 30, 2017 and 2016, amounted to $2.5 million and $2.3 million, respectively. For the six-month periods ended June 30, 2017 and 2016, rent expense amounted to $4.5 million and $4.4 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 June 30, 2017, exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

Year Ending December 31,		Minimum Rent (In thousands)
2017	$	3,665
2018		6,969
2019		6,928
2020		6,201
2021		5,371
Thereafter		7,881
	$	**37,015**

OFG BANCORP

NOTES TO 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 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value measurement framework under U.S. Generally Accepted Accounting Principles ("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 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 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 Interactive Data Corporation ("IDC"), and independent, well-recognized pricing company. 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 June 30, 2017 and December 31, 2016, the Company did not have investment securities classified as Level 3.

OFG BANCORP

NOTES TO 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. In the past, the Company offered its customers certificates of deposit with an option tied to the performance of the S&P Index and used equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value was 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 was linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology used an average rate option or a cash-settled option whose payoff was 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 were uncertain and required a degree of judgment, included primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage. At June 30, 2017 and December 31, 2016, there were no options tied to the S&P Index outstanding.

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 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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other repossessed assets

Other repossessed assets include repossessed automobiles. 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.

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

	June 30, 2017 Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 649,327	$ -	$ 649,327
Trading securities	-	294	-	294
Money market investments	6,467	-	-	6,467
Derivative assets	-	957	-	957
Servicing assets	-	-	9,866	9,866
Derivative liabilities	-	(1,881)	-	(1,881)
	$ 6,467	**$ 648,697**	**$ 9,866**	**$ 665,030**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 58,089	$ 58,089
Foreclosed real estate	-	-	50,223	50,223
Other repossessed assets	-	-	3,225	3,225
	$ -	**$ -**	**$ 111,537**	**$ 111,537**

	December 31, 2016 Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 751,484	$ -	$ 751,484

Trading securities		-		347		-		347
Money market investments		5,606		-		-		5,606
Derivative assets		-		1,330		-		1,330
Servicing assets		-		-		9,858		9,858
Derivative liabilities		-		(2,437)		-		(2,437)
	$	**5,606**	**$**	**750,724**	**$**	**9,858**	**$**	**766,188**
Non-recurring fair value measurements:								
Impaired commercial loans	$	-	$	-	$	54,289	$	54,289
Foreclosed real estate		-		-		47,520		47,520
Other repossessed assets		-		-		3,224		3,224
	$	**-**	**$**	**-**	**$**	**105,033**	**$**	**105,033**

OFG BANCORP

NOTES TO 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 six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30, 2017			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
		(In thousands)		
Balance at beginning of period	$ -	$ 9,688	$ -	$ 9,688
New instruments acquired	-	540	-	540
Principal repayments	-	(164)	-	(164)
Changes in fair value of servicing assets	-	(198)	-	(198)
Balance at end of period	**$ -**	**$ 9,866**	**$ -**	**$ 9,866**

	Six-Month Period Ended June 30, 2017			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
		(In thousands)		
Balance at beginning of period	$ -	$ 9,858	$ -	$ 9,858
New instruments acquired	-	1,074	-	1,074
Principal repayments	-	(326)	-	(326)
Changes in fair value of servicing assets	-	(740)	-	(740)
Balance at end of period	**$ -**	**$ 9,866**	**$ -**	**$ 9,866**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
		(In thousands)		
Balance at beginning of period	$ 772	$ 7,819	$ (746)	$ 7,845
Gains (losses) included in earnings	(585)	-	557	(28)
New instruments acquired	-	717	-	717
Principal repayments	-	(121)	-	(121)
Amortization	-	-	8	8
Changes in fair value of servicing assets	-	(483)	-	(483)
Balance at end of period	**$ 187**	**$ 7,932**	**$ (181)**	**$ 7,938**

	Six-Month Period Ended June 30, 2016			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
		(In thousands)		
Balance at beginning of period	$ 1,171	$ 7,455	$ (1,095)	$ 7,531
Gains (losses) included in earnings	(984)	-	886	(98)
New instruments acquired	-	1,275	-	1,275
Principal repayments	-	(225)	-	(225)
Amortization	-	-	28	28
Changes in fair value of servicing assets	-	(573)	-	(573)
Balance at end of period	**$ 187**	**$ 7,932**	**$ (181)**	**$ 7,938**

During the quarters and six-month periods ended June 30, 2017 and 2016, 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.

OFG BANCORP

NOTES TO 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 June 30, 2017:

	June 30, 2017				
	Fair Value (In thousands)		Valuation Technique	Unobservable Input	Range
Servicing assets	$	9,866	Cash flow valuation	Constant prepayment rate	4.18% - 9.07%
				Discount rate	10.00% - 12.00%
Collateral dependant impaired loans	$	25,242	Fair value of property or collateral	Appraised value less disposition costs	22.20% - 36.20%
Other non-collateral dependant impaired loans	$	32,847	Cash flow valuation	Discount rate	4.15% - 10.50%
Foreclosed real estate	$	50,223	Fair value of property or collateral	Appraised value less disposition costs	22.20% - 36.20%
Other repossessed assets	$	3,225	Fair value of property or collateral	Estimated net realizable value less disposition costs	32.00% - 68.00%

Information about Sensitivity to Changes in Significant Unobservable Inputs

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.

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 CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The estimated fair value and carrying value of the Company's financial instruments at June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Level 1				
Financial Assets:				
Cash and cash equivalents	$ 477,308	$ 477,308	$ 510,439	$ 510,439
Restricted cash	$ 3,030	$ 3,030	$ 3,030	$ 3,030
Level 2				
Financial Assets:				
Trading securities	$ 294	$ 294	$ 347	$ 347
Investment securities available-for-sale	$ 649,327	$ 649,327	$ 751,484	$ 751,484
Investment securities held-to-maturity	$ 549,595	$ 555,407	$ 592,763	$ 599,884
Federal Home Loan Bank (FHLB) stock	$ 16,616	$ 16,616	$ 10,793	$ 10,793
Other investments	$ 3	$ 3	$ 3	$ 3
Derivative assets	$ 957	$ 957	$ 1,330	$ 1,330
Financial Liabilities:				
Derivative liabilities	$ 1,881	$ 1,881	$ 2,437	$ 2,437
Level 3				
Financial Assets:				
Total loans (including loans held-for-sale)	$ 3,955,910	$ 4,091,866	$ 3,917,340	$ 4,147,692
FDIC indemnification asset	$ -	$ -	$ 8,669	$ 14,411
Accrued interest receivable	$ 19,798	$ 19,798	$ 20,227	$ 20,227
Servicing assets	$ 9,866	$ 9,866	$ 9,858	$ 9,858
Accounts receivable and other assets	$ 33,162	$ 33,162	$ 46,525	$ 46,525
Financial Liabilities:				
Deposits	$ 4,560,586	$ 4,582,686	$ 4,644,629	$ 4,664,487
Securities sold under agreements to repurchase	$ 451,933	$ 453,492	$ 651,898	$ 653,756
Advances from FHLB	$ 138,002	$ 137,540	$ 106,422	$ 105,454
Other borrowings	$ 177	$ 177	$ 61	$ 61
Subordinated capital notes	$ 31,743	$ 36,083	$ 30,230	$ 36,083
Accrued expenses and other liabilities	$ 62,259	$ 62,259	$ 95,370	$ 95,370

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following methods and assumptions were used to estimate the fair values of significant financial instruments at June 30, 2017 and December 31, 2016:

- Cash and cash equivalents (including money market investments and time deposits with other banks), restricted cash, accrued interest receivable, accounts receivable and other assets and accrued expenses and other liabilities have been valued at the carrying amounts reflected in the 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 prices provided from contracted pricing providers, 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 represented 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 and the loss sharing percentages. The FDIC shared-loss agreements were terminated on February 6, 2017. Such termination takes into account the anticipated reimbursements over the life of the shared-loss agreements and the true-up payment liability of the Bank anticipated at the end of the ten year term of the single family shared-loss agreement. Therefore, at June 30, 2017, the Company had no FDIC indemnification asset.

- 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. In the past, the Company offered its customers certificates of deposit with an option tied to the performance of the S&P Index and used equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value was 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 was linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology used an average rate option or a cash-settled option whose payoff was 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 were uncertain and required a degree of judgment, included primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage. At June 30, 2017, there were no options tied to S&P Index outstanding.

- 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.

- 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, 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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 20 – 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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Following are the results of operations and the selected financial information by operating segment for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30, 2017					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 77,019	$ 18	$ 8,903	$ 85,940	$ -	$ **85,940**
Interest expense	(6,820)	-	(3,557)	(10,377)	-	**(10,377)**
Net interest income	70,199	18	5,346	75,563	-	75,563
Provision for loan and lease losses	(26,526)	-	(10)	(26,536)	-	**(26,536)**
Non-interest income	11,776	6,329	6,781	24,886	-	**24,886**
Non-interest expenses	(47,402)	(4,100)	(1,314)	(52,816)	-	**(52,816)**
Intersegment revenue	346	-	71	417	(417)	**-**
Intersegment expenses	(71)	(254)	(92)	(417)	417	**-**
Income before income taxes	**$ 8,322**	**$ 1,993**	**$ 10,782**	**$ 21,097**	**$ -**	**$ 21,097**
Total assets	**$ 5,490,287**	**$ 22,531**	**$ 1,692,603**	**$ 7,205,421**	**(969,595)**	**$ 6,235,826**

	Quarter Ended June 30, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 79,675	$ 16	$ 8,217	$ 87,908	$ -	$ **87,908**
Interest expense	(7,300)	-	(7,296)	(14,596)	-	**(14,596)**
Net interest income	72,375	16	921	73,312	**-**	**73,312**
Provision for loan and lease losses	(14,445)	-	-	(14,445)	-	**(14,445)**

Non-interest income		8,214		6,910		31		15,155		-		**15,155**
Non-interest expenses		(47,097)		(4,908)		(1,820)		(53,825)		-		**(53,825)**
Intersegment revenue		389		-		49		438		(438)		-
Intersegment expenses		(49)		(286)		(103)		(438)		438		-
Income before income taxes	**$**	**19,387**	**$**	**1,732**	**$**	**(922)**	**$**	**20,197**	**$**	**-**	**$**	**20,197**
Total assets	**$**	**5,829,987**	**$**	**19,054**	**$**	**1,800,838**	**$**	**7,649,879**		**(937,283)**	**$**	**6,712,596**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2017					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 154,592	$ 30	$ 17,496	$ 172,118	$ -	$ **172,118**
Interest expense	(13,634)	-	(8,303)	(21,937)	-	**(21,937)**
Net interest income	140,958	30	9,193	150,181	-	150,181
Provision for loan and lease losses, net	(44,168)	-	(22)	(44,190)	-	**(44,190)**
Non-interest income, net	25,003	12,257	6,700	43,960	-	**43,960**
Non-interest expenses	(93,456)	(8,320)	(2,724)	(104,500)	-	**(104,500)**
Intersegment revenue	810	-	142	952	(952)	**-**
Intersegment expenses	(142)	(565)	(245)	(952)	952	**-**
Income before income taxes	**$ 29,005**	**$ 3,402**	**$ 13,044**	**$ 45,451**	**$ -**	**$ 45,451**
Total assets	**$ 5,490,287**	**$ 22,531**	**$ 1,692,603**	**$ 7,205,421**	**$ (969,595)**	**$ 6,235,826**

	Six-Month Period Ended June 30, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 160,827	$ 34	$ 18,353	$ 179,214	$ -	$ **179,214**
Interest expense	(14,107)	-	(16,820)	(30,927)	-	**(30,927)**
Net interest income	146,720	34	1,533	148,287	-	148,287
Provision for loan and lease losses, net	(28,234)	-	-	(28,234)	-	**(28,234)**
Non-interest income, net	16,009	12,930	(281)	28,658	-	**28,658**
Non-interest expenses	(97,786)	(7,853)	(3,043)	(108,682)	-	**(108,682)**
Intersegment revenue	787	-	149	936	(936)	**-**
Intersegment expenses	(149)	(577)	(210)	(936)	936	**-**
Income (loss) before income taxes	**$ 37,347**	**$ 4,534**	**$ (1,852)**	**$ 40,029**	**$ -**	**$ 40,029**
Total assets	**$ 5,829,987**	**$ 19,054**	**$ 1,800,838**	**$ 7,649,879**	**$ (937,283)**	**$ 6,712,596**

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 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, 2016 (the "2016 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 48 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 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 2016 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 2016 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:

- Loans and lease receivables
- 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. There have been no material changes in the methods used to formulate these critical accounting estimates from those discussed in our 2016 Form 10-K.

OVERVIEW OF FINANCIAL PERFORMANCE

SELECTED FINANCIAL DATA

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	2016	Variance %	2017	2016	Variance %
EARNINGS DATA:	(In thousands, except per share data)					
Interest income	$ 85,940	$ 87,908	-2.2%	$ 172,118	$ 179,214	-4.0%
Interest expense	10,377	14,596	-28.9%	21,937	30,927	-29.1%
Net interest income	**75,563**	**73,312**	**3.1%**	**150,181**	**148,287**	**1.3%**
Provision for loan and lease losses, net	26,536	14,445	83.7%	44,190	28,234	56.5%
Net interest income after provision for loan and lease losses	**49,027**	**58,867**	**-16.7%**	**105,991**	**120,053**	**-11.7%**
Non-interest income	24,886	15,155	64.2%	43,960	28,658	53.4%
Non-interest expenses	52,816	53,825	-1.9%	104,500	108,682	-3.8%
Income before taxes	**21,097**	**20,197**	**4.5%**	**45,451**	**40,029**	**13.5%**
Income tax expense	3,993	5,858	-31.8%	13,197	11,519	14.6%
Net income	**17,104**	**14,339**	**19.3%**	**32,254**	**28,510**	**13.1%**
Less: dividends on preferred stock	(3,466)	(3,467)	0.0%	(6,931)	(6,931)	**0.0%**
Income available to common shareholders	**$ 13,638**	**$ 10,872**	**25.4%**	**$ 25,323**	**$ 21,579**	**17.4%**
PER SHARE DATA:						
Basic	**$ 0.30**	**$ 0.25**	**20.0%**	**$ 0.58**	**$ 0.49**	**18.4%**
Diluted	**$ 0.30**	**$ 0.25**	**20.0%**	**$ 0.57**	**$ 0.49**	**16.3%**
Average common shares outstanding	**43,947**	**43,914**	**0.1%**	**43,931**	**43,906**	**0.1%**
Average common shares outstanding and equivalents	**51,100**	**51,095**	**0.0%**	**51,093**	**51,081**	**0.0%**
Cash dividends declared per common share	**$ 0.06**	**$ 0.06**	**0.0%**	**$ 0.12**	**$ 0.12**	**0.0%**
Cash dividends declared on common shares	**$ 2,640**	**$ 2,639**	**0.0%**	**$ 5,277**	**$ 5,272**	**0.1%**
PERFORMANCE RATIOS:						
Return on average assets (ROA)	**1.09%**	**0.85%**	**28.2%**	**1.02%**	**0.83%**	**22.9%**
Return on average tangible common equity	**8.01%**	**6.70%**	**19.6%**	**7.51%**	**6.69%**	**12.3%**
Return on average common equity (ROE)	**7.06%**	**5.86%**	**20.5%**	**6.61%**	**5.85%**	**13.0%**
Equity-to-assets ratio	**15.06%**	**13.64%**	**10.4%**	**15.06%**	**13.64%**	**10.4%**

Efficiency ratio	**56.49%**	**58.76%**	**-3.9%**	**56.32%**	**59.16%**	**-4.8%**
Interest rate spread	**5.10%**	**4.55%**	**12.1%**	**5.07%**	**4.60%**	**10.2%**
Interest rate margin	**5.18%**	**4.65%**	**11.4%**	**5.14%**	**4.68%**	**9.8%**

SELECTED FINANCIAL DATA - (Continued)

	June 30, 2017	December 31, 2016	Variance %
PERIOD END BALANCES AND CAPITAL RATIOS:	**(In thousands, except per share data)**		
Investments and loans			
Investment securities	$ 1,221,647	$ 1,362,511	-10.3%
Loans and leases, net	4,091,866	4,147,692	-1.3%
Total investments and loans	**$ 5,313,513**	**$ 5,510,203**	**-3.6%**
Deposits and borrowings			
Deposits	$ 4,582,686	$ 4,664,487	-1.8%
Securities sold under agreements to repurchase	453,492	653,756	-30.6%
Other borrowings	173,800	141,598	22.7%
Total deposits and borrowings	**$ 5,209,978**	**$ 5,459,841**	**-4.6%**
Stockholders' equity			
Preferred stock	$ 176,000	$ 176,000	0.0%
Common stock	52,626	52,626	0.0%
Additional paid-in capital	541,005	540,948	0.0%
Legal surplus	79,460	76,293	4.2%
Retained earnings	194,687	177,808	9.5%
Treasury stock, at cost	(104,502)	(104,860)	0.3%
Accumulated other comprehensive (loss) income	(307)	1,596	-119.2%
Total stockholders' equity	**$ 938,969**	**$ 920,411**	**2.0%**
Per share data			
Book value per common share	**$ 17.59**	**$ 17.18**	**2.4%**
Tangible book value per common share	**$ 15.51**	**$ 15.08**	**2.9%**
Market price at end of period	**$ 10.00**	**$ 13.10**	**-23.7%**
Capital ratios			
Leverage capital	**13.69%**	**12.99%**	**5.4%**
Common equity Tier 1 capital ratio	**14.66%**	**14.05%**	**4.3%**
Tier 1 risk-based capital	**19.14%**	**18.35%**	**4.3%**
Total risk-based capital	**20.42%**	**19.62%**	**4.1%**
Financial assets managed			
Trust assets managed	$ 2,943,559	$ 2,850,494	3.3%
Broker-dealer assets gathered	$ 2,275,589	$ 2,350,718	-3.2%

FINANCIAL HIGHLIGHTS OF THE SECOND QUARTER OF 2017

- **Net income available to shareholders increased.** The Company reported $13.6 million, or $0.30 per share fully diluted, compared to $11.7 million, or $0.26 per share fully diluted, in the first quarter of 2017 and $10.9 million, or $0.25 per share fully diluted, in the year ago quarter.

- **Puerto Rico municipality exposure reduced.** The Company opportunistically sold a $38.0 million performing term loan with a municipality, resulting in a $4.3 million pre-tax loss. The sale reduced its exposure to this sector by approximately 27% from March 31, 2017, to $140.8 million after scheduled principal payments in July.

- **Balance sheet de-levered further.** The Company unwound a 1.48% $100.0 million repurchase agreement, in line with its strategy to reduce borrowings. Related to this, the Company sold $166.0 million of mortgage backed securities. These transactions resulted in a tax-advantaged gain of $6.9 million.

- **Effective tax rate optimized.** The Company now forecasts its 2017 effective tax rate to be 29.15% as compared to its previously stated 38% estimate. The new rate is similar to its 2016 rate and resulted in a $2.1 million beneficial adjustment to estimated income tax in the second quarter of 2017.

- **Net interest margin (NIM) improved.** Due to a significant reduction in the cost of borrowings and higher yields on variable rate commercial loans and on cash, NIM increased 8 basis points from the first quarter of 2017 to 5.18%.

- **Credit quality and major performance ratios remained solid.** The non-performing loan and total delinquency rates fell to the lowest levels in the last five quarters. Return on average assets was 1.09%, return on average tangible common stockholders' equity was 8.01%, and the efficiency ratio was 56.49%.

- **Capital buildup continued.** All major capital metrics advanced compared to the preceding and year ago quarters. Tangible book value per common share at $15.51 was up 1.2% and 3.7%, respectively, while tangible common equity ratio at 11.09% was up 43 and 117 basis points, respectively

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 six-month periods ended June 30, 2017 and 2016:

TABLE 1 - ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE QUARTERS ENDED JUNE 30, 2017 AND 2016

	Interest		Average rate		Average balance	
	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 85,940**	**$ 87,908**	**5.89%**	**5.57%**	**$ 5,848,525**	**$ 6,328,161**
Tax equivalent adjustment	1,302	1,422	0.09%	0.09%	-	-
Interest-earning assets - tax equivalent	**87,242**	**89,330**	**5.98%**	**5.66%**	**5,848,525**	**6,328,161**
Interest-bearing liabilities	10,377	14,596	0.79%	1.02%	5,293,848	5,751,529
Tax equivalent net interest income / spread	**76,865**	**74,734**	**5.19%**	**4.64%**	**554,677**	**576,632**
Tax equivalent interest rate margin			**5.27%**	**4.74%**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	7,746	7,621	2.33%	2.33%	1,334,938	1,311,468
Interest bearing cash and money market investments	956	612	1.00%	0.48%	384,037	512,916
Total investments	**8,702**	**8,233**	**2.03%**	**1.81%**	**1,718,975**	**1,824,384**
Non-acquired loans						
Mortgage	9,411	9,851	5.40%	5.31%	698,782	743,516
Commercial	16,688	15,824	5.33%	4.43%	1,256,827	1,433,944
Consumer	8,075	6,548	11.06%	10.68%	292,739	246,003
Auto and leasing	19,275	16,885	9.63%	9.59%	803,201	706,107
Total non-acquired loans	**53,449**	**49,108**	**7.03%**	**6.29%**	**3,051,549**	**3,129,570**
Acquired loans:						
Acquired BBVAPR						
Mortgage	7,694	8,294	5.66%	5.52%	545,490	602,184
Commercial	4,517	6,572	7.31%	7.69%	247,815	342,752
Consumer	2,847	3,173	18.93%	18.19%	60,317	69,949
Auto	2,694	5,605	11.27%	10.44%	95,857	215,321
Total acquired BBVAPR loans	**17,752**	**23,644**	**7.50%**	**7.71%**	**949,479**	**1,230,206**
Acquired Eurobank	**6,037**	**6,923**	**18.84%**	**19.29%**	**128,522**	**144,001**
Total loans	**77,238**	**79,675**	**7.50%**	**7.10%**	**4,129,550**	**4,503,777**
Total interest earning assets	**85,940**	**87,908**	**5.89%**	**5.57%**	**5,848,525**	**6,328,161**

	Interest		Average rate		Average balance	
	June 2017	**June 2016**	**June 2017**	**June 2016**	**June 2017**	**June 2016**
			(Dollars in thousands)			
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	1,051	1,518	0.39%	0.51%	1,080,135	1,195,895
Savings and money market	1,485	1,308	0.52%	0.48%	1,151,650	1,103,808
Individual retirement accounts	380	464	0.63%	0.69%	242,009	269,417
Retail certificates of deposits	1,769	1,474	1.24%	1.26%	571,266	468,750
Total core deposits	**4,685**	**4,764**	**0.62%**	**0.63%**	**3,045,060**	**3,037,870**
Institutional deposits	653	620	1.17%	1.02%	223,788	243,592
Brokered deposits	2,084	1,816	1.45%	1.19%	575,642	612,137
Total wholesale deposits	**2,737**	**2,436**	**1.39%**	**1.14%**	**799,430**	**855,729**
	7,422	7,200	0.77%	0.74%	3,844,490	3,893,599
Non-interest bearing deposits	-	-	0.00%	0.00%	835,026	810,177
Deposits fair value premium amortization	-	(91)	0.00%	0.00%	-	-
Core deposit intangible amortization	230	258	0.00%	0.00%	-	-
Total deposits	**7,652**	**7,367**	**0.66%**	**0.63%**	**4,679,516**	**4,703,776**
Borrowings:						
Securities sold under agreements to repurchase	1,734	4,258	1.47%	2.72%	472,338	627,693
Advances from FHLB and other borrowings	607	2,098	2.30%	2.65%	105,911	317,191
Subordinated capital notes	384	873	4.27%	3.40%	36,083	102,869
Total borrowings	**2,725**	**7,229**	**1.78%**	**2.77%**	**614,332**	**1,047,753**
Total interest bearing liabilities	**10,377**	**14,596**	**0.79%**	**1.02%**	**5,293,848**	**5,751,529**
Net interest income / spread	**$ 75,563**	**$ 73,312**	**5.10%**	**4.55%**		
Interest rate margin			**5.18%**	**4.65%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 554,677**	**$ 576,632**
Average interest-earning assets to average					**110.48%**	**110.03%**

interest-bearing liabilities ratio

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
		(In thousands)	
Interest Income:			
Investments	$ (476)	$ 945	$ 469
Loans	(7,363)	4,926	(2,437)
Total interest income	**(7,839)**	**5,871**	**(1,968)**
Interest Expense:			
Deposits	(38)	323	285
Repurchase agreements	(1,054)	(1,470)	(2,524)
Other borrowings	(1,967)	(13)	(1,980)
Total interest expense	**(3,059)**	**(1,160)**	**(4,219)**
Net Interest Income	**$ (4,780)**	**$ 7,031**	**$ 2,251**

TABLE 1A - ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Interest		Average rate		Average balance	
	June 2017	**June 2016**	**June 2017**	**June 2016**	**June 2017**	**June 2016**
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 172,118**	**$ 179,214**	5.90%	5.66%	**$ 5,887,429**	**$ 6,352,229**
Tax equivalent adjustment	1,422	2,588	0.05%	0.08%	-	-
Interest-earning assets - tax equivalent	**173,540**	**181,802**	5.95%	5.74%	**5,887,429**	**6,352,229**
Interest-bearing liabilities	21,937	30,927	0.83%	1.06%	5,346,194	5,861,471
Tax equivalent net interest income / spread	**151,603**	**150,875**	5.12%	4.68%	**541,235**	**490,758**
Tax equivalent interest rate margin			5.19%	4.76%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	15,415	17,110	**2.31%**	**2.49%**	1,347,160	1,380,489
Trading securities	14	19	**8.50%**	**12.33%**	332	309
Interest bearing cash and money market investments	1,801	1,258	**0.89%**	**0.50%**	407,442	507,817
Total investments	**17,230**	**18,387**	**1.98%**	**1.95%**	**1,754,934**	**1,888,615**
Non-acquired loans						
Mortgage	18,932	19,456	5.41%	5.20%	705,167	749,904
Commercial	32,685	31,238	5.27%	4.38%	1,251,179	1,429,638
Consumer	15,722	12,734	11.08%	10.63%	286,149	240,251
Auto and leasing	38,065	33,595	9.70%	9.69%	791,008	695,071
Total non-acquired loans	**105,404**	**97,023**	7.01%	6.25%	**3,033,503**	**3,114,864**
Acquired loans:						
Acquired BBVAPR						
Mortgage	15,585	16,601	5.69%	5.57%	552,177	597,212
Commercial	9,500	14,268	7.56%	8.73%	253,286	327,810
Consumer	5,779	6,276	19.04%	18.20%	61,207	69,164
Auto	5,973	12,175	11.27%	11.52%	106,895	211,986
Total acquired BBVAPR loans	**36,837**	**49,320**	7.63%	8.20%	**973,566**	**1,206,172**
Acquired Eurobank	**12,647**	**14,484**	**20.33%**	20.37%	**125,425**	**142,578**
Total loans	**154,888**	**160,827**	**7.56%**	7.23%	**4,132,494**	**4,463,614**
Total interest earning assets	**172,118**	**179,214**	**5.90%**	5.66%	**5,887,428**	**6,352,229**

	Interest		Average rate		Average balance	
	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	$ 2,092	$ 2,600	0.39%	0.44%	$ 1,086,228	$ 1,173,975
Savings and money market	2,966	2,706	0.52%	0.49%	1,157,811	1,109,680
Individual retirement accounts	806	966	0.66%	0.72%	247,785	268,238
Retail certificates of deposits	3,418	2,813	1.24%	1.27%	556,568	443,371
Total core deposits	**9,282**	**9,085**	**0.65%**	**0.61%**	**3,048,392**	**2,995,264**
Institutional deposits	1,294	1,274	1.16%	1.00%	223,991	256,699
Brokered deposits	3,969	3,804	1.39%	1.13%	575,098	673,231
Total wholesale deposits	**5,263**	**5,078**	**1.33%**	**1.10%**	**799,089**	**929,930**
	14,545	**14,163**	**0.76%**	**0.72%**	**3,847,481**	**3,925,194**
Non-interest bearing deposits	-	-	0.00%	0.00%	833,852	$ 792,564
Deposits fair value premium amortization	-	(189)	0.00%	0.00%	-	-
Core deposit intangible amortization	460	517	0.00%	0.00%	-	-
Total deposits	**15,005**	**14,491**	**0.65%**	**0.62%**	**4,681,333**	**4,717,758**
Borrowings:						
Securities sold under agreements to repurchase	4,979	10,358	1.92%	2.91%	523,272	713,653
Advances from FHLB and other borrowings	1,202	4,337	2.30%	2.66%	105,506	327,278
Subordinated capital notes	751	1,741	4.20%	3.40%	36,083	102,782
Total borrowings	**6,932**	**16,436**	**2.10%**	**2.88%**	**664,861**	**1,143,713**
Total interest bearing liabilities	**21,937**	**30,927**	**0.83%**	**1.06%**	**5,346,194**	**5,861,471**
Net interest income / spread	**$ 150,181**	**$ 148,287**	**5.07%**	**4.60%**		
Interest rate margin			**5.14%**	**4.68%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 541,235**	**$ 490,759**
Average interest-earning assets to average interest-bearing liabilities ratio					**110.12%**	**108.37%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
	(In thousands)		
Interest Income:			
Investments	$ (1,301)	$ 144	$ (1,157)
Loans	(12,374)	6,435	(5,939)
Total interest income	(13,675)	6,579	(7,096)
Interest Expense:			
Deposits	(112)	626	514
Repurchase agreements	(2,763)	(2,616)	(5,379)
Other borrowings	(4,077)	(48)	(4,125)
Total interest expense	(6,952)	(2,038)	(8,990)
Net Interest Income	**$** (6,723)	**$** 8,617	**$** 1,894

Net Interest Income

Net interest income is a function of the difference between rates earned on the Company's interest-earning assets and rates paid on its interest-bearing liabilities (interest rate spread) and the relative amounts of its interest earning assets and interest-bearing liabilities (interest rate margin). The Company constantly monitors the composition and re-pricing of its assets and liabilities to maintain its net interest income at adequate levels.

Comparison for the quarters ended June 30, 2017 and 2016

Table 1 above shows the 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 ended June 30, 2017 and 2016.

Net interest income of $75.6 million increased 3.1%, or $2.3 million, from $73.3 million, reflecting a decrease in interest expenses of 28.9%, or $4.2 million, partially offset by a decrease in interest income of 2.2%, or $2.0 million.

The decrease in interest expenses was primarily a result of the repayment at maturity of (i) a $232.0 million 4.78% repurchase agreement in March 2017 that generated interest expense savings of $2.5 million and (ii) $227.0 million of short term FHLB advances during the second quarter of 2016 that generated interest expense savings of $1.5 million. The decrease in interest expenses was partially offset by an increase in the deposit interest expense of $285 thousand.

The decrease in interest income was caused primarily by a decrease of $6.8 million in the interest income from the acquired BBVAPR and Eurobank loan portfolios as such loans continue to be repaid. This decrease was partially offset by an increase of $4.3 million in the interest income from originated loans from higher yields in the commercial and retail loan portfolios and an increase of $469 thousand in the interest income from investments as a result of increased yields on interest bearing cash and money market investments.

Interest rate spread increased 55 basis points from 4.55% to 5.10%. This increase is mainly due to the net effect of a 32 basis point increase in the average yield of interest-earning assets from 5.57% to 5.89% and to 23 basis point decrease in average costs of interest-bearing liabilities from 1.02% to 0.79%.

Interest income decreased to $85.9 million from $87.9 million. Such decrease reflected a decrease of $7.8 million from a lower volume of interest-earning assets, partially offset by an increase of $5.9 million from higher interest rates on interest-earning assets. Interest income from loans decreased 3.1% to $77.2 million, reflecting a decrease of $7.4 million from a lower volume of loans, partially offset by an increase of $4.9 million from higher interest rates. Interest income from investments increased 5.7% to $8.7 million, reflecting an increase of $945 thousand attributable to higher interest rates on cash balances and a decrease of $476 thousand attributable to a lower volume.

The average balance of total interest-earning assets was $5.849 billion, a decrease of 7.6% from the same period in 2016. The average balances of loans and investments decreased 8.3% and 5.8%, respectively, reflecting a decrease in the average acquired loan portfolio of $296.2 million due to repayments and maturities and the sale of $166.0 million mortgage-backed securities and $39.2 million US Treasury securities during the quarter ended June 30, 2017.

Interest expense decreased to $10.4 million from $14.6 million, due to the decreases of $3.1 million and $1.2 million in the volume and interest rate of interest-bearing liabilities, respectively. The decreased volume and rate of repurchase agreements decreased interest expenses by $1.1 million and $1.5 million, respectively, and the decrease in the volume of other borrowings decreased interest expenses by $2.0 million. The decrease in interest expenses was partially offset by an increase of $285 thousand in deposit interest expenses from higher interest rates. The total cost of borrowings decreased 99 basis points to 1.78% from 2.77%. The cost of deposits slightly increased 6 basis point to 0.66%, when compared to 0.60% for the same period in 2016.

Comparison of six-month periods ended June 30, 2017 and 2016

Table 1A above shows the 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 six-month periods ended June 30, 2017 and 2016.

Net interest income of $150.2 million increased 1.3%, or $1.8 million, from $148.3 million, reflecting a decrease in interest expense of 29.1%, or $9.0 million, partially offset by a decrease in interest income of 4.0%, or $7.1 million.

The decrease in interest expenses was primarily a result of the repayment (i) of $268.0 million in part in February 2016 and $232.0 million at maturity in March 2017 of a 4.78% repurchase agreement that generated interest expense savings of $5.4 million and (ii) of $227 million at maturity of short term FHLB advances classified as other borrowings during the quarter that generated interest expense savings of $3.1 million. The decrease in interest expenses was partially offset by an increase in the deposit interest expense of $514 thousand.

The decrease in interest income was caused primarily by a decrease of $14.3 million in the interest income from the acquired BBVAPR and Eurobank loan portfolios as such loans continue to be repaid. This decrease was partially offset by an increase of $8.4 million in the interest income from originated loans from higher yields in the commercial and retail loan portfolios. Interest income from investments decreased $1.2 million in the as a result of a decrease in the investment securities portfolio volume.

Interest rate spread increased 47 basis points from 4.60% to 5.07%. This increase is mainly due to the net effect of a 24 basis point increase in the average yield of interest-earning assets from 5.66% to 5.90% and to 23 basis point decrease in average costs of interest-bearing liabilities from 1.06% to 0.83%.

Interest income decreased to $172.1 million from $179.2 million. Such decrease reflects a decrease of $13.0 million from a lower volume of interest-earning assets, partially offset by an increase of $5.9 million from higher interest rates on interest-earning assets. Interest income from loans decreased 3.7% to $154.9 million, reflecting a decrease of $11.7 million from a lower volume of loans, partially offset by an increase of $5.8 million from higher interest rates. Interest income from investments decreased 6.3% to $17.2 million, reflecting a decrease of $1.3 million attributable to a lower volume and an increase of $144 thousand attributable to higher interest rates on interest bearing cash and money market investments.

The average balance of total interest-earning assets was $5.887 billion, a decrease of 7.3% from the same period in 2016. The average balances of loans and investments decreased 7.4% and 7.1%, respectively, reflecting a decrease in the average acquired loan portfolio of $250.0 million due to repayments and maturities, a decrease in the average originated loan portfolio of $81.4 million as a result of the sale of the $200 million participation in the PREPA line of credit in the fourth quarter of 2016. The decrease in average investments reflects the sale of $166.0 million mortgage-backed securities and $39.2 million US Treasury securities during the second quarter of 2017.

Interest expense decreased to $21.9 million from $30.9 million, due to the decreases of $7.0 million and $2.0 million from decreases in the volume and interest rate of interest-bearing liabilities, respectively. The decreased volume and rate of repurchase agreements decreased interest expenses by $2.8 million and $2.6 million, respectively, and the decrease in the volume of other borrowings decreased interest expenses by $4.1 million. The decrease in interest expenses was partially offset by an increase of $514 thousand in deposit interest expenses from higher interest rates. The total cost of borrowings decreased 78 basis points to 2.10% from 2.88%. The cost of deposits slightly increased 3 basis point to 0.65%, when compared to 0.62% for the same period in 2016.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	**2016**	**Variance**	**2017**	**2016**	**Variance**
			(Dollars in thousands)			
Banking service revenue	$ 10,458	$ 10,219	2.3%	$ 21,084	$ 20,337	3.7%
Wealth management revenue	6,516	7,041	-7.5%	12,731	13,193	-3.5%
Mortgage banking activities	959	1,024	-6.3%	1,546	1,879	-17.7%
Total banking and financial service revenue	**17,933**	**18,284**	**-1.9%**	**35,361**	**35,409**	**-0.1%**
FDIC shared-loss benefit (expense), net	-	(3,420)	100.0%	1,403	(7,449)	118.8%
Net gain (loss) on:						
Sale of securities available for sale	6,891	211	3165.9%	6,891	12,207	-43.5%
Derivatives	22	(10)	320.0%	103	(13)	892.3%
Early extinguishment of debt	(80)	-	-100.0%	(80)	(12,000)	99.3%
Other non-interest income	120	90	33.3%	282	504	-44.0%
	6,953	(3,129)	322.2%	**8,599**	**(6,751)**	**227.4%**
Total non-interest income, net	**$ 24,886**	**$ 15,155**	**64.2%**	**$ 43,960**	**$ 28,658**	**53.4%**

Non-Interest Income

Non-interest income is affected by the level of trust assets under management, transactions generated by clients' financial assets serviced by the securities broker-dealer and insurance agency subsidiaries, the level of mortgage banking activities, and the fees generated from loans and deposit accounts.

Comparison of quarters ended June 30, 2017 and 2016

As shown in Table 2 above, the Company recorded non-interest income, net, in the amount of $24.9 million, compared to $15.2 million, an increase of 64.2%, or $9.7 million.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services increased 2.3% to $10.5 million from $10.2 million. The increase is mainly due to an increase in account analysis services fees of $163 thousand and an increase in debit card interchange income fees of $81 thousand.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 7.5% to $6.5 million, as compared to $7.0 million in the same period in 2016. Such decrease reflects a reduction in securities brokerage activities and the liquidation of the Puerto Rico Cash & Money Market Fund on April 3, 2017. Client trading volume in the broker-dealer subsidiary continued its downward trend due to the general investor uncertainty in the Puerto Rico market.

Income generated from mortgage banking activities decreased 6.3% to $959 thousand, compared to $1.0 million, mainly from the decrease in price of the mortgage servicing asset.

During the second quarter of 2017, the Company took advantage of the market conditions and sold $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, the Company repaid before maturity $100 million of repurchase agreements at a cost of $80 thousand.

Comparison of six-month periods ended June 30, 2017 and 2016

The Company recorded non-interest income, net in the amount of $44.0 million, compared to $28.7 million for the same period in 2016, an increase of 53.4%, or $15.3 million.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, increased 3.7% to $21.1 million, from $20.3 million for the same period in 2016. The increase is mainly due to increases in account analysis services fees of $426 thousand, debit card interchange income of $230 thousand, and card management service fees of $106 thousand.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 3.5% to $12.7 million, as compared to $13.2 million in the same period in 2016. Such decrease reflects a reduction in securities brokerage activities and the liquidation of the Puerto Rico Cash & Money Market Fund on April 3, 2017. Client trading volume in the broker-dealer subsidiary continued its downward trend due to the general investor uncertainty in the Puerto Rico market.

Income generated from mortgage banking activities decreased 17.7% to $1.5 million, compared to $1.9 million, mainly from the decrease in price of the mortgage servicing asset.

During the six-month period ended June 30, 2017, the Company entered into an agreement with the FDIC to terminate two shared-loss agreements covering certain assets, resulting in a benefit of $1.4 million, recorded in the consolidated statement of operations. During the six-month period ended 2016, the Company recorded expenses of $7.4 million related to the FDIC shared-loss agreement.

During the six-month period ended June 30, 2017, the Company took advantage of market conditions and sold $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, the Company unwound $100 million of repurchase agreements at a cost of $80 thousand, included as a loss on early extinguishment of debt in the consolidated statements of operations. During the same period in 2016, the Company sold $277.2 million in mortgage-backed securities and $11.1 million in Puerto Rico government bonds, resulting in a gain of $12.2 million. This transaction resulted in the repayment before maturity of $268.0 million of a repurchase agreement at a cost of $12.0 million, included as a loss on early extinguishment of debt in the consolidated statements of operations.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	2016	Variance %	2017	2016	Variance %
	(Dollars in thousands)					
Compensation and employee benefits	$ 19,317	$ 18,441	4.8%	$ 39,664	$ 38,696	2.5%
Professional and service fees	3,225	2,810	14.8%	6,462	5,795	11.5%
Occupancy and equipment	8,690	8,107	7.2%	16,057	15,929	0.8%
Insurance	1,183	3,155	-62.5%	2,783	6,305	-55.9%
Electronic banking charges	5,450	4,947	10.2%	10,352	10,536	-1.7%
Information technology expenses	2,069	1,606	28.8%	4,068	3,262	24.7%
Advertising, business promotion, and strategic initiatives	1,361	1,294	5.2%	2,722	2,588	5.2%
Loss on sale of foreclosed real estate and other repossessed assets	1,787	4,163	-57.1%	3,113	6,094	-48.9%
Loan servicing and clearing expenses	1,270	1,966	-35.4%	2,459	4,096	-40.0%
Taxes, other than payroll and income taxes	2,393	2,330	2.7%	4,764	5,001	-4.7%
Communication	761	581	31.0%	1,506	1,400	7.6%
Printing, postage, stationery and supplies	665	600	10.8%	1,303	1,325	-1.7%
Director and investor relations	274	301	-9.0%	554	579	-4.3%
Credit related expenses	2,217	2,203	0.6%	4,843	4,458	8.6%
Other operating expenses	2,154	1,321	63.1%	3,850	2,618	47.1%
Total non-interest expenses	**$ 52,816**	**$ 53,825**	**-1.9%**	**$ 104,500**	**$ 108,682**	**-3.8%**
Relevant ratios and data:						
Efficiency ratio	**56.49%**	**58.76%**		**56.32%**	**59.16%**	
Compensation and benefits to non-interest expense	**36.57%**	**34.43%**		**37.96%**	**35.71%**	
Compensation to average total assets owned (annualized)	**1.23%**	**1.09%**		**1.25%**	**1.13%**	
Average number of employees	**1,462**	**1,451**		**1,449**	**1,460**	
Average compensation per employee	**$ 13.21**	**$ 12.80**		**$ 27.4**	**$ 26.6**	
Average loans per average employee	**$ 2,825**	**$ 3,104**		**$ 2,854**	**$ 3,057**	

105

Non-Interest Expenses

Comparison of quarters ended June 30, 2017 and 2016

Non-interest expense was $52.8 million, representing a decrease of 1.9% compared to $53.8 million.

Loss on sale of foreclosed real estate and other repossessed assets decreased 57.1% to $1.8 million, as compared to $4.2 million in the second quarter of 2016 due to lower markdowns, $1.5 million in savings resulting from the loss-share termination, and to fewer losses on the sale of foreclosed real estate and other repossessed assets.

Insurance expense decreased $2.0 million, to $1.2 million, as a result of a change in the calculation method of the FDIC Savings Association Insurance Fund (SAIF) insurance that became effective during the third quarter of 2016.

Loan servicing and clearing expenses decreased $696 thousand, mainly due to a reduction of $611 thousand in mortgage servicing expense from the migration to in-house servicing during 2016.

The decreases in the foregoing non-interest expenses were partially offset by increases in compensation and employee benefits, in occupancy and equipment expenses, and in electronic banking charges.

Compensation and employee benefits increased $876 thousand, mainly due to an increase in provision for bonus of $936 thousand from an increase in average employees.

Occupancy and equipment expenses increased $583 thousand, primarily due to costs associated with consolidating office space during the second quarter of 2017.

Electronic banking charges increased $503 thousand, primarily as a result of an increase of $538 thousand in credit cards processing services.

The efficiency ratio improved to 56.49% from 58.76%. The efficiency ratio measures how much of the Company’s revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, FDIC shared-loss benefit/expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income (losses) that are excluded from efficiency ratio computation for the quarters ended June 30, 2017 and 2016 amounted to $7.0

million income and a $3.1 million loss, respectively.

Comparison of six-month periods ended June 30, 2017 and 2016

Non-interest expense for the six-month period ended June 30, 2017 was $104.5 million, representing a decrease of 3.8% compared to $108.7 million.

Insurance expense decreased $3.5 million, to $2.8 million, as a result of a change in the calculation method of the FDIC Savings Association Insurance Fund (SAIF) insurance. The change was effective beginning with the June 30, 2016 invoice, which was received during the third quarter of 2016.

Loss on sale of foreclosed real estate and other repossessed assets decreased 48.9% to $3.1 million, as compared to $6.1 million in the same period for the previous year due to lower markdowns, $2.2 million in savings resulting from the loss-share termination, and to decrease in losses on the sale of foreclosed real estate.

Loan servicing and clearing expenses decreased $1.6 million, mainly due to a reduction in the mortgage servicing expense of $1.6 million from the migration to in-house servicing during 2016.

The decreases in the foregoing non-interest expenses were partially offset by increases in compensation and employee benefits, professional and service fees, information technology expenses, and other operating expenses.

Compensation and employee benefits increased $968 thousand, mainly due to an increase in provision for bonus of $1.1 million, mainly related to an adjustment made in the second quarter of 2016 from a decrease in average employees.

Professional and service fees increased 11.5% or $667 thousand to $6.5 million, mostly due to increases of $570 thousand and $168 thousand in collection agencies expense, and in consulting and outsourcing expenses, respectively.

Information and technology expenses increased $806 thousand to $4.1 million, mostly due to $703 thousand increase in data processing expenses.

Other operating expenses increased $1.2 million, mainly from an increase of $200 thousand in broker-dealer legal contingencies, and $534 thousand from a commercial loan repurchased during the six-month period ended June 30, 2017.

The efficiency ratio was 56.32% compared to 59.16% for the same period in 2016. The efficiency ratio measures how much of the Company's revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, FDIC shared-loss expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income (losses) that are excluded from the efficiency ratio computation for the six-month period ended June 30, 2017 amounted to income of $8.6 million, compared to losses of $6.8 million for the six-month period ended June 30, 2016.

Provision for Loan and Lease Losses

Comparison of quarters ended June 30, 2017 and 2016

Provision for loan and lease losses increased 83.7%, or $12.1 million, to $26.5 million. Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for the quarter was adequate to maintain the allowance for loan and lease losses at an appropriate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for originated and other loan and lease losses increased 152.2%, or $13.8 million, to $22.8 million from $9.1 million, mainly from the increase in the provision for commercial loans. The increase reflects the provision for commercial loans of $12.1 million, compared to a recapture of $457 thousand for the same quarter in 2016. Provisions for mortgage and consumer loans increased $1.1 million and $1.8 million, respectively. Increases in provision for originated and other loan and lease losses were partially offset by a decrease in provision for auto loans of $1.7 million.

On June 30, 2017, the Company was opportunistic and entered into an agreement to sell a performing originated municipal loan, which was due in July 2018, for $28.8 million. The sale, which closed on July 5, 2017 upon receipt of the sales proceeds, reduced near-term risk associated with a likely refinancing. A provision of $4.3 million was recorded in second quarter of 2017 to charge-off the loss on sale. The loan was moved to other loans held-for-sale at June 30, 2017 with a balance of $33.7 million, and included a principal payment of $4.8 million received by the Company in July 1, 2017. Based on the Company's allowance for loan and lease losses methodology for originated loans, the Company has a general reserve for the municipal loan portfolio, as they have particular risk characteristics. A loss in any of the loans in this portfolio will impact directly the general valuation reserve ("GVA") factor to be used for the determination of the allowance for loan and lease losses. As a result of the aforementioned loss on sale, another provision of $5.9 million was recorded for the general allowance on the municipal loan portfolio. The sale reduced the Company's exposure to this sector by approximately 27% from December 31, 2016, to $140.8 million after the municipal loan sale and scheduled principal payments received after the quarter-end. Such municipal loan exposure represents 2.3% of the Company's total assets at June 30, 2017, which is a level more in line with the Company's size. The composition of this balance is $90.0 million originated municipal loans with an allowance for loan losses of $7.1 million, and $50.8 million acquired municipal loans accounted for under ASC 310-30 with an allowance for loan losses of $557 thousand.

The increase in provision for commercial loans also reflected an $1.7 million increase in provision for loan losses from the growth of the originated loan portfolio.

Total charge-offs on originated and other loans increased 43.2% to $18.8 million, as compared to $13.1 million as a result of increases in commercial, consumer and mortgage charge-offs of $4.0 million, $1.2 million and $788 thousand, respectively. Increase in commercial charge-offs includes the $4.3 million loss on the aforementioned sale of the municipal loan. These increases in charge-offs were offset by a decrease in auto loan charge-offs of $325 thousand. Total recoveries on originated and other loans increased from $3.6 million to $5.2 million. Recoveries for 2017 included $1.1 million and $612 thousand from the sale of auto and consumer loans, respectively, previously fully charged-off. The net charge-off rate increased 58 basis points to 1.79%.

Provision for acquired loan and lease losses decreased 31.1%, or $1.7 million, to $3.7 million from $5.4 million. Provision for acquired BBVAPR loan and lease losses decreased $1.1 million to $3.3 million from $4.4 million. Provision for acquired Eurobank loan and lease losses decreased $619 thousand, as these loans continue to repay and mature.

Comparison of six-month periods ended June 30, 2017 and 2016

Provision for loan and lease losses increased 56.5%, or $16.0 million, to $44.2 million. Based on an analysis of the credit quality and the composition of the Company’s loan portfolio, management determined that the provision for the quarter was adequate to maintain the allowance for loan and lease losses at an appropriate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for originated and other loan and lease losses increased 75.3%, or $14.8 million, to $34.6 million from $19.7 million, mainly from the increase in the provision for commercial loans. This increase reflects the provision for commercial loans of $13.8 million, compared to a recapture of $119 thousand for the same period in 2016. Such provision includes $4.3 million recorded to charge-off the loss on sale of a municipal loan and another provision of $5.9 million recorded for the general allowance on the municipal loan portfolio. The increase in provision for commercial loans also reflected a $1.7 million increase in provision for loan losses from the growth of the originated loan portfolio. Also, provisions for consumer and mortgage loans increased $2.9 million and $2.7 million, respectively. Increases in provision for originated and other loan and lease losses were partially offset by a decrease in provision for auto loans of $4.1 million.

Total charge-offs on originated and other loans increased 24.8% to $32.9 million, as compared to $26.5 million as a result of increases in commercial, consumer and mortgage charge-offs of $3.9 million, $2.2 million and $1.5 million, respectively. The increase in commercial charge-offs includes the $4.3 million recorded to charge-off the loss on the aforementioned sale of the municipal loan. Increases in charge-offs were offset by a decrease in auto loan charge-offs of $1.1 million. Total recoveries on originated and other loans increased from $7.0 million to $8.8 million. Recoveries for 2017 included $1.1 million and $612 thousand from the sale of auto and consumer loans, respectively, previously fully charged-off. The net charge-off rate increased 34 basis points to 1.59%.

Provision for acquired loan and lease losses increased 13.1%, or $1.1 million, to $9.6 million from $8.5 million. Provision for acquired BBVAPR loan and lease losses increased $917 thousand to $7.6 million from $6.7 million. Provision for acquired Eurobank loan and lease losses increased $196 thousand, as these loans continue to repay and mature.

Income Taxes

Comparison of quarters ended June 30, 2017 and 2016

Income tax expense was $4.0 million, compared to $5.9 million. The effective income tax rate decreased to 29.15% as a result of higher proportion of exempt income and income subject to preferential rates, mainly from to the gain on sale of investment securities available for sale during 2017.

Comparison of six-month periods ended June 30, 2017 and 2016

Income tax expense was $13.2 million, compared to $11.5 million for the same period in 2016. Income tax expense reflects the net income before income taxes of $45.5 million for the six-month period ended June 30, 2017, compared to a net income before income taxes of $40.0 million for the same period of 2016.

Business Segments

The Company segregates its businesses into the following major reportable segments: 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. Following are the results of operations and the selected financial information by operating segment for the quarters and six-month periods ended June 30, 2017 and 2016.

	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	Quarter Ended June 30, 2017 (In thousands)					
Interest income	$ 77,019	$ 18	$ 8,903	$ 85,940	$ -	$ **85,940**
Interest expense	(6,820)	-	(3,557)	(10,377)	-	**(10,377)**
Net interest income	70,199	18	5,346	75,563	**-**	**75,563**
Provision for loan and lease losses	(26,526)	-	(10)	(26,536)	-	**(26,536)**
Non-interest income	11,776	6,329	6,781	24,886	-	**24,886**
Non-interest expenses	(47,402)	(4,100)	(1,314)	(52,816)	-	**(52,816)**
Intersegment revenue	346	-	71	417	(417)	-
Intersegment expenses	(71)	(254)	(92)	(417)	417	-
Income before income taxes	**$ 8,322**	**$ 1,993**	**10,782**	**$ 21,097**	**$ -**	**$ 21,097**
Total assets	**$ 5,490,287**	**$ 22,531**	**$ 1,692,603**	**$ 7,205,421**	**$ (969,595)**	**$ 6,235,826**

	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	Quarter Ended June 30, 2016 (In thousands)					
Interest income	$ 79,675	$ 16	$ 8,217	$ 87,908	$ -	$ **87,908**
Interest expense	(7,300)	-	(7,296)	(14,596)	-	**(14,596)**
Net interest income	72,375	16	921	73,312	-	**73,312**
Provision for loan and lease losses	(14,445)	-	-	(14,445)	-	**(14,445)**
Non-interest income	8,214	6,910	31	15,155	-	**15,155**
Non-interest expenses	(47,097)	(4,908)	(1,820)	(53,825)	-	**(53,825)**
Intersegment revenue	389	-	49	438	(438)	-
Intersegment expenses	(49)	(286)	(103)	(438)	438	-
Income (loss) before income taxes	**$ 19,387**	**$ 1,732**	**(922)**	**$ 20,197**	**$ -**	**$ 20,197**
Total assets	**$ 5,829,987**	**$ 19,054**	**$ 1,800,838**	**$ 7,649,879**	**$ (937,283)**	**$ 6,712,596**

	Six-Month Period Ended June 30, 2017					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 154,592	$ 30	$ 17,496	$ 172,118	$ -	$ **172,118**
Interest expense	(13,634)	-	(8,303)	(21,937)	-	**(21,937)**
Net interest income	140,958	30	9,193	150,181	-	**150,181**
Provision for loan and lease losses	(44,168)	-	(22)	(44,190)	-	**(44,190)**
Non-interest income	25,003	12,257	6,700	43,960	-	**43,960**
Non-interest expenses	(93,456)	(8,320)	(2,724)	(104,500)	-	**(104,500)**
Intersegment revenue	810	-	142	952	(952)	-
Intersegment expenses	(142)	(565)	(245)	(952)	952	-
Income before income taxes	**$ 29,005**	**$ 3,402**	**$ 13,044**	**$ 45,451**	**$ -**	**$ 45,451**
Total assets	**$ 5,490,287**	**$ 22,531**	**$ 1,692,603**	**$ 7,205,421**	**$ (969,595)**	**$ 6,235,826**

	Six-Month Period Ended June 30, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 160,827	$ 34	$ 18,353	$ 179,214	$ -	$ **179,214**
Interest expense	(14,107)	-	(16,820)	(30,927)	-	**(30,927)**
Net interest income	146,720	34	1,533	148,287	-	**148,287**
Provision for loan and lease losses	(28,234)	-	-	(28,234)	-	**(28,234)**
Non-interest income (loss)	16,009	12,930	(281)	28,658	-	**28,658**
Non-interest expenses	(97,786)	(7,853)	(3,043)	(108,682)	-	**(108,682)**
Intersegment revenue	787	-	149	936	(936)	**-**
Intersegment expenses	(149)	(577)	(210)	(936)	936	**-**
Income (loss) before income taxes	**$ 37,347**	**$ 4,534**	**$ (1,852)**	**$ 40,029**	**$ -**	**$ 40,029**
Total assets	**$ 5,829,987**	**$ 19,054**	**$ 1,800,838**	**$ 7,649,879**	**$ (937,283)**	**$ 6,712,596**

Comparison of quarters ended June 30, 2017 and 2016

Banking

Net interest income of the Company's Banking segment decreased $2.2 million, or 3.0%, reflecting a decrease of 3.1% in interest income from loans. Interest income from loans decreased to $77.0 million, reflecting a decrease of $7.6 million due to lower volume, partially offset by an increase of $4.9 million in from higher interest rates. Our loan portfolio is transitioning as originated loans with normal yields grow at a slower pace than higher-yielding acquired loans decline due to repayments and maturities.

Originated loans interest income increased 8.8% to $53.4 million, as average balances dropped 2.5% and yields increased to 7.03%, mainly from higher yields in commercial and retail categories. Acquired BBVAPR loans interest income declined 24.9% to $17.8 million as average balances declined 22.8% and yields decreased 21 basis points to 7.50%. Acquired Eurobank loans interest income fell 12.8% to $6.0 million as average balances declined 10.7% and yields decreased 45 basis points to 18.84%. The decline in acquired loans reflects continued pay downs, and periodic yield recasting.

Provision for loan and lease losses increased 83.7%, or $12.1 million, to $26.5 million, reflecting the increase in provision of commercial loans. Such provision includes $4.3 million recorded to charge-off the loss on sale of a municipal loan and another provision of $5.9 million recorded for the general allowance on municipal loan portfolio. The increase in provision for commercial loans also reflected an $1.7 million increase in provision for loan losses from the growth of the originated loan portfolio.

Non-interest income increased to $11.8 million, $3.6 million up from the same quarter in 2016. The increase was driven by the FDIC shared-loss agreement termination during the first quarter of 2017, compared to an expense of $3.4 million in the year ago quarter recorded for such agreement.

Non-interest expense of $47.4 million slightly increased 0.6%, primarily reflecting an increase in electronic banking charges of $503 thousand, as a result of an increase of $538 thousand in credit cards processing services.

Wealth Management

Wealth management segment revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased $581 thousand to $6.3 million, compared to $6.9 million, mainly from changes in volume and market rates.

Non-interest expense of $4.1 million decreased $808 thousand, primarily reflecting a decrease in compensation expense from lower broker commissions.

Treasury

Treasury's income before taxes, which consists of the Company's asset/liability management activities, such as purchase and sale of investment securities, interest rate risk management, derivatives, and borrowings, increased to $10.8 million, compared to a loss of $922 thousand.

Net interest income increased $4.4 million to $5.3 million, mainly from an increase in interest income and a reduction in interest expenses. Interest income from investments increased 5.7%, to $8.7 million, mainly attributable to higher interest rates on cash balances. Interest expense decreased $3.7 million to $3.6 million because of the drop in repurchase agreements from the payment at maturity of a $232.0 million repurchase agreement at 4.78% in March 2017. In addition, other borrowings balances decreased from the repayment at maturity of $227.0 million of short term FHLB advances during the second quarter of 2016. Total cost of borrowings decreased 99 basis points to 1.78% from 2.77%.

During the second quarter of 2017, the Company took advantage of the market conditions and sold $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, the Company repaid before maturity $100 million repurchase agreements at a cost of $80 thousand.

Comparison of six-month periods ended June 30, 2017 and 2016

Banking

Net interest income of the Company's Banking segment decreased $5.8 million, or 3.9%, reflecting a decrease of 3.9% in interest income from loans. Interest income from loans decreased $6.2 million to $154.6 million, reflecting a decrease of $11.7 million due to lower volume, partially offset by an increase of $5.5 million from higher interest rates.

Originated loans interest income increased 8.6% to $105.4 million, as average balances dropped 2.6% and yields increased to 7.01%, mainly from higher yields in commercial and retail categories. Acquired BBVAPR loans interest income declined 25.3% to $36.8 million as average balances declined 19.3% and yields decreased 57 basis points to 7.63%. Acquired Eurobank loans interest income fell 12.7% to $12.6 million as average balances declined 7.5% and yields decreased 107 basis points to 19.84%.

Provision for loan and lease losses increased 56.4%, or $15.9 million, to $44.2 million, reflecting the increase in provision of commercial loans. Such provision includes $4.3 million recorded to charge-off the loss on sale of a municipal loan and another provision of $5.9 million recorded for the general allowance on municipal loan portfolio. The increase in provision for commercial loans also reflected an $1.7 million increase in provision for loan losses from the growth of the originated loan portfolio.

Non-interest income increased to $25.0 million, $9.0 million up from the same period in 2016. The increase was mainly driven by the FDIC shared-loss agreement termination during the first quarter of 2017, in which the Company recorded a benefit of $1.4 million, compared to an expense of $7.4 million in the year ago quarter recorded for such agreement.

Non-interest expense of $93.5 million decreased 4.4%, primarily reflecting a decrease in loss on sale of foreclosed real estate and other repossessed assets, which decreased 48.9% to $3.1 million, as compared to $6.1 million in the same period for the previous year due to lower markdowns, $2.2 million in savings resulting from the loss-share termination, and to fewer losses on the sale of foreclosed real estate.

Wealth Management

Wealth management segment revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased $673 thousand to $12.3 million, compared to $12.9 million, mainly from changes in volume and market rates.

Non-interest expense of $8.3 million increased $467 thousand, primarily reflecting an increase in broker-dealer legal contingencies.

Treasury

Treasury's income before taxes, which consists of the Company's asset/liability management activities, such as purchase and sale of investment securities, interest rate risk management, derivatives, and borrowings, increased to $13.0 million, compared to a loss of $1.9 million.

Net interest income increased $7.7 million to $9.2 million, mainly from a reduction in interest expenses. Interest income from investments decreased 6.3% to $17.2 million, reflecting a decrease from lower volume and interest rate of $1.3 million and $144 thousand, respectively. Interest expense reflects a decrease in repurchase agreements volume and rate of $2.8 million and of $2.6 million, respectively, and the decrease in other borrowings volume and rate of $4.1 million and $48 thousand, respectively. Decrease in repurchase agreements reflects the partial unwinding of $268.0 million repurchase agreement at 4.78% in February 2016 and the repayment at maturity of the remaining $232.0 million balance in March 2017. The decrease in other borrowings balances resulted from the repayment at maturity of $227.0 million of short term FHLB advances during the second quarter of 2016. Total cost of borrowings decreased 78 basis points to 2.10% from 2.88%.

During 2017, the Company took advantage of the market conditions and sold $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, the Company unwound $100 million of repurchase agreements at a cost of $80 thousand.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At June 30, 2017, the Company’s total assets amounted to $6.236 billion representing a decrease of 4.1% when compared to $6.502 billion at December 31, 2016. This reduction is mainly due to a decrease in the investment portfolio of $140.9 million, a decrease in the loan portfolio of $55.8 million and a decrease in cash and cash equivalents of $33.1 million.

The Company's investment portfolio decreased $140.9 million from $1.363 billion at December 31, 2016 to $1.222 billion at June 30, 2017, reflecting decreases in investment securities available-for-sale portfolio by $102.0 million, mainly attributed to the sale of $166.0 million mortgage-backed securities during the six-month period ended June 30, 2017. There was also a decrease in investment securities held-to-maturity portfolio by $44.5 million primarily due to paydowns and premium amortizations of $41.9 million and $2.6 million, respectively.

The Company’s loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate located in Puerto Rico, other commercial and industrial loans, consumer loans, and auto loans. At June 30, 2017, the Company’s loan portfolio decreased $55.8 million from $4.148 billion at December 31, 2016 to $4.092 billion. Our loan portfolio is transitioning as originated loans grow at a slower pace than acquired loans decrease, due to repayments and maturities. At June 30, 2017, loans held for sale, at fair value increased $35.2 million. The acquired BBVAPR loan portfolio decreased $108.9 million from December 31, 2016 to $899.0 million. The Eurobank acquired loan portfolio decreased $17.9 million from December 31, 2016 to $116.7 million at June 30, 2017. Mortgage loans held for sale increased to $14.0 million from $12.5 million on December 31, 2016. Other loans held for sale at June 30, 2017 included $33.6 million corresponding to a municipal loan which sale settled on July 5, 2017.

At June 30, 2017, loans represented 77% of total interest-earning assets while investments represented 23%, compared to December in which loans represented 75% of total interest-earning assets and investments represented 25%.

Financial Assets Managed

The Company’s financial assets include those managed by the Company’s trust division, retirement plan administration subsidiary, and assets gathered by its broker-dealer and insurance subsidiaries. The Company’s trust division offers various types of individual retirement accounts ("IRA"s) and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while the retirement plan administration subsidiary, OPC, manages private retirement plans. At June 30, 2017, total assets managed by the Company's trust division and OPC amounted to $2.944 billion, compared to $2.850 billion at December 31, 2016. Oriental Financial Services offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At June 30, 2017, total assets gathered by Oriental Financial Services and Oriental Insurance from its customer investment accounts amounted to $2.276 billion, compared to $2.351 billion at December 31, 2016. Changes in trust and broker-dealer related assets primarily reflect changes in portfolio balances and differences in market values.

Goodwill

Goodwill recorded in connection with the BBVAPR Acquisition and the FDIC-assisted Eurobank acquisition is not amortized to expense, but is tested at least annually for impairment. A quantitative annual impairment test is not required if, based on a qualitative analysis, the Company determines that the existence of events and circumstances indicate that it is more likely than not that goodwill is not impaired. The Company completes its annual goodwill impairment test as of October 31 of each year. The Company tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units. A fair value is then determined for each reporting unit. If the fair values of the reporting units exceed their book values, no write-down of the recorded goodwill is necessary. If the fair values are less than the book values, an additional valuation procedure is necessary to assess the proper carrying value of the goodwill.

Reporting unit valuation is inherently subjective, with a number of factors based on assumptions and management judgments or estimates. Actual values may differ significantly from such estimates. Among these are future growth rates for the reporting units, selection of comparable market transactions, discount rates and earnings capitalization rates. Changes in assumptions and results due to economic conditions, industry factors, and reporting unit performance and cash flow projections could result in different assessments of the fair values of reporting units and could result in impairment charges. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, an interim impairment test is required.

Relevant events and circumstances for evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount may include macroeconomic conditions (such as a further deterioration of the Puerto Rico economy or the liquidity for Puerto Rico securities or loans secured by assets in Puerto Rico), adverse changes in legal factors or in the business climate, adverse actions by a regulator, unanticipated competition, the loss of key employees, or similar events. The Company’s loan portfolio, which is the largest component of its interest-earning assets, is concentrated in Puerto Rico and is directly affected by adverse local economic and fiscal conditions. Such conditions have generally affected the market demand for non-conforming loans secured by assets in Puerto Rico and, therefore, affect the valuation of the Company’s assets.

As of June 30, 2017, the Company had $86.1 million of goodwill allocated as follows: $84.1 million to the Banking unit and $2.0 million to the Wealth Management unit. During the last quarter of 2016, based on its annual goodwill impairment test, the Company determined that the Banking unit failed step one of the two-step impairment test and that the Wealth Management unit passed such step. As a result of step one; the Banking unit’s adjusted net book value exceeded its fair value by approximately $145.0 million, or 15%. Accordingly, the Company proceeded to perform step two of the analysis. Based on the results of step two, the Company determined that the carrying value of the goodwill allocated to the Banking unit was not impaired as of the valuation date. During the six-month period ended June 30, 2017, the Company performed an assessment of events or circumstances that could trigger reductions in the book value of the goodwill. Based on this assessment, no events were identified that triggered changes in the book value of goodwill at June 30, 2017.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION

	June 30, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Investments:			
FNMA and FHLMC certificates	$ 902,101	$ 1,025,370	-12.0%
Obligations of US government-sponsored agencies	3,327	3,884	-14.3%
US Treasury securities	54,990	49,054	12.1%
CMOs issued by US government-sponsored agencies	91,553	101,831	-10.1%
GNMA certificates	146,683	165,235	-11.2%
Puerto Rico government and public instrumentalities	4,341	4,073	6.6%
FHLB stock	16,616	10,793	54.0%
Other debt securities	1,739	1,921	-9.5%
Other investments	297	350	-15.1%
Total investments	**1,221,647**	**1,362,511**	**-10.3%**
Loans	**4,091,866**	**4,147,692**	**-1.3%**
Total investments and loans	**5,313,513**	**5,510,203**	**-3.6%**
Other assets:			
Cash and due from banks (including restricted cash)	473,871	507,863	-6.7%
Money market investments	6,467	5,606	15.4%
FDIC indemnification asset	-	14,411	-100.0%
Foreclosed real estate	50,223	47,520	5.7%
Accrued interest receivable	19,798	20,227	-2.1%
Deferred tax asset, net	116,199	124,200	-6.4%
Premises and equipment, net	69,836	70,407	-0.8%
Servicing assets	9,866	9,858	0.1%
Derivative assets	957	1,330	-28.0%
Goodwill	86,069	86,069	0.0%
Other assets and customers' liability on acceptances	89,027	104,130	-14.5%
Total other assets	**922,313**	**991,621**	**-7.0%**
Total assets	**$ 6,235,826**	**$ 6,501,824**	**-4.1%**
Investment portfolio composition:			
FNMA and FHLMC certificates	73.7%	75.2%	
Obligations of US government-sponsored agencies	0.3%	0.3%	
US Treasury securities	4.5%	3.6%	
CMOs issued by US government-sponsored agencies	7.5%	7.5%	
GNMA certificates	12.0%	12.1%	
Puerto Rico government and public instrumentalities	0.4%	0.3%	
FHLB stock	1.4%	0.8%	
Other debt securities and other investments	0.2%	0.2%	
	100.0%	**100.0%**	

TABLE 5 — LOANS RECEIVABLE COMPOSITION

	June 30 2017	December 31, 2016	Variance %
	(In thousands)		
Originated and other loans and leases held for investment:			
Mortgage	$ 699,290	$ 721,494	-3.1%
Commercial	1,270,844	1,277,866	-0.5%
Consumer	314,267	290,515	8.2%
Auto and leasing	807,204	756,395	6.7%
	3,091,605	**3,046,270**	**1.5%**
Allowance for loan and lease losses on originated and other loans and leases	(69,666)	(59,300)	-17.5%
	3,021,939	**2,986,970**	**1.2%**
Deferred loan costs, net	6,574	5,766	14.0%
Total originated and other loans loans held for investment, net	**3,028,513**	**2,992,736**	**1.2%**
Acquired loans:			
Acquired BBVAPR loans:			
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	5,350	5,562	-3.8%
Consumer	30,233	32,862	-8.0%
Auto	33,661	53,026	-36.5%
	69,244	**91,450**	**-24.3%**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(3,348)	(4,300)	22.1%
	65,896	**87,150**	**-24.4%**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)			
Mortgage	544,325	569,253	-4.4%
Commercial	266,002	292,564	-9.1%
Consumer	2,163	4,301	-49.7%
Auto	58,078	85,676	-32.2%
	870,568	**951,794**	**-8.5%**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(37,494)	(31,056)	-20.7%
	833,074	**920,738**	**-9.5%**
Total acquired BBVAPR loans, net	**898,970**	**1,007,888**	**-10.8%**
Acquired Eurobank loans:			
Loans secured by 1-4 family residential properties	70,329	73,018	-3.7%
Commercial	66,894	81,460	-17.9%
Consumer	1,256	1,372	-8.5%

	138,479	**155,850**	**-11.1%**
Allowance for loan and lease losses on Eurobank loans	(21,787)	(21,281)	-2.4%
Total acquired Eurobank loans, net	**116,692**	**134,569**	**-13.3%**
Total acquired loans, net	**1,015,662**	**1,142,457**	**-11.1%**
Total held for investment, net	**4,044,175**	**4,135,193**	**-2.2%**