

OFG BANCORP  
Form 10-Q  
August 08, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2014**

**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  No

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

Indicate by check mark 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 <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

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

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

45,060,088 common shares (\$1.00 par value per share) outstanding as of July 31, 2014

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## FORWARD-LOOKING STATEMENTS

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

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

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

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

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

**ITEM 1. *FINANCIAL STATEMENTS***

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## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2014 AND DECEMBER 31, 2013

		June 30,		December 31,
		2014		2013
		(In thousands)		
<b>ASSETS</b>				
<b>Cash and cash equivalents:</b>				
Cash and due from banks	\$	588,257	\$	614,302
Money market investments		8,228		6,967
<b>Total cash and cash equivalents</b>		<b>596,485</b>		<b>621,269</b>
<b>Restricted cash</b>		15,170		82,199
<b>Securities purchased under agreements to resell</b>		-		60,000
<b>Investments:</b>				
Trading securities, at fair value, with amortized cost of \$2,419 (December 31, 2013 - \$2,448)		1,613		1,869
Investment securities available-for-sale, at fair value, with amortized cost of \$1,385,438 (December 31, 2013 - \$1,575,043)		1,418,958		1,588,425
Investment securities held-to-maturity, at amortized cost, with fair value of \$26,844		26,706		-
Federal Home Loan Bank (FHLB) stock, at cost		24,381		24,450
Other investments		65		65
<b>Total investments</b>		<b>1,471,723</b>		<b>1,614,809</b>
<b>Loans:</b>				
Mortgage loans held-for-sale, at lower of cost or fair value		14,792		46,529
Non-covered loans, net of allowance for loan and lease losses of \$60,360 (December 31, 2013 - \$54,298)		4,586,904		4,615,929
Covered loans, net of allowance for loan and lease losses of \$59,515 (December 31, 2013 - \$52,729)		334,344		356,961
<b>Total loans, net</b>		<b>4,936,040</b>		<b>5,019,419</b>
<b>Other assets:</b>				
FDIC indemnification asset		143,660		189,240
Foreclosed real estate covered under shared-loss agreements with the FDIC		46,609		33,209
Foreclosed real estate not covered under shared-loss agreements with the FDIC		55,626		56,815
Accrued interest receivable		22,508		18,734

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Deferred tax asset, net			123,298			137,564
Premises and equipment, net			82,167			82,903
Customers' liability on acceptances			17,581			23,042
Servicing assets			13,655			13,801
Derivative assets			9,558			20,502
Goodwill			86,069			86,069
Other assets			89,996			98,440
<b>Total assets</b>		\$	<b>7,710,145</b>		\$	<b>8,158,015</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Deposits:</b>						
Demand deposits		\$	2,135,369			2,138,005
Savings accounts			1,226,749			1,194,567
Time deposits			1,779,115			2,050,693
<b>Total deposits</b>			<b>5,141,233</b>			<b>5,383,265</b>
<b>Borrowings:</b>						
Securities sold under agreements to repurchase			1,012,233			1,267,618
Advances from FHLB			360,240			336,143
Subordinated capital notes			100,797			100,010
Other borrowings			3,837			3,663
<b>Total borrowings</b>			<b>1,477,107</b>			<b>1,707,434</b>
<b>Other liabilities:</b>						
Derivative liabilities			13,617			14,937
Acceptances executed and outstanding			17,581			23,042
Accrued expenses and other liabilities			135,405			144,424
<b>Total liabilities</b>			<b>6,784,943</b>			<b>7,273,102</b>
<b>Commitments and contingencies (See Note 16)</b>						
<b>Stockholders' equity:</b>						
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, 2013 - 1,340,000; 1,380,000; and 960,000) \$25 liquidation value			92,000			92,000
84,000 shares of Series C issued and outstanding (December 31, 2013 - 84,000); \$1,000 liquidation value			84,000			84,000
Common stock, \$1 par value; 100,000,000 shares authorized; 52,729,772 shares issued:						
45,022,823 shares outstanding (December 31, 2013 - 52,707,023; 45,676,922)			52,730			52,707
Additional paid-in capital			538,936			538,071
Legal surplus			66,438			61,957
Retained earnings			160,055			133,629
Treasury stock, at cost, 7,706,949 shares (December 31, 2013 - 7,030,101 shares)			(90,712)			(80,642)

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Accumulated other comprehensive income, net of tax of \$1,134 (December 31, 2013 - -\$831)			21,755			3,191
<b>Total stockholders' equity</b>			<b>925,202</b>			<b>884,913</b>
<b>Total liabilities and stockholders' equity</b>		\$	<b>7,710,145</b>		\$	<b>8,158,015</b>
<b>See notes to unaudited consolidated financial statements.</b>						

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## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

## FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2014		2013		2014		2013	
	(In thousands, except per share data)							
<b>Interest income:</b>								
Non-covered loans	\$	88,064	\$	91,105	\$	173,307	\$	171,912
Covered loans		24,879		23,999		48,267		44,228
<b>Total interest income from loans</b>		<b>112,943</b>		<b>115,104</b>		<b>221,574</b>		<b>216,140</b>
Mortgage-backed securities		11,984		9,080		24,400		19,898
Investment securities and other		973		2,118		3,000		4,436
<b>Total interest income</b>		<b>125,900</b>		<b>126,302</b>		<b>248,974</b>		<b>240,474</b>
<b>Interest expense:</b>								
Deposits		9,165		9,487		18,143		19,423
Securities sold under agreements to repurchase		7,372		7,109		14,784		14,357
Advances from FHLB and other borrowings		2,289		2,241		4,583		3,955
Subordinated capital notes		996		1,170		1,988		2,830
<b>Total interest expense</b>		<b>19,822</b>		<b>20,007</b>		<b>39,498</b>		<b>40,565</b>
<b>Net interest income</b>		<b>106,078</b>		<b>106,295</b>		<b>209,476</b>		<b>199,909</b>
Provision for non-covered loan and lease losses		13,220		37,527		23,282		45,443
Provision for covered loan and lease losses, net		1,595		1,211		3,224		1,883
<b>Total provision for loan and lease losses</b>		<b>14,815</b>		<b>38,738</b>		<b>26,506</b>		<b>47,326</b>
<b>Net interest income after provision for loan and lease losses</b>		<b>91,263</b>		<b>67,557</b>		<b>182,970</b>		<b>152,583</b>
<b>Non-interest income:</b>								
Banking service revenue		9,995		12,705		20,552		24,345
Wealth management revenue		7,336		8,030		14,203		15,690
Mortgage banking activities		1,554		3,827		3,249		6,963
<b>Total banking and financial service revenues</b>		<b>18,885</b>		<b>24,562</b>		<b>38,004</b>		<b>46,998</b>

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FDIC shared-loss expense, net:									
FDIC indemnification asset		(17,499)		(19,225)		(35,121)			(31,425)
True-up payment obligation		(856)		(740)		(1,721)			(1,411)
		(18,355)		(19,965)		(36,842)			(32,836)
Net gain (loss) on:									
Sale of securities		-		-		4,366			-
Derivatives		(247)		(164)		(470)			(934)
Early extinguishment of debt		-		-		-			1,061
Other non-interest income		224		2,302		678			2,349
<b>Total non-interest income, net</b>		<b>507</b>		<b>6,735</b>		<b>5,736</b>			<b>16,638</b>
<b>Non-interest expense:</b>									
Compensation and employee benefits		20,707		24,089		42,494			47,338
Professional and service fees		3,512		5,375		7,719			11,853
Occupancy and equipment		8,605		8,066		16,914			17,282
Insurance		2,333		2,723		4,407			5,401
Electronic banking charges		4,796		4,065		9,449			7,763
Information technology expenses		1,485		2,335		3,300			4,979
Advertising, business promotion, and strategic initiatives		1,669		1,670		3,450			3,079
Merger and restructuring charges		-		5,273		-			10,808
Foreclosure, repossession and other real estate expenses		6,554		3,717		12,941			6,900
Loan servicing and clearing expenses		1,669		1,884		3,728			3,360
Taxes, other than payroll and income taxes		3,776		5,132		7,511			7,754
Communication		813		835		1,770			1,699
Printing, postage, stationary and supplies		645		851		1,200			2,017
Director and investor relations		293		377		544			613
Other		2,991		2,295		5,825			4,452
<b>Total non-interest expense</b>		<b>59,848</b>		<b>68,687</b>		<b>121,252</b>			<b>135,298</b>
<b>Income before income taxes</b>		<b>31,922</b>		<b>5,605</b>		<b>67,454</b>			<b>33,923</b>
Income tax expense (benefit)		10,613		(31,934)		22,398			(24,808)
<b>Net income</b>		<b>21,309</b>		<b>37,539</b>		<b>45,056</b>			<b>58,731</b>
Less: dividends on preferred stock		(3,466)		(3,466)		(6,931)			(6,931)
<b>Income available to common shareholders</b>	<b>\$</b>	<b>17,843</b>	<b>\$</b>	<b>34,073</b>	<b>\$</b>	<b>38,125</b>	<b>\$</b>	<b>51,800</b>	

<b>Earnings per common share:</b>									
Basic	\$	<b>0.40</b>	\$	<b>0.75</b>	\$	<b>0.84</b>	\$	<b>1.14</b>	
Diluted	\$	<b>0.38</b>	\$	<b>0.68</b>	\$	<b>0.80</b>	\$	<b>1.05</b>	
<b>Average common shares outstanding and equivalents</b>		<b>52,352</b>		<b>52,968</b>		<b>52,476</b>		<b>52,929</b>	
<b>Cash dividends per share of common stock</b>	\$	<b>0.08</b>	\$	<b>0.06</b>	\$	<b>0.16</b>	\$	<b>0.12</b>	
<b>See notes to unaudited consolidated financial statements.</b>									

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**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013**

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2014		2013		2014		2013	
	(In thousands)							
<b>Net income</b>	\$	<b>21,309</b>	\$	<b>37,539</b>	\$	<b>45,056</b>	\$	<b>58,731</b>
<b>Other comprehensive income (loss) before tax:</b>								
Unrealized gain (loss) on securities available-for-sale		14,941		(35,576)		24,504		(46,568)
Realized gain on investment securities included in net income		-		-		(4,366)		-
Unrealized gain on cash flow hedges		14		3,016		391		4,477
<b>Other comprehensive income (loss) before taxes</b>		<b>14,955</b>		<b>(32,560)</b>		<b>20,529</b>		<b>(42,091)</b>
Income tax effect		(1,221)		1,275		(1,965)		1,977
<b>Other comprehensive income (loss) after taxes</b>		<b>13,734</b>		<b>(31,285)</b>		<b>18,564</b>		<b>(40,114)</b>
<b>Comprehensive income</b>	\$	<b>35,043</b>	\$	<b>6,254</b>	\$	<b>63,620</b>	\$	<b>18,617</b>
<b>See notes to unaudited consolidated financial statements.</b>								

## OFG BANCORP

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013**

	Six-Month Period Ended June 30,			
	2014		2013	
	(In thousands)			
<b>Preferred stock:</b>				
Balance at beginning of period	\$	176,000	\$	176,000
<b>Balance at end of period</b>		<b>176,000</b>		<b>176,000</b>
<b>Common stock:</b>				
Balance at beginning of period		52,707		52,671
Exercised stock options		23		18
<b>Balance at end of period</b>		<b>52,730</b>		<b>52,689</b>
<b>Additional paid-in capital:</b>				
Balance at beginning of period		538,071		537,453
Stock-based compensation expense		946		888
Exercised stock options		242		167
Lapsed restricted stock units		(323)		(364)
Common stock issuance costs		-		(16)
Preferred stock issuance costs		-		(23)
<b>Balance at end of period</b>		<b>538,936</b>		<b>538,105</b>
<b>Legal surplus:</b>				
Balance at beginning of period		61,957		52,143
Transfer from retained earnings		4,481		5,763
<b>Balance at end of period</b>		<b>66,438</b>		<b>57,906</b>
<b>Retained earnings:</b>				
Balance at beginning of period		133,629		70,734
Net income		45,056		58,731
Cash dividends declared on common stock		(7,218)		(5,479)
Cash dividends declared on preferred stock		(6,931)		(6,931)
Transfer to legal surplus		(4,481)		(5,763)
<b>Balance at end of period</b>		<b>160,055</b>		<b>111,292</b>
<b>Treasury stock:</b>				
Balance at beginning of period		(80,642)		(81,275)
Stock repurchased		(10,393)		-
Lapsed restricted stock units		323		364
Stock used to match defined contribution plan		-		77
<b>Balance at end of period</b>		<b>(90,712)</b>		<b>(80,834)</b>
<b>Accumulated other comprehensive income,</b>				



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<b>net of tax:</b>					
Balance at beginning of period		3,191			55,880
Other comprehensive income (loss), net of tax		18,564			(40,114)
<b>Balance at end of period</b>		<b>21,755</b>			<b>15,766</b>
<b>Total stockholders' equity</b>	<b>\$</b>	<b>925,202</b>		<b>\$</b>	<b>870,924</b>
<b>See notes to unaudited consolidated financial statements.</b>					

## OFG BANCORP

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013**

	Six-Month Period Ended June 30,			
	2014		2013	
	(In thousands)			
<b>Cash flows from operating activities:</b>				
Net income	\$	45,056	\$	58,731
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred loan origination fees, net of costs		1,330		486
Amortization of fair value discounts on acquired loans		6,884		3,504
Amortization of investment securities premiums, net of accretion of discounts		203		12,624
Amortization of core deposit and customer relationship intangibles		1,085		1,288
Amortization of fair value premiums on acquired deposits		2,908		9,649
FDIC shared-loss expense, net		36,842		32,836
Depreciation and amortization of premises and equipment		4,826		5,265
Deferred income tax expense (benefit), net		13,211		(30,776)
Provision for covered and non-covered loan and lease losses, net		26,506		47,326
Stock-based compensation		946		888
(Gain) loss on:				
Sale of securities		(4,366)		-
Sale of mortgage loans held-for-sale		(2,447)		(1,771)
Derivatives		646		934
Early extinguishment of debt		-		(1,061)
Foreclosed real estate		5,052		3,109
Sale of other repossessed assets		3,305		465
Sale of premises and equipment		(10)		-
Originations of loans held-for-sale		(86,058)		(179,127)
Proceeds from sale of loans held-for-sale		47,834		68,809
Net (increase) decrease in:				
Trading securities		256		(1,714)
Accrued interest receivable		(3,774)		46
Servicing assets		146		(2,199)

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Other assets		11,651			20,737
Net increase (decrease) in:					
Accrued interest on deposits and borrowings		(932)			(995)
Accrued expenses and other liabilities		(16,247)			12,093
<b>Net cash provided by operating activities</b>		<b>94,853</b>			<b>61,147</b>
<b>Cash flows from investing activities:</b>					
Purchases of:					
Investment securities available-for-sale		(217,974)			(17,802)
Investment securities held-to-maturity		(26,707)			-
FHLB stock		(76,725)			(12,465)
Maturities and redemptions of:					
Investment securities available-for-sale		295,013			313,866
FHLB stock		76,794			28,720
Proceeds from sales of:					
Investment securities available-for-sale		163,235			75,660
Foreclosed real estate and other repossessed assets		22,991			31,131
Premises and equipment		20			1,667
Origination and purchase of loans, excluding loans held-for-sale		(347,691)			(422,590)
Principal repayment of loans, including covered loans		339,102			528,274
Reimbursements from the FDIC on shared-loss agreements		18,700			18,696
Additions to premises and equipment		(4,100)			(6,237)
Net change in securities purchased under agreements to resell		60,000			80,000
Net change in restricted cash		67,029			8,990
<b>Net cash provided by investing activities</b>		<b>369,687</b>			<b>627,910</b>

## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013 – (Continued)

	Six-Month Period Ended June 30,			
	2014		2013	
	(In thousands)			
<b>Cash flows from financing activities:</b>				
Net increase (decrease) in:				
Deposits		(235,062)		(36,125)
Short term borrowings		-		(92,210)
Securities sold under agreements to repurchase		(255,000)		(381,358)
FHLB advances, federal funds purchased, and other borrowings		24,279		(231,617)
Subordinated capital notes		787		(46,017)
Exercise of stock options and restricted units lapsed, net		265		185
Purchase of treasury stock		(10,393)		-
Termination of derivative instruments		-		(858)
Dividends paid on preferred stock		(6,931)		(6,931)
Dividends paid on common stock		(7,269)		(5,479)
Other financing activities		-		(39)
<b>Net cash used in financing activities</b>		<b>(489,324)</b>		<b>(800,449)</b>
<b>Net change in cash and cash equivalents</b>		<b>(24,784)</b>		<b>(111,392)</b>
Cash and cash equivalents at beginning of period		621,269		855,235
<b>Cash and cash equivalents at end of period</b>	<b>\$</b>	<b>596,485</b>	<b>\$</b>	<b>743,843</b>
<b>Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:</b>				
Interest paid	\$	42,667	\$	40,491
Income taxes paid	\$	319	\$	378
Mortgage loans securitized into mortgage-backed securities	\$	46,505	\$	89,590
Transfer from loans to foreclosed real estate and other repossessed assets	\$	47,852	\$	45,714
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	\$	473	\$	40,328
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	\$	26,376	\$	-
Securities sold but not yet delivered	\$	-	\$	16,732

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

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**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION**

*Nature of Operations*

OFG Bancorp (the “Company”) is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. The Company operates through various subsidiaries including, a commercial bank, Oriental Bank (or the “Bank”), a securities broker-dealer, Oriental Financial Services Corp. (“Oriental Financial Services”), an insurance agency, Oriental Insurance, Inc. (“Oriental Insurance”) and a retirement plan administrator, Caribbean Pension Consultants, Inc. (“CPC”). 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 25, 2013, the Company changed its corporate name from Oriental Financial Group Inc. to OFG Bancorp.

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

*Recent Accounting Developments*

On March 14, 2014, the FASB issued guidance that amended the Master Glossary of the Accounting Standards Codification (“ASC”), including technical corrections related to glossary links, glossary term deletions, and glossary term name changes. In addition, this guidance included more substantive, limited-scope improvements to reduce instances of the same term appearing multiple times in the Master Glossary with similar, but not entirely identical, definitions. These are items that represent narrow and incremental improvements to U.S. GAAP and are not purely technical corrections and affect a wide variety of Topics in the ASC. The amendments in this guidance apply to all reporting entities within the scope of the affected accounting guidance and are effective upon issuance for both public entities and non-public entities. The Company adopted this guidance upon issuance with no impact on our financial position and results of operations.

On June 19, 2014, the FASB issued updated guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This guidance seeks to resolve the diversity in practice that exists when accounting for share-based payments. In particular, this guidance requires a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance conditions. For all entities, this guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with earlier adoption permitted. We are currently evaluating the impact, if any, that the adoption of this guidance will have on our financial position or results of operations.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months and six months ended June 30, 2014 that could have a material impact on the Company's financial position, operating results or financials statement disclosures.

**OFG BANCORP****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****NOTE 2 – RESTRICTED CASH**

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

	<b>June 30,</b>		<b>December 31,</b>	
	<b>2014</b>		<b>2013</b>	
	<b>(In thousands)</b>			
Cash pledged as collateral to other financial institutions to secure:				
Securities sold under agreements to repurchase	\$	-	\$	67,029
Derivatives		2,980		2,980
Obligations under agreement of loans sold with recourse		12,190		12,190
	\$	<b>15,170</b>	\$	<b>82,199</b>

The Company delivers cash as collateral to meet margin calls for some long term securities sold under agreements to repurchase. At December 31, 2013, the Company had \$67.0 million in cash pledged as collateral for securities sold under agreements to repurchase. At June 30, 2014, the Company did not have cash pledged as collateral for securities sold under agreements to repurchase.

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At both June 30, 2014 and December 31, 2013, the Company had delivered \$3.0 million of cash as collateral for such derivatives activities.

As part of the BBVAPR Acquisition, the Company assumed various contracts with the Federal National Mortgage Association ("FNMA") which required collateral to guarantee the repurchase, if necessary, of certain mortgage loans sold with recourse. At June 30, 2014 and December 31, 2013, the Company had \$12.2 million of cash pledged as collateral for such recourse obligations.

**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, 2014 and December 31, 2013, money market instruments included as part of cash and cash equivalents amounted to \$8.2 million and \$7.0 million, respectively.

***Securities Purchased Under Agreements to Resell***

Securities purchased under agreements to resell consist of short-term investments and are carried at the amounts at which the assets will be subsequently resold as specified in the respective agreements. At December 31, 2013, securities purchased under agreements to resell amounted to \$60.0 million. At June 30, 2014, there were no securities purchased under agreements to resell.

The amounts advanced under those agreements are reflected as assets in the consolidated statements of financial condition. It is the Company's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Company's right to request additional collateral based on its monitoring of the fair value of the underlying securities on a daily basis. The fair value of the collateral securities held by the Company on these transactions as of December 31, 2013 was approximately \$64.6 million.

## OFG BANCORP

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

*Investment Securities*

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014						Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value			
					(In thousands)		
<b>Available-for-sale</b>							
<b>Mortgage-backed securities</b>							
FNMA and FHLMC certificates	\$ 1,070,034	\$ 44,076	\$ 1,992	\$ 1,112,118		3.10%	
GNMA certificates	5,560	389	21	5,928		4.92%	
CMOs issued by US government-sponsored agencies	200,111	306	3,786	196,631		1.79%	
<b>Total mortgage-backed securities</b>	<b>1,275,705</b>	<b>44,771</b>	<b>5,799</b>	<b>1,314,677</b>		<b>2.90%</b>	
<b>Investment securities</b>							
US Treasury securities	9,000	-	-	9,000		0.01%	
Obligations of US government-sponsored agencies	74,613	-	38	74,575		0.17%	
Obligations of Puerto Rico government and political subdivisions	22,391	-	5,591	16,800		5.32%	
Other debt securities	3,729	177	-	3,906		2.95%	
<b>Total investment securities</b>	<b>109,733</b>	<b>177</b>	<b>5,629</b>	<b>104,281</b>		<b>1.30%</b>	
<b>Total securities available for sale</b>	<b>\$ 1,385,438</b>	<b>\$ 44,948</b>	<b>\$ 11,428</b>	<b>\$ 1,418,958</b>		<b>2.77%</b>	
<b>Held-to-maturity</b>							
<b>Mortgage-backed securities</b>							
FNMA and FHLMC certificates	26,706	138	-	26,844		2.52%	
<b>Total</b>	<b>\$ 1,412,144</b>	<b>\$ 45,086</b>	<b>\$ 11,428</b>	<b>\$ 1,445,802</b>		<b>2.77%</b>	

December 31, 2013										
	Gross		Gross		Fair		Weighted			
	Amortized	Unrealized	Unrealized	Losses	Value	Average				
	Cost	Gains					Yield			
(In thousands)										
<b>Available-for-sale</b>										
<b>Mortgage-backed securities</b>										
FNMA and FHLMC certificates	\$ 1,190,910	\$ 33,089		\$ 6,669		\$ 1,217,330			2.93%	
GNMA certificates	7,406	433		24		7,815			4.92%	
CMOs issued by US government-sponsored agencies	220,801	407		6,814		214,394			1.78%	
<b>Total mortgage-backed securities</b>	<b>1,419,117</b>	<b>33,929</b>		<b>13,507</b>		<b>1,439,539</b>			<b>2.76%</b>	
<b>Investment securities</b>										
Obligations of US government-sponsored agencies	10,691	-		42		10,649			1.21%	
Obligations of Puerto Rico government and political subdivisions	121,035	-		6,845		114,190			4.38%	
Other debt securities	24,200	167		320		24,047			3.46%	
<b>Total investment securities</b>	<b>155,926</b>	<b>167</b>		<b>7,207</b>		<b>148,886</b>			<b>2.99%</b>	
<b>Total securities available-for-sale</b>	<b>\$ 1,575,043</b>	<b>\$ 34,096</b>		<b>\$ 20,714</b>		<b>\$ 1,588,425</b>			<b>2.89%</b>	

## OFG BANCORP

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

The amortized cost and fair value of the Company's investment securities at June 30, 2014, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2014							
	Available-for-sale				Held-to-maturity			
	Amortized Cost		Fair Value		Amortized Cost		Fair Value	
	(In thousands)				(In thousands)			
<b>Mortgage-backed securities</b>								
Due after 5 to 10 years								
FNMA and FHLMC certificates	\$	24,631	\$	25,109	\$	-	\$	-
<b>Total due after 5 to 10 years</b>		<b>24,631</b>		<b>25,109</b>		<b>-</b>		<b>-</b>
Due after 10 years								
FNMA and FHLMC certificates		1,045,403		1,087,009		26,706		26,844
GNMA certificates		5,560		5,928		-		-
CMOs issued by US government-sponsored agencies		200,111		196,631		-		-
<b>Total due after 10 years</b>		<b>1,251,074</b>		<b>1,289,568</b>		<b>26,706</b>		<b>26,844</b>
<b>Total mortgage-backed securities</b>		<b>1,275,705</b>		<b>1,314,677</b>		<b>26,706</b>		<b>26,844</b>
<b>Investment securities</b>								
Due in less than one year								
US Treasury securities		9,000		9,000		-		-
Obligations of US government and sponsored agencies		66,000		66,000		-		-
<b>Total due in less than one year</b>		<b>75,000</b>		<b>75,000</b>		<b>-</b>		<b>-</b>
Due from 1 to 5 years								
Obligations of Puerto Rico government and political subdivisions		11,927		9,543		-		-
<b>Total due from 1 to 5 years</b>		<b>11,927</b>		<b>9,543</b>		<b>-</b>		<b>-</b>
Due after 5 to 10 years								
Obligations of US government and sponsored agencies		8,613		8,575		-		-
<b>Total due after 5 to 10 years</b>		<b>8,613</b>		<b>8,575</b>		<b>-</b>		<b>-</b>
Due after 10 years								
		10,464		7,257		-		-

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Obligations of Puerto Rico government and political subdivisions										
Other debt securities		3,729		3,906		-				-
<b>Total due after 10 years</b>		<b>14,193</b>		<b>11,163</b>		-				-
<b>Total investment securities</b>		<b>109,733</b>		<b>104,281</b>		-				-
<b>Total securities available-for-sale</b>	<b>\$</b>	<b>1,385,438</b>	<b>\$</b>	<b>1,418,958</b>	<b>\$</b>	<b>26,706</b>	<b>\$</b>			<b>26,844</b>

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## OFG BANCORP

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

At December 31, 2013, obligations of the Puerto Rico government and its political subdivisions included a \$98.7 million principal amount, LIBOR floating rate bond with a maturity date of July 1, 2024, that was subject to mandatory tender for purchase by the end of the third year anniversary of the closing date, which was June 1, 2014. The bond was also subject to optional demand tender for purchase upon the occurrence and continuance of certain events, including (among others) the withdrawal, suspension or reduction below investment grade of the credit rating on any general obligation of the Commonwealth by any of the three major rating agencies. This bond was repaid by the issuer on March 17, 2014.

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the six-month period ended June 30, 2014, the Company sold \$48.1 million of available-for-sale Government National Mortgage Association (“GNMA”) certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period. In addition, during the six-month period ended June 30, 2014, certain available-for-sale securities were sold to realize gains and to invest the proceeds in other investment securities with attractive yields and terms that protect the Company’s net interest margin.

For the six-month period ended June 30, 2014 the Company recorded a net gain on sale of securities of \$4.4 million. The tables below present the gross realized gains by category for such period. There was no realized gain or loss for the six-month period ended June 30, 2013.

	Six-Month Period Ended June 30, 2014							
			Book Value		Gross		Gross	
Description	Sale Price		at Sale		Gains		Losses	
	(In thousands)							
<b>Sale of securities available-for-sale</b>								
<b>Mortgage-backed securities</b>								
FNMA and FHLMC certificates	\$ 115,158		\$ 110,792		\$ 4,366		\$ -	
GNMA certificates	48,077		48,077		-		-	
<b>Total</b>	<b>\$ 163,235</b>		<b>\$ 158,869</b>		<b>\$ 4,366</b>		<b>\$ -</b>	

**OFG BANCORP**

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

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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, 2014 and December 31, 2013:

	June 30, 2014					
	12 months or more					
	Amortized		Unrealized		Fair	
	Cost		Loss		Value	
	(In thousands)					
<b>Securities available-for-sale</b>						
CMOs issued by US government-sponsored agencies	\$	156,542	\$	3,734	\$	152,808
FNMA and FHLMC certificates		190,630		1,992		188,638
Obligations of Puerto Rico government and political subdivisions		22,391		5,591		16,800
GNMA certificates		199		21		178
	\$	<b>369,762</b>	\$	<b>11,338</b>	\$	<b>358,424</b>
	Less than 12 months					
	Amortized		Unrealized		Fair	
	Cost		Loss		Value	
	(In thousands)					
<b>Securities available-for-sale</b>						
CMOs issued by US government-sponsored agencies	\$	16,365	\$	52	\$	16,313
Obligations of US government and sponsored agencies		8,613		38		8,575
	\$	<b>24,978</b>	\$	<b>90</b>	\$	<b>24,888</b>
	Total					
	Amortized		Unrealized		Fair	
	Cost		Loss		Value	
	(In thousands)					
<b>Securities available-for-sale</b>						
CMOs issued by US government-sponsored agencies	\$	172,907	\$	3,786	\$	169,121
FNMA and FHLMC certificates		190,630		1,992		188,638
Obligations of Puerto Rico government and political subdivisions		22,391		5,591		16,800
Obligations of US government and sponsored agencies		8,613		38		8,575
GNMA certificates		199		21		178
	\$	<b>394,740</b>	\$	<b>11,428</b>	\$	<b>383,312</b>





## OFG BANCORP

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

	December 31, 2013						
	12 months or more						
	Amortized		Unrealized				Fair
	Cost		Loss				Value
	(In thousands)						
<b>Securities available-for-sale</b>							
Obligations of Puerto Rico government and political subdivisions	\$ 20,845		\$ 5,470				\$ 15,375
CMOs issued by US government-sponsored agencies	2,559		237				2,322
GNMA certificates	81		11				70
	<b>\$ 23,485</b>		<b>\$ 5,718</b>				<b>\$ 17,767</b>
	Less than 12 months						
	Amortized		Unrealized				Fair
	Cost		Loss				Value
	(In thousands)						
<b>Securities available-for-sale</b>							
Obligations of Puerto Rico government and political subdivisions	\$ 100,190		\$ 1,375				\$ 98,815
CMOs issued by US government-sponsored agencies	182,661		6,577				176,084
GNMA certificates	122		13				109
FNMA and FHLMC certificates	220,913		6,669				214,244
Obligations of US government and sponsored agencies	10,691		42				10,649
Other debt securities	20,000		320				19,680
	<b>\$ 534,577</b>		<b>\$ 14,996</b>				<b>\$ 519,581</b>
	Total						
	Amortized		Unrealized				Fair
	Cost		Loss				Value
	(In thousands)						
<b>Securities available-for-sale</b>							
Obligations of Puerto Rico government and political subdivisions	\$ 121,035		\$ 6,845				\$ 114,190
CMOs issued by US government-sponsored agencies	185,220		6,814				178,406

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GNMA certificates		203			24			179
FNMA and FHLMC certificates		220,913			6,669			214,244
Obligations of US government and sponsored agencies		10,691			42			10,649
Other debt securities		20,000			320			19,680
	\$	<b>558,062</b>		\$	<b>20,714</b>		\$	<b>537,348</b>

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**OFG BANCORP**

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

The Company performs valuations of the investment securities on a monthly basis. Moreover, the Company conducts quarterly reviews to identify and evaluate each investment in an unrealized loss position for other-than-temporary impairment. Any portion of a decline in value associated with credit loss is recognized in income with the remaining noncredit-related component recognized in other comprehensive income. 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 in an unrealized loss position at June 30, 2014 (\$372.3 million or 94%) consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The remaining investments in an unrealized loss position at June 30, 2014 (\$22.4 million or 6%) consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The recent decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. Moreover, uncertainty in regards to the impact of the recently enacted Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”) and the related subsequent negative rating decisions taken by the credit rating agencies has affected the market value of these securities. As of June 30, 2014, the Company analyzed these investments and considered several factors that, in the Company’s view, support the ability of the Commonwealth and the particular political subdivisions or instrumentalities to continue servicing their debt obligations. Such factors include (i) the collateralization and sources of repayment for such debt obligations; (ii) the government’s efforts to increase revenues and reduce expenses to tackle its recurrent budget deficits; (iii) the Commonwealth’s constitutional framework that provides that “public debt” constitutes a first claim on available Commonwealth resources; and (iv) the Commonwealth’s compliance and commitment to its contractual debt obligations. In addition, the Company believes it is probable that it will collect all amounts due according to the contractual terms of its Puerto Rico government bonds. Based on these factors, the Company expects that such bonds will be repaid in full when due, and given that the Company does not have the intent to sell any such bonds in an unrealized loss position, the Company does not consider them to be other-than-temporarily impaired as of June 30, 2014.



## OFG BANCORP

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

## NOTE 4 - LOANS

The Company's loan portfolio is composed of covered loans and non-covered loans. Covered loans are subject to loss sharing agreements with the FDIC and non-covered loans are not subject to FDIC loss sharing agreements. The risks of covered loans are different from the risks of non-covered loans because of the loss protection provided by the FDIC to covered loans. Loans acquired in the BBVAPR Acquisition are included as non-covered loans in the unaudited consolidated statements of financial condition. Non-covered loans are further subdivided between originated and other loans, acquired loans accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium), and acquired loans accounted for under ASC 310-30 (loans acquired with deteriorated credit quality, including those by analogy).

The composition of the Company's loan portfolio at June 30, 2014 and December 31, 2013 was as follows:

	June 30,		December 31,	
	2014		2013	
	(In thousands)			
<b>Non-covered loans:</b>				
<b>Originated and other loans and leases held for investment:</b>				
Mortgage	\$	788,001	\$	766,265
Commercial		1,183,172		1,127,657
Consumer		161,538		127,744
Auto and leasing		508,034		379,874
		<b>2,640,745</b>		<b>2,401,540</b>
<b>Acquired loans:</b>				
<b>Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)</b>				
Commercial		38,602		77,681
Consumer		49,604		56,174
Auto		238,399		301,584
		<b>326,605</b>		<b>435,439</b>
<b>Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)</b>				
Mortgage		692,069		717,904
Commercial		508,530		545,117
Construction		123,743		126,427

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Consumer		43,824		63,620
Auto		308,512		379,145
		<b>1,676,678</b>		<b>1,832,213</b>
		<b>4,644,028</b>		<b>4,669,192</b>
Deferred loan cost , net		3,236		1,035
<b>Loans receivable</b>		<b>4,647,264</b>		<b>4,670,227</b>
Allowance for loan and lease losses on non-covered loans		(60,360)		(54,298)
<b>Loans receivable, net</b>		<b>4,586,904</b>		<b>4,615,929</b>
Mortgage loans held-for-sale		14,792		46,529
<b>Total non-covered loans, net</b>		<b>4,601,696</b>		<b>4,662,458</b>
<b>Covered loans:</b>				
Loans secured by 1-4 family residential properties		121,416		121,748
Construction and development secured by 1-4 family residential properties		18,566		17,304
Commercial and other construction		248,700		264,249
Consumer		5,177		6,119
Leasing		-		270
<b>Total covered loans</b>		<b>393,859</b>		<b>409,690</b>
Allowance for loan and lease losses on covered loans		(59,515)		(52,729)
<b>Total covered loans, net</b>		<b>334,344</b>		<b>356,961</b>
<b>Total loans, net</b>	<b>\$</b>	<b>4,936,040</b>	<b>\$</b>	<b>5,019,419</b>

During the six-month period ended June 30, 2014, the Company reclassified \$26.4 million in mortgage loans held-for-sale to held-for-investment.

## OFG BANCORP

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

*Non-covered Loans*Originated and Other Loans and Leases Held for Investment

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

The following tables present the aging of the recorded investment in gross originated and other loans held for investment as of June 30, 2014 and December 31, 2013 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	June 30, 2014							
								Loans 90+
								Days Past
								Due and
	30-59 Days	60-89 Days	90+ Days	Total Past				Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans		Accruing
	(In thousands)							
<b>Mortgage</b>								
Traditional (by origination year):								
Up to the year 2002	\$ 5,182	\$ 2,540	\$ 3,225	\$ 10,947	\$ 59,426	\$ 70,373	\$	70
Years 2003 and 2004	5,503	1,905	2,929	10,337	51,945	62,282		-
Year 2005	6,775	2,959	6,783	16,517	69,352	85,869		89
Year 2006	10,562	3,781	5,278	19,621	94,765	114,386		-
Years 2007, 2008								
and 2009	3,962	2,051	5,859	11,872	82,471	94,343		-



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Years 2010, 2011, 2012, 2013 and 2014	3,345	2,745	5,432	11,522	184,150	195,672	339
	35,329	15,981	29,506	80,816	542,109	622,925	498
Non-traditional	1,997	1,128	2,655	5,780	32,254	38,034	-
Loss mitigation program	8,239	7,779	12,427	28,445	59,519	87,964	4,378
	45,565	24,888	44,588	115,041	633,882	748,923	4,876
Home equity secured personal loans	-	-	138	138	611	749	-
GNMA's buy-back option program	-	-	38,329	38,329	-	38,329	-
	<b>45,565</b>	<b>24,888</b>	<b>83,055</b>	<b>153,508</b>	<b>634,493</b>	<b>788,001</b>	<b>4,876</b>
<b>Commercial</b>							
Commercial secured by real estate:							
Corporate	-	-	-	-	90,886	90,886	-
Institutional	-	-	-	-	30,701	30,701	-
Middle market	685	-	638	1,323	139,902	141,225	-
Retail	1,634	494	6,198	8,326	148,862	157,188	-
Floor plan	-	-	-	-	1,680	1,680	-
Real estate	-	-	-	-	11,878	11,878	-
	2,319	494	6,836	9,649	423,909	433,558	-
Other commercial and industrial:							
Corporate	-	-	-	-	61,329	61,329	-
Institutional	-	-	-	-	487,725	487,725	-
Middle market	-	760	-	760	80,034	80,794	-
Retail	536	149	1,343	2,028	75,728	77,756	-
Floor plan	-	-	-	-	42,010	42,010	-
	536	909	1,343	2,788	746,826	749,614	-
	<b>2,855</b>	<b>1,403</b>	<b>8,179</b>	<b>12,437</b>	<b>1,170,735</b>	<b>1,183,172</b>	<b>-</b>

## OFG BANCORP

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

	June 30, 2014												
													Loans 90+
													Days Past
													Due and
	30-59 Days	60-89 Days	90+ Days	Total Past									Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans	Accruing						
	(In thousands)												
<b>Consumer</b>													
Credit cards	345	236	271	852	15,034	15,886	-						
Overdrafts	19	3	1	23	295	318	-						
Personal lines of credit	57	1	129	187	1,789	1,976	-						
Personal loans	1,227	535	677	2,439	123,981	126,420	-						
Cash collateral personal loans	280	94	48	422	16,516	16,938	-						
	<b>1,928</b>	<b>869</b>	<b>1,126</b>	<b>3,923</b>	<b>157,615</b>	<b>161,538</b>	-						
<b>Auto and leasing</b>	37,047	13,620	6,953	<b>57,620</b>	450,414	<b>508,034</b>	-						
<b>Total</b>	<b>\$ 87,395</b>	<b>\$ 40,780</b>	<b>\$ 99,313</b>	<b>\$ 227,488</b>	<b>\$ 2,413,257</b>	<b>\$ 2,640,745</b>	<b>\$ 4,876</b>						

## OFG BANCORP

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

	December 31, 2013											
												Loans 90+
												Days Past
												Due and
	30-59 Days	60-89 Days	90+ Days	Total Past								Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans	Accruing					
	(In thousands)											
<b>Mortgage</b>												
Traditional (by origination year):												
Up to the year 2002	\$ 6,697	\$ 1,635	\$ 3,408	\$ 11,740	\$ 64,772	\$ 76,512	\$ 79					
Years 2003 and 2004	4,722	2,163	1,845	8,730	56,387	65,117	-					
Year 2005	8,527	2,119	4,808	15,454	74,087	89,541	-					
Year 2006	12,055	4,312	4,418	20,785	99,537	120,322	-					
Years 2007, 2008 and 2009	3,464	1,104	4,663	9,231	91,919	101,150	152					
Years 2010, 2011, 2012 and 2013	3,923	1,609	4,453	9,985	139,561	149,546	459					
	39,388	12,942	23,595	75,925	526,263	602,188	690					
Non-traditional	3,217	1,162	2,311	6,690	35,412	42,102	-					
Loss mitigation program	9,759	5,560	13,191	28,510	57,808	86,318	2,185					
	52,364	19,664	39,097	111,125	619,483	730,608	2,875					
Home equity secured personal loans	-	-	138	138	598	736	-					
GNMA's buy-back option program	-	-	34,921	34,921	-	34,921	-					
	<b>52,364</b>	<b>19,664</b>	<b>74,156</b>	<b>146,184</b>	<b>620,081</b>	<b>766,265</b>	<b>2,875</b>					

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<b>Commercial</b>																		
Commercial secured by real estate:																		
Corporate	-	-	-	-	-	-	-	54,796	54,796	-	-	-	-	-	-	-	-	-
Institutional	-	-	-	-	-	-	-	4,050	4,050	-	-	-	-	-	-	-	-	-
Middle market	1,356	-	10,294	11,650	149,933	161,583	-	-	-	-	-	-	-	-	-	-	-	-
Retail	4,253	1,015	3,190	8,458	158,184	166,642	-	-	-	-	-	-	-	-	-	-	-	-
Floor plan	-	-	-	-	1,835	1,835	-	-	-	-	-	-	-	-	-	-	-	-
Real estate	-	-	-	-	11,655	11,655	-	-	-	-	-	-	-	-	-	-	-	-
	5,609	1,015	13,484	20,108	380,453	400,561	-	-	-	-	-	-	-	-	-	-	-	-
Other commercial and industrial:																		
Corporate	236	-	-	236	32,362	32,598	-	-	-	-	-	-	-	-	-	-	-	-
Institutional	-	-	-	-	536,445	536,445	-	-	-	-	-	-	-	-	-	-	-	-
Middle market	-	299	1,134	1,433	57,464	58,897	-	-	-	-	-	-	-	-	-	-	-	-
Retail	1,830	552	539	2,921	58,589	61,510	-	-	-	-	-	-	-	-	-	-	-	-
Floor plan	39	-	-	39	37,607	37,646	-	-	-	-	-	-	-	-	-	-	-	-
	2,105	851	1,673	4,629	722,467	727,096	-	-	-	-	-	-	-	-	-	-	-	-
	<b>7,714</b>	<b>1,866</b>	<b>15,157</b>	<b>24,737</b>	<b>1,102,920</b>	<b>1,127,657</b>	-	-	-	-	-	-	-	-	-	-	-	-

## OFG BANCORP

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

	December 31, 2013												
													Loans 90+
													Days Past
													Due and
	30-59 Days	60-89 Days	90+ Days	Total Past									Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans	Accruing						
	(In thousands)												
<b>Consumer</b>													
Credit cards	287	168	232	687	14,554	15,241	-						
Overdrafts	46	4	-	50	322	372	-						
Personal lines of credit	33	38	66	137	1,844	1,981	-						
Personal loans	1,324	399	352	2,075	92,485	94,560	-						
Cash collateral personal loans	324	43	-	367	15,223	15,590	-						
	<b>2,014</b>	<b>652</b>	<b>650</b>	<b>3,316</b>	<b>124,428</b>	<b>127,744</b>	<b>-</b>						
<b>Auto and leasing</b>	25,531	9,437	5,089	<b>40,057</b>	339,817	<b>379,874</b>	-						
<b>Total</b>	<b>\$ 87,623</b>	<b>\$ 31,619</b>	<b>\$ 95,052</b>	<b>\$ 214,294</b>	<b>\$ 2,187,246</b>	<b>\$ 2,401,540</b>	<b>\$ 2,875</b>						

At June 30, 2014, the increase in delinquencies in the consumer and the auto and leasing portfolios compared to December 31, 2013 is mainly attributed to the fact that non-performing loans of acquired non-covered loan portfolio were accounted for under ASC 310-30. Such portfolios are increasing as new originations are ramping up the balances outstanding. More than a year from the BBVAPR Acquisition, those portfolios are beginning to reflect normal delinquency levels as seasoned portfolios. At June 30, 2014, the increase in delinquencies in the mortgage portfolio compared to December 31, 2013 is mainly attributed to local economic conditions.

At June 30, 2014 and December 31, 2013, the Company had \$476.3 million and \$515.4 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. This entire amount was current at June 30, 2014.



**OFG BANCORP**

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

Acquired 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 as part of the non-covered portfolio are accounted for under the guidance of ASC 310-20, which requires that any contractually required loan payment receivable in excess of the Company’s initial investment in the loans be accreted into interest income on a level-yield basis over the life of the loan. Loans accounted for under ASC 310-20 are placed on non-accrual status when past due in accordance with the Company’s non-accrual policy, and any accretion of discount or amortization of premium is discontinued. Loans acquired in the non-covered portfolio 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 loans accounted for under ASC 310-20 as of June 30, 2014 and December 31, 2013, by class of loans:

	June 30, 2014															
																Loans 90+
																Days Past
																Due and
	30-59 Days	60-89 Days	90+ Days	Total Past												Still
	Past Due	Past Due	Past Due	Due	Current											Accruing
	(In thousands)															
<b>Commercial</b>																