

OFG BANCORP  
Form 10-Q  
August 10, 2015

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2015**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-12647**

**OFG Bancorp**

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

Large Accelerated Filer ☒ Company

Accelerated Filer ☐

Non-Accelerated Filer

Smaller Reporting

(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:**

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

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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, 2015 AND DECEMBER 31, 2014**

**ASSETS**

**Cash and cash equivalents:**

Cash and due from banks

Money market investments

**Total cash and cash equivalents**

**Restricted cash**

**Investments:**

Trading securities, at fair value, with amortized cost of \$1,327 (December 31, 2014 - \$2,419)

Investment securities available-for-sale, at fair value, with amortized cost of \$1,023,573 (December 31, 2014 - \$1,187,679)

Investment securities held-to-maturity, at amortized cost, with fair value of \$547,776 (December 31, 2014 - \$164,154)

Federal Home Loan Bank (FHLB) stock, at cost

Other investments

**Total investments**

**Loans:**

Mortgage loans held-for-sale, at lower of cost or fair value

Non-covered loans, net of allowance for loan and lease losses of \$102,877 (December 31, 2014 - \$69,517)

Covered loans, net of allowance for loan and lease losses of \$71,452 (December 31, 2014 - \$64,245)

**Total loans, net**

**Other assets:**

FDIC indemnification asset

Foreclosed real estate covered under shared-loss agreements with the FDIC

Foreclosed real estate not covered under shared-loss agreements with the FDIC

Accrued interest receivable

Deferred tax asset, net

Premises and equipment, net

Customers' liability on acceptances

Servicing assets

Derivative assets

Goodwill

Other assets

**Total assets**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Deposits:**

Demand deposits

Savings accounts

Time deposits

**Total deposits**

**Borrowings:**

Securities sold under agreements to repurchase

Advances from FHLB



Subordinated capital notes

Other borrowings

**Total borrowings**

**Other liabilities:**

Derivative liabilities

Acceptances executed and outstanding

Accrued expenses and other liabilities

**Total liabilities**

**Commitments and contingencies (See Note 20)**

**Stockholders' equity:**

Preferred stock; 10,000,000 shares authorized;

1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D

issued and outstanding, (December 31, 2014 - 1,340,000; 1,380,000; and 960,000) \$25 liquidation value

84,000 shares of Series C issued and outstanding (December 31, 2014 - 84,000); \$1,000 liquidation value

Common stock, \$1 par value; 100,000,000 shares authorized; 52,625,869 shares issued:

44,367,909 shares outstanding (December 31, 2014 - 52,625,869; 44,613,615)

Additional paid-in capital

Legal surplus

Retained earnings

Treasury stock, at cost, 8,257,960 shares (December 31, 2014 - 8,012,254 shares)

Accumulated other comprehensive income, net of tax of -\$185 (December 31, 2014 \$447)

**Total stockholders' equity**

**Total liabilities and stockholders' equity**

\$

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

## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)		(In thousands, except per share data)	
<b>Interest income:</b>				
Non-covered loans	\$ 77,746	\$ 88,064	\$ 159,725	\$ 173,307
Covered loans	12,758	24,879	28,262	48,267
<b>Total interest income from loans</b>	<b>90,504</b>	<b>112,943</b>	<b>187,987</b>	<b>221,574</b>
Mortgage-backed securities	7,998	11,984	16,587	24,400
Investment securities and other	911	973	1,840	3,000
<b>Total interest income</b>	<b>99,413</b>	<b>125,900</b>	<b>206,414</b>	<b>248,974</b>
<b>Interest expense:</b>				
Deposits	6,604	9,165	13,708	18,143
Securities sold under agreements to repurchase	7,394	7,372	14,558	14,784
Advances from FHLB and other borrowings	2,248	2,289	4,483	4,583
Subordinated capital notes	875	996	1,738	1,988
<b>Total interest expense</b>	<b>17,121</b>	<b>19,822</b>	<b>34,487</b>	<b>39,498</b>
<b>Net interest income</b>	<b>82,292</b>	<b>106,078</b>	<b>171,927</b>	<b>209,476</b>
Provision for non-covered loan and lease losses	15,644	13,220	53,027	23,282
(Recovery) Provision for covered loan and lease losses	(105)	1,595	4,705	3,224
<b>Total provision for loan and lease losses</b>	<b>15,539</b>	<b>14,815</b>	<b>57,732</b>	<b>26,506</b>
<b>Net interest income after provision for loan and lease losses</b>	<b>66,753</b>	<b>91,263</b>	<b>114,195</b>	<b>182,970</b>
<b>Non-interest income:</b>				
Banking service revenue	10,212	9,995	20,417	20,552
Wealth management revenue	7,285	7,336	14,440	14,203
Mortgage banking activities	1,862	1,554	3,725	3,249
<b>Total banking and financial service revenues</b>	<b>19,359</b>	<b>18,885</b>	<b>38,582</b>	<b>38,004</b>
FDIC shared-loss expense, net:				
FDIC indemnification asset expense	(22,512)	(17,499)	(34,733)	(35,121)
Change in true-up payment obligation	(733)	(856)	(1,596)	(1,721)
	(23,245)	(18,355)	(36,329)	(36,842)
Net gain (loss) on:				
Sale of securities	-	-	2,572	4,366
Derivatives	77	(247)	(13)	(470)
Other non-interest (loss) income	(847)	224	(2,587)	678
<b>Total non-interest (loss) income, net</b>	<b>(4,656)</b>	<b>507</b>	<b>2,225</b>	<b>5,736</b>
<b>Non-interest expense:</b>				
Compensation and employee benefits	19,260	20,707	39,440	42,494
Professional and service fees	4,143	3,512	8,324	7,719
Occupancy and equipment	8,883	8,605	17,519	16,914
Insurance	2,251	2,333	4,204	4,407
Electronic banking charges	5,851	4,796	11,218	9,449
Information technology expenses	1,543	1,485	2,997	3,300

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Advertising, business promotion, and strategic initiatives	1,558	1,669	3,186	3,450
Foreclosure, repossession and other real estate expenses	10,337	6,656	15,783	13,043
Loan servicing and clearing expenses	2,594	1,669	4,947	3,728
Taxes, other than payroll and income taxes	2,703	3,776	4,182	7,511
Communication	770	813	1,460	1,770
Printing, postage, stationary and supplies	582	645	1,219	1,200
Director and investor relations	289	293	583	544
Other	3,673	2,889	5,707	5,723
<b>Total non-interest expense</b>	<b>64,437</b>	<b>59,848</b>	<b>120,769</b>	<b>121,252</b>
<b>(Loss) income before income taxes</b>	<b>(2,340)</b>	<b>31,922</b>	<b>(4,349)</b>	<b>67,454</b>
Income tax expense	769	10,613	1,748	22,398
<b>Net (loss) income</b>	<b>(3,109)</b>	<b>21,309</b>	<b>(6,097)</b>	<b>45,056</b>
Less: dividends on preferred stock	(3,466)	(3,466)	(6,931)	(6,931)
<b>Net (loss) income available to common shareholders</b>	<b>\$ (6,575)</b>	<b>\$ 17,843</b>	<b>\$ (13,028)</b>	<b>\$ 38,125</b>
<b>(Loss) earnings per common share:</b>				
Basic	<b>\$ (0.15)</b>	<b>\$ 0.40</b>	<b>\$ (0.29)</b>	<b>\$ 0.84</b>
Diluted	<b>\$ (0.15)</b>	<b>\$ 0.38</b>	<b>\$ (0.29)</b>	<b>\$ 0.80</b>
<b>Average common shares outstanding and equivalents</b>	<b>51,774</b>	<b>52,352</b>	<b>51,876</b>	<b>52,476</b>
<b>Cash dividends per share of common stock</b>	<b>\$ 0.10</b>	<b>\$ 0.08</b>	<b>\$ 0.20</b>	<b>\$ 0.16</b>

See notes to unaudited consolidated financial statements.

## OFG BANCORP

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
**FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014**

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
<b>Net (loss) income</b>	\$ (3,109)	\$ 21,309	\$ (6,097)	\$ 45,056
<b>Other comprehensive (loss) income before tax:</b>				
Unrealized (loss) gain on securities available-for-sale	(12,916)	14,941	(5,541)	24,504
Realized (loss) gain on investment securities included in net income	-	-	(2,572)	(4,366)
Unrealized (loss) gain on cash flow hedges	2,016	14	2,071	391
<b>Other comprehensive (loss) income before taxes</b>	<b>(10,900)</b>	<b>14,955</b>	<b>(6,042)</b>	<b>20,529</b>
Income tax effect	877	(1,221)	632	(1,965)
<b>Other comprehensive (loss) income after taxes</b>	<b>(10,023)</b>	<b>13,734</b>	<b>(5,410)</b>	<b>18,564</b>
<b>Comprehensive (loss) income</b>	\$ <b>(13,132)</b>	\$ <b>35,043</b>	\$ <b>(11,507)</b>	\$ <b>63,620</b>

See notes to unaudited consolidated financial statements.

## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014

	Six-Month Period Ended June 30,	
	2015	2014
	(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	52,626	52,707
Exercised stock options	-	23
<b>Balance at end of period</b>	<b>52,626</b>	<b>52,730</b>
<b>Additional paid-in capital:</b>		
Balance at beginning of period	539,311	538,071
Stock-based compensation expense	794	946
Exercised stock options	-	242
Lapsed restricted stock units	(436)	(323)
<b>Balance at end of period</b>	<b>539,669</b>	<b>538,936</b>
<b>Legal surplus:</b>		
Balance at beginning of period	70,467	61,957
Transfer (to) from retained earnings	(533)	4,481
<b>Balance at end of period</b>	<b>69,934</b>	<b>66,438</b>
<b>Retained earnings:</b>		
Balance at beginning of period	181,152	133,629
Net (loss) income	(6,097)	45,056
Cash dividends declared on common stock	(8,920)	(7,218)
Cash dividends declared on preferred stock	(6,931)	(6,931)
Transfer from (to) legal surplus	533	(4,481)
<b>Balance at end of period</b>	<b>159,737</b>	<b>160,055</b>
<b>Treasury stock:</b>		
Balance at beginning of period	(97,070)	(80,642)
Stock repurchased	(4,238)	(10,393)
Lapsed restricted stock units	640	323
<b>Balance at end of period</b>	<b>(100,668)</b>	<b>(90,712)</b>
<b>Accumulated other comprehensive income, net of tax:</b>		
Balance at beginning of period	19,711	3,191
Other comprehensive (loss) income, net of tax	(5,410)	18,564
<b>Balance at end of period</b>	<b>14,301</b>	<b>21,755</b>
<b>Total stockholders' equity</b>	<b>\$ 911,599</b>	<b>\$ 925,202</b>

See notes to unaudited consolidated financial statements.

## OFG BANCORP

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014**

	<b>Six-Month Period Ended June 30, 2015      2014 (In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (6,097)	\$ 45,056
<b>Adjustments to reconcile net (loss) income to net cash provided by operating activities:</b>		
Amortization of deferred loan origination fees, net of costs	1,813	1,330
Amortization of fair value premiums, net of discounts, on acquired loans	2,766	6,884
Amortization of investment securities premiums, net of accretion of discounts	5,931	203
Amortization of core deposit and customer relationship intangibles	953	1,085
Amortization of fair value premiums on acquired deposits	478	2,908
FDIC shared-loss expense, net	36,329	36,842
Depreciation and amortization of premises and equipment	5,930	4,826
Deferred income tax (benefit) expense, net	(1,316)	13,211
Provision for covered and non-covered loan and lease losses, net	57,732	26,506
Stock-based compensation	794	946
<b>(Gain) loss on:</b>		
Sale of securities	(2,572)	(4,366)
Sale of mortgage loans held-for-sale	(2,010)	(2,447)
Derivatives	(113)	646
Foreclosed real estate	(706)	5,052
Sale of other repossessed assets	3,427	3,305
Sale of premises and equipment	10	(10)
Originations of loans held-for-sale	(111,433)	(86,058)
Proceeds from sale of loans held-for-sale	46,678	47,834
Net (increase) decrease in:		
Trading securities	808	256
Accrued interest receivable	2,091	(3,774)
Servicing assets	1,216	146
Other assets	(19,813)	11,651
Net increase (decrease) in:		
Accrued interest on deposits and borrowings	(608)	(932)
Accrued expenses and other liabilities	24,219	(16,247)
<b>Net cash provided by operating activities</b>	<b>46,507</b>	<b>94,853</b>
<b>Cash flows from investing activities:</b>		
Purchases of:		
Investment securities available-for-sale	(1,671)	(217,974)
Investment securities held-to-maturity	(399,206)	(26,707)
FHLB stock	-	(76,725)
Maturities and redemptions of:		
Investment securities available-for-sale	121,121	295,013

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Investment securities held-to-maturity	10,725	-
FHLB stock	343	76,794
Proceeds from sales of:		
Investment securities available-for-sale	103,831	163,235
Foreclosed real estate and other repossessed assets	34,136	22,991
Premises and equipment	10	20
Mortgage servicing rights	5,927	-
Origination and purchase of loans, excluding loans held-for-sale	(414,725)	(347,691)
Principal repayment of loans, including covered loans	491,330	339,102
Reimbursements from the FDIC on shared-loss agreements	31,657	18,700
Additions to premises and equipment	(1,838)	(4,100)
Net change in securities purchased under agreements to resell	-	60,000
Net change in restricted cash	2,321	67,029
<b>Net cash (used) provided by investing activities</b>	<b>(16,039)</b>	<b>369,687</b>

## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014 – (CONTINUED)

	Six-Month Period Ended June 30,	
	2015	2014
	(In thousands)	
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in:		
Deposits	(209,272)	(235,062)
Securities sold under agreements to repurchase	181,129	(255,000)
FHLB advances, federal funds purchased, and other borrowings	(2,845)	24,279
Subordinated capital notes	525	787
Exercise of stock options and restricted units lapsed, net	204	265
Purchase of treasury stock	(4,238)	(10,393)
Dividends paid on preferred stock	(6,931)	(6,931)
Dividends paid on common stock	(8,932)	(7,269)
<b>Net cash used in financing activities</b>	<b>(50,360)</b>	<b>(489,324)</b>
<b>Net change in cash and cash equivalents</b>	<b>(19,892)</b>	<b>(24,784)</b>
Cash and cash equivalents at beginning of period	573,427	621,269
<b>Cash and cash equivalents at end of period</b>	<b>\$ 553,535</b>	<b>\$ 596,485</b>
<b>Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:</b>		
Interest paid	\$ 34,403	\$ 42,667
Income taxes paid	6,730	319
Mortgage loans securitized into mortgage-backed securities	\$ 61,854	\$ 46,505
Transfer from loans to foreclosed real estate and other repossessed assets	\$ 15,390	\$ 47,852
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	\$ 1,473	\$ 473
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	\$ 156	\$ 26,376

See notes to unaudited consolidated financial statements.



**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

***Nature of Operations***

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

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

***Recent Accounting Developments***

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

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

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

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

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(In thousands)</b>	
Cash pledged as collateral to other financial institutions to secure:		
Derivatives	\$ 2,980	\$ 2,980
Obligations under agreement of loans sold with recourse	3,106	5,427
	<b>\$ 6,086</b>	<b>\$ 8,407</b>

At June 30, 2015 and December 31, 2014, the Bank's international banking entities, Oriental International Bank Inc. ("OIB") and Oriental Overseas, each held unencumbered certificates of deposit in the amount of \$300 thousand as the legal reserve required for international banking entities under Puerto Rico law. Each certificate of deposit cannot be withdrawn by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions ("OCFI").

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At June 30, 2015 and December 31, 2014, the Company had delivered \$3.0 million of cash as collateral for such derivatives activities.

As part of the BBVA Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At June 30, 2015 and December 31, 2014, the Company delivered as collateral cash amounting to \$3.1 million and \$5.4 million, respectively.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover government demand deposits. The amount of those minimum average reserve balances for the week that covered June 30, 2015 was \$152.7 million (December 31, 2014 - \$141.5 million). At June 30, 2015 and December 31, 2014, the Bank complied with the requirement. Cash and due from bank as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

**NOTE 3 – INVESTMENT SECURITIES**

***Money Market Investments***

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At June 30, 2015 and December 31, 2014, money market instruments included as part of cash and cash equivalents amounted to \$5.8 million and \$4.7 million, respectively.

## 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, 2015 and December 31, 2014 were as follows:

	June 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
(In thousands)					
<b>Available-for-sale</b>					
<b>Mortgage-backed securities</b>					
FNMA and FHLMC certificates	\$ 832,127	\$ 30,638	\$ 1,192	\$ 861,573	3.01%
GNMA certificates	3,625	249	-	3,874	5.03%
CMOs issued by US government-sponsored agencies	157,884	83	2,921	155,046	1.83%
<b>Total mortgage-backed securities</b>	<b>993,636</b>	<b>30,970</b>	<b>4,113</b>	<b>1,020,493</b>	<b>2.83%</b>
<b>Investment securities</b>					
Obligations of US government-sponsored agencies	6,114	14	-	6,128	1.36%
Obligations of Puerto Rico government and	20,988	-	6,259	14,729	5.41%
political subdivisions					
Other debt securities	2,835	134	-	2,969	2.99%
<b>Total investment securities</b>	<b>29,937</b>	<b>148</b>	<b>6,259</b>	<b>23,826</b>	<b>4.35%</b>
<b>Total securities available for sale</b>	<b>\$ 1,023,573</b>	<b>\$ 31,118</b>	<b>\$ 10,372</b>	<b>\$ 1,044,319</b>	<b>2.87%</b>
<b>Held-to-maturity</b>					
<b>Mortgage-backed securities</b>					
FNMA and FHLMC certificates	525,504	978	3,757	522,725	2.28%
<b>Investment securities</b>					
US Treasury securities	25,049	6	4	25,051	0.49%
<b>Total securities held to maturity</b>	<b>550,553</b>	<b>984</b>	<b>3,761</b>	<b>547,776</b>	<b>2.20%</b>
<b>Total</b>	<b>\$ 1,574,126</b>	<b>\$ 32,102</b>	<b>\$ 14,133</b>	<b>\$ 1,592,095</b>	<b>2.64%</b>

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
(In thousands)					
<b>Available-for-sale</b>					
<b>Mortgage-backed securities</b>					
FNMA and FHLMC certificates	\$ 972,836	\$ 37,876	\$ 1,203	\$ 1,009,509	3.12%
GNMA certificates	4,473	288	8	4,753	4.94%

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CMOs issued by US government-sponsored agencies	179,146	136	3,153	176,129	1.81%
<b>Total mortgage-backed securities</b>	<b>1,156,455</b>	<b>38,300</b>	<b>4,364</b>	<b>1,190,391</b>	<b>2.92%</b>
<b>Investment securities</b>					
Obligations of US government-sponsored agencies	7,148	33	-	7,181	1.34%
Obligations of Puerto Rico government and					
public instrumentalities	20,939	-	5,267	15,672	5.41%
Other debt securities	3,137	157	-	3,294	2.95%
<b>Total investment securities</b>	<b>31,224</b>	<b>190</b>	<b>5,267</b>	<b>26,147</b>	<b>4.23%</b>
<b>Total securities available-for-sale</b>	<b>\$ 1,187,679</b>	<b>\$ 38,490</b>	<b>\$ 9,631</b>	<b>\$ 1,216,538</b>	<b>2.96%</b>
<b>Held-to-maturity</b>					
Mortgage-backed securities					
<b>FNMA and FHLMC certificates</b>	162,752	1,402	-	164,154	2.48%
<b>Total</b>	<b>\$ 1,350,431</b>	<b>\$ 39,892</b>	<b>\$ 9,631</b>	<b>\$ 1,380,692</b>	<b>2.90%</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, 2015, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2015			
	Available-for-sale		Held-to-maturity	
	Amortized Cost (In thousands)	Fair Value	Amortized Cost (In thousands)	Fair Value
<b>Mortgage-backed securities</b>				
Due after 5 to 10 years				
FNMA and FHLMC certificates	\$ 18,125	\$ 18,401	\$ -	\$ -
<b>Total due after 5 to 10 years</b>	<b>18,125</b>	<b>18,401</b>	<b>-</b>	<b>-</b>
Due after 10 years				
FNMA and FHLMC certificates	814,002	843,172	525,504	522,725
GNMA certificates	3,625	3,874	-	-
CMOs issued by US government-sponsored agencies	157,884	155,046	-	-
<b>Total due after 10 years</b>	<b>975,511</b>	<b>1,002,092</b>	<b>525,504</b>	<b>522,725</b>
<b>Total mortgage-backed securities</b>	<b>993,636</b>	<b>1,020,493</b>	<b>525,504</b>	<b>522,725</b>
<b>Investment securities</b>				
Due from 1 to 5 years				
US Treasury securities	-	-	25,049	25,051
Obligations of Puerto Rico government and political subdivisions	10,521	8,444	-	-
<b>Total due from 1 to 5 years</b>	<b>10,521</b>	<b>8,444</b>	<b>25,049</b>	<b>25,051</b>
Due after 5 to 10 years				
Obligations of US government and sponsored agencies	6,114	6,128	-	-
<b>Total due after 5 to 10 years</b>	<b>6,114</b>	<b>6,128</b>	<b>-</b>	<b>-</b>
Due after 10 years				
Obligations of Puerto Rico government and political subdivisions	10,467	6,285	-	-
Other debt securities	2,835	2,969	-	-
<b>Total due after 10 years</b>	<b>13,302</b>	<b>9,254</b>	<b>-</b>	<b>-</b>
<b>Total investment securities</b>	<b>29,937</b>	<b>23,826</b>	<b>25,049</b>	<b>25,051</b>
<b>Total securities available-for-sale</b>	<b>\$ 1,023,573</b>	<b>\$ 1,044,319</b>	<b>\$ 550,553</b>	<b>\$ 547,776</b>

## OFG BANCORP

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

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the six-month period ended June 30, 2015 and 2014, the Company sold \$63.5 million and \$48.1 million, respectively, of available-for-sale Government National Mortgage Association (“GNMA”) certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such periods.

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

	Six-Month Period Ended June 30,2015				
	Book Value				
<u>Description</u>	Sale Price	at Sale	Gross Gains	Gross Losses	
	(In thousands)				
Sale of securities available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	\$          40,307	\$          37,735	\$          2,571	\$          -	
GNMA certificates	63,524	63,523	1	-	
<b>Total</b>	<b>\$         103,831</b>	<b>\$         101,258</b>	<b>\$          2,572</b>	<b>\$          -</b>	

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



## OFG BANCORP

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

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014:

	June 30, 2015 12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
<b>Securities available-for-sale</b>			
CMOs issued by US government-sponsored agencies	\$ 115,483	\$ 2,807	\$ 112,676
Obligations of Puerto Rico government and political subdivisions	20,988	6,259	14,729
	<b>\$ 136,471</b>	<b>\$ 9,066</b>	<b>\$ 127,405</b>

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
<b>Securities available-for-sale</b>			
CMOs issued by US Government-sponsored agencies	\$ 28,596	\$ 114	\$ 28,482
FNMA and FHLMC certificates	163,733	1,192	162,541
	<b>192,329</b>	<b>1,306</b>	<b>191,023</b>

<b>Securities held-to-maturity</b>			
FNMA and FHLMC Certificates	358,591	3,757	354,834
US Treasury Securities	10,024	4	10,020
	<b>368,615</b>	<b>3,761</b>	<b>364,854</b>
	<b>\$ 560,944</b>	<b>\$ 5,067</b>	<b>\$ 555,877</b>

	Amortized Cost	Total Unrealized Loss	Fair Value
	(In thousands)		
<b>Securities available-for-sale</b>			
CMOs issued by US government-sponsored agencies	\$ 144,079	\$ 2,921	\$ 141,158
FNMA and FHLMC certificates	163,733	1,192	162,541
Obligations of Puerto Rico government and political subdivisions	20,988	6,259	14,729
	<b>328,800</b>	<b>10,372</b>	<b>318,428</b>
<b>Securities held-to-maturity</b>			
FNMA and FHLMC Certificates	358,591	3,757	354,834
US Treasury Securities	10,024	4	10,020
	<b>368,615</b>	<b>3,761</b>	<b>364,854</b>
	<b>\$ 697,415</b>	<b>\$ 14,133</b>	<b>\$ 683,282</b>



## OFG BANCORP

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

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

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

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

**OFG BANCORP**

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

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

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

Most of the investments (\$676.4 million, amortized cost, or 97%) with an unrealized loss position at June 30, 2015 consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The remaining investments (\$21.0 million, amortized cost, or 3%) with an unrealized loss position at June 30, 2015 consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. Moreover, the negative rating decisions taken by the credit rating agencies have affected the market value and liquidity of these securities.

As of June 30, 2015, the Company applied a discounted cash flow analysis to the Puerto Rico government bonds to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of these investments was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investments, and included the following components:

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

- The risk-adjusted cash flows are calculated based on a monthly default probability and recovery rate assumptions based on the credit rating of each investment. Constant monthly default rates are assumed throughout the life of the bonds which are based on the respective security's credit rating as of the date of the analysis.
- The adjusted future cash flows are then discounted at the original effective yield of each investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of each investment.

The discounted cash flow analysis for the investments showed a cumulative default probability at maturity in the range of 5.953% to 38.650%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 61.349% and 94.046%). Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in the Puerto Rico government bonds and is therefore not required to recognize a credit loss as of June 30, 2015.

Also, the Bank's conclusion is based on the assessment of the specific source of repayment of each outstanding bond, and the bonds continue to perform. No principal is due on the bonds until July 1<sup>st</sup>, 2017, except for PRHTA that started the principal repayments on July 1<sup>st</sup> 2014 and was paid as scheduled. All scheduled interest payments are being collected from the three different issuers. The Bank has cash flow capacity, sufficient liquidity and a strong capital position to maintain the bonds and does not need to sell them in a loss position.

## 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, 2015 and December 31, 2014 was as follows:

	June 30, 2015	December 31, 2014
	(In thousands)	
<b>Non-covered loans:</b>		
<b>Originated and other loans and leases held for investment:</b>		
Mortgage	\$ 757,187	\$ 791,751
Commercial	1,363,851	1,289,732
Consumer	212,629	186,760
Auto and leasing	623,198	575,582
	<b>2,956,865</b>	<b>2,843,825</b>
<b>Acquired loans:</b>		
<b>Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)</b>		
Commercial	8,448	12,675
Consumer	41,505	45,344
Auto	142,570	184,782
	<b>192,523</b>	<b>242,801</b>
<b>Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)</b>		
Mortgage	631,807	656,122
Commercial	406,447	452,201
Construction	93,263	106,361
Consumer	18,869	29,888
Auto	195,891	247,233
	<b>1,346,277</b>	<b>1,491,805</b>
	<b>4,495,665</b>	<b>4,578,431</b>
Deferred loan cost , net	3,877	4,282
<b>Loans receivable</b>	<b>4,499,542</b>	<b>4,582,713</b>

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Allowance for loan and lease losses on loans not accounted for under ASC 310-30	(102,877)	(69,517)
<b>Loans receivable, net</b>	<b>4,396,665</b>	<b>4,513,196</b>
Mortgage loans held-for-sale	20,768	14,539
<b>Total non-covered loans, net</b>	<b>4,417,433</b>	<b>4,527,735</b>
<b>Covered loans:</b>		
Loans secured by 1-4 family residential properties	117,840	117,171
Construction and development secured by 1-4 family residential properties	19,152	19,562
Commercial and other construction	153,199	221,917
Consumer	3,295	4,506
<b>Total covered loans</b>	<b>293,486</b>	<b>363,156</b>
Allowance for loan and lease losses on covered loans	(71,452)	(64,245)
<b>Total covered loans, net</b>	<b>222,034</b>	<b>298,911</b>
<b>Total loans, net</b>	<b>\$ 4,639,467</b>	<b>\$ 4,826,646</b>

## 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, 2015 and December 31, 2014 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

June 30, 2015								
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due (In thousands)	Current in Non- Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
<b>Mortgage</b>								
Traditional (by origination year):								
Up to the year 2002	\$ 4,342	\$ 2,258	\$ 3,076	\$ 9,676	\$ -	\$ 51,533	\$ 61,209	\$ 42
Years 2003 and 2004	8,460	4,616	6,260	19,336	-	84,968	104,304	-
Year 2005	5,338	2,012	3,926	11,276	-	45,881	57,157	-
Year 2006	6,496	3,315	7,601	17,412	170	64,292	81,874	-
Years 2007, 2008								
and 2009	4,781	2,359	10,757	17,897	-	75,309	93,206	1,025
Years 2010, 2011, 2012, 2013	3,399	1,528	9,063	13,990	-	205,934	219,924	168
2014 and 2015	32,816	16,088	40,683	89,587	170	527,917	617,674	1,235
Non-traditional	1,450	543	3,784	5,777	-	27,705	33,482	-



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Loss mitigation program	11,542	6,076	14,627	32,245	5,016	61,389	98,650	3,547
	45,808	22,707	59,094	127,609	5,186	617,011	749,806	4,782
Home equity secured personal								
loans	-	-	-	-	-	420	420	-
GNMA's buy-back option program	-	-	6,961	6,961	-	-	6,961	-
	<b>45,808</b>	<b>22,707</b>	<b>66,055</b>	<b>134,570</b>	<b>5,186</b>	<b>617,431</b>	<b>757,187</b>	<b>4,782</b>
<b>Commercial</b>								
Commercial secured by real estate:								
Corporate	-	-	-	-	-	201,251	201,251	-
Institutional	-	-	-	-	-	35,113	35,113	-
Middle market	3,929	-	2,180	6,109	8,216	183,736	198,061	-
Retail	611	153	7,280	8,044	2,048	193,319	203,411	-
Floor plan	-	-	50	50	-	3,047	3,097	-
Real estate	-	-	-	-	-	16,646	16,646	-
	4,540	153	9,510	14,203	10,264	633,112	657,579	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	65,344	65,344	-
Institutional	-	-	-	-	197,559	207,661	405,220	-
Middle market	-	-	225	225	479	102,281	102,985	-
Retail	325	284	772	1,381	930	92,935	95,246	-
Floor plan	153	77	23	253	-	37,224	37,477	-
	478	361	1,020	1,859	198,968	505,445	706,272	-
	<b>5,018</b>	<b>514</b>	<b>10,530</b>	<b>16,062</b>	<b>209,232</b>	<b>1,138,557</b>	<b>1,363,851</b>	<b>-</b>

## OFG BANCORP

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

June 30, 2015

								Loans 90+ Days Past Due and Still Accruing
	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	
(In thousands)								
<b>Consumer</b>								
Credit cards	303	120	319	742	-	19,381	20,123	-
Overdrafts	22	2	-	24	-	293	317	-
Personal lines of credit	97	17	63	177	22	2,083	2,282	-
Personal loans	1,532	858	716	3,106	320	170,202	173,628	-
Cash collateral personal loans	87	51	-	138	-	16,141	16,279	-
	2,041	1,048	1,098	4,187	342	208,100	212,629	-
<b>Auto and leasing</b>	47,451	18,593	7,420	73,464	365	549,369	623,198	-
<b>Total</b>	<b>\$ 100,318</b>	<b>\$ 42,862</b>	<b>\$ 85,103</b>	<b>\$ 228,283</b>	<b>\$ 215,125</b>	<b>\$ 2,513,457</b>	<b>\$ 2,956,865</b>	<b>\$ 4,782</b>

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## OFG BANCORP

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

December 31, 2014

									Loans 90+ Days Past Due and Still Accruing
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due  (In thousands)	Current in Non- Accrual	Current Accruing	Total Loans		
Mortgage									
Traditional (by origination year):									
Up to the year 2002	\$ 4,128	\$ 3,157	\$ 4,395	\$ 11,680	\$ -	\$ 54,064	\$ 65,744	\$	134
Years 2003 and 2004	10,484	4,735	6,489	21,708	455	87,506	109,669		-
Year 2005	3,824	2,205	4,454	10,483	131	49,858	60,472		-
Year 2006	5,706	3,298	8,667	17,671	548	67,331	85,550		89
Years 2007, 2008									
	5,283	1,809	7,646	14,738	761	77,990	93,489		-
and 2009									
Years 2010, 2011, 2012, 2013									
	3,684	2,992	6,900		-	190,848			365
and 2014				13,576			204,424		
	33,109	18,196	38,551	89,856	1,895	527,597	619,348		588
Non-traditional	1,477	584	3,223	5,284	-	30,916	36,200		-
Loss mitigation program	8,199	7,106	14,114	29,419	6,358	57,666	93,443		2,766
	42,785	25,886	55,888	124,559	8,253	616,179	748,991		3,354
Home equity secured personal loans	-	-	-	-	-	517	517		-
GNMA's buy-back option program	-	-	42,243	42,243	-	-	42,243		-
	42,785	25,886	98,131	166,802	8,253	616,696	791,751		3,354
Commercial									
Commercial secured by real estate:									
Corporate	-	-	-	-	-	133,076	133,076		-
Institutional	-	-	-	-	-	36,611	36,611		-
Middle market	-	645	396	1,041	8,494	154,515	164,050		-
Retail	330	561	7,275	8,166	1,445	166,017	175,628		-
Floor plan	-	-	-	-	-	1,650	1,650		-
Real estate	-	-	-	-	-	12,628	12,628		-
	330	1,206	7,671	9,207	9,939	504,497	523,643		-
Other commercial and industrial:									
Corporate	-	-	-	-	-	63,746	63,746		-
Institutional	-	-	-	-	-	478,935	478,935		-
Middle market	-	-	618	618	-	91,716	92,334		-
Retail	866	412	1,061	2,339	1,047	86,785	90,171		-
Floor plan	-	-	-	-	-	40,903	40,903		-
	866	412	1,679	2,957	1,047	762,085	766,089		-

1,196	1,618	9,350	12,164	10,986	1,266,582	1,289,732	-
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## OFG BANCORP

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

December 31, 2014

								Loans 90+ Days Past Due and Still Accruing
	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	
(In thousands)								
<b>Consumer</b>								
Credit cards	360	139	375	874	-	18,197	19,071	-
Overdrafts	20	-	-	20	-	287	307	-
Personal lines of credit	102	25	102	229	9	1,962	2,200	-
Personal loans	1,822	743	678	3,243	337	144,359	147,939	-
Cash collateral personal loans	275	39	9	323	-	16,920	17,243	-
	<b>2,579</b>	<b>946</b>	<b>1,164</b>	<b>4,689</b>	<b>346</b>	<b>181,725</b>	<b>186,760</b>	<b>-</b>
<b>Auto and leasing</b>	<b>47,658</b>	<b>16,916</b>	<b>7,420</b>	<b>71,994</b>	<b>145</b>	<b>503,443</b>	<b>575,582</b>	<b>-</b>
<b>Total</b>	<b>\$ 94,218</b>	<b>\$ 45,366</b>	<b>\$ 116,065</b>	<b>\$ 255,649</b>	<b>\$ 19,730</b>	<b>\$ 2,568,446</b>	<b>\$ 2,843,825</b>	<b>\$ 3,354</b>

At June 30, 2015 and December 31, 2014, the Company had \$347.5 million and \$450.2 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All loans granted to Puerto Rico government were current at June 30, 2015 and December 31, 2014. We, as part of the bank syndicate, agreed in August 2014 to extend our credit facilities with PREPA to March 31, 2015, and are currently extended to September 15, 2015. After the first extension, the Company classified the credit as substandard and a troubled-debt restructuring. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that the PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual and recorded a \$24 million provision during the first quarter of 2015. The impairment analysis was updated for the second quarter with no change in provision. For the quarter ended June 30, 2015, interest payments are being applied to principal

## 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, 2015 and December 31, 2014, by class of loans:

June 30, 2015								Loans 90+ Days Past Due and Still Accruing	
	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		
(In thousands)									
Commercial									
Commercial secured by real estate									
Retail	\$ -	\$ -	\$ 344	\$ 344	\$ -	\$ -	\$ 344	\$ -	
Floor plan	-	-	496	496	-	2,267	2,763	-	
	-	-	840	840	-	2,267	3,107	-	
Other commercial and industrial									
Retail	145	32	173	350	2	3,608	3,960	-	
Floor plan	87	130	26	243	4	1,134	1,381	-	
	232	162	199	593	6	4,742	5,341	-	
	232	162	1,039	1,433	6	7,009	8,448	-	
Consumer									
Credit cards	1,005	361	1,023	2,389	-	35,870	38,259	-	
Personal loans	104	19	52	175	-	3,071	3,246	-	
	1,109	380	1,075	2,564	-	38,941	41,505	-	
Auto	9,364	3,209	1,075	13,648	65	128,857	142,570	-	

<b>Total</b>	<b>\$ 10,705</b>	<b>\$ 3,751</b>	<b>\$ 3,189</b>	<b>\$ 17,645</b>	<b>\$ 71</b>	<b>\$ 174,807</b>	<b>\$ 192,523</b>	<b>\$ -</b>
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## OFG BANCORP

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

December 31, 2014

									Loans 90+ Days Past Due and Still Accruing
	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		
	(In thousands)								
Commercial									
Commercial secured by real estate									
Retail	\$ -	\$ -	\$ 351	\$ 351	\$ -	\$ -	\$ 351	\$ -	
Floor plan	-	62	345	407	-	3,724	4,131	-	
	-	62	696	758	-	3,724	4,482	-	
Other commercial and industrial									
Retail	155	67	192	414	2	3,705	4,121	-	
Floor plan	202	134	223	559	10	3,503	4,072	-	
	357	201	415	973	12	7,208	8,193	-	
	357	263	1,111	1,731	12	10,932	12,675	-	
Consumer									
Credit cards	1,376	654	1,399	3,429	-	38,419	41,848	-	
Personal loans	151	47	77	275	-	3,221	3,496	-	
	1,527	701	1,476	3,704	-	41,640	45,344	-	
Auto	11,003	3,453	1,262	15,718	76	168,988	184,782	-	
Total	\$ 12,887	\$ 4,417	\$ 3,849	\$ 21,153	\$ 88	\$ 221,560	\$ 242,801	\$ -	

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

Acquired loans that are part of the non-covered portfolio, 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 non-covered loans acquired with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at June 30, 2015 and December 31, 2014 is as follows:



	June 30, 2015	December 31, 2014
	(In thousands)	
Contractual required payments receivable	\$2,208,242	\$2,394,378
Less: Non-accretable discount	\$449,917	\$456,627
Cash expected to be collected	1,758,325	1,937,751
Less: Accretable yield	412,048	445,946
Carrying amount, gross	1,346,277	1,491,805
Less: allowance for loan and lease losses	18,359	13,481
<b>Carrying amount, net</b>	<b>\$1,327,918</b>	<b>\$1,478,324</b>

At June 30, 2015 and December 31, 2014, the Company had \$167.8 million and \$168.8 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its non-covered acquired loans accounted for under ASC 310-30. This entire amount was current at June 30, 2015 and December 31, 2014.

## OFG BANCORP

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

The following tables describe the accretable yield and non-accretable discount activity of acquired loans accounted for under ASC 310-30 for the quarters and six-month periods ended June 30, 2015 and 2014, excluding covered loans:

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

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

## OFG BANCORP

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

## Quarter Ended June 30, 2014

	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
<b>Accretable Yield Activity:</b>						
<b>Balance at beginning of period</b>	\$ 278,468	\$ 82,637	\$ 35,005	\$ 74,635	\$ 11,256	\$ 482,001
Accretion	(9,363)	(12,217)	(5,973)	(10,593)	(1,568)	(39,714)
Transfer (to) from non-accretable discount	-	71	1,640	578	30	2,319
<b>Balance at end of period</b>	<b>\$ 269,105</b>	<b>\$ 70,491</b>	<b>\$ 30,672</b>	<b>\$ 64,620</b>	<b>\$ 9,718</b>	<b>\$ 444,606</b>
<b>Non-Accretable Discount Activity:</b>						
<b>Balance at beginning of period</b>	\$ 458,648	\$ 41,551	\$ 7,248	\$ 29,328	\$ 26,519	\$ 563,294
Change in actual and expected losses	(2,859)	(430)	(220)	(1,471)	(1,271)	(6,251)
Transfer from (to) accretable yield	-	(71)	(1,640)	(578)	(30)	(2,319)
<b>Balance at end of period</b>	<b>\$ 455,789</b>	<b>\$ 41,050</b>	<b>\$ 5,388</b>	<b>\$ 27,279</b>	<b>\$ 25,218</b>	<b>\$ 554,724</b>

## Six- Month Period Ended June 30 , 2014

	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
<b>Accretable Yield Activity:</b>						
<b>Balance at beginning of period</b>	\$ 287,841	96,139	42,993	77,845	12,735	517,553
Accretion	(18,732)	(24,934)	(10,459)	(22,418)	(3,440)	(79,983)
Transfer (to) from non-accretable discount	(4)	(714)	(1,862)	9,193	423	7,036
<b>Balance at end of period</b>	<b>\$ 269,105</b>	<b>70,491</b>	<b>30,672</b>	<b>64,620</b>	<b>9,718</b>	<b>444,606</b>
<b>Non-Accretable Discount Activity:</b>						
<b>Balance at beginning of period</b>	\$ 463,166	42,515	5,851	39,645	28,410	579,587
Change in actual and expected losses	(7,381)	(2,179)	(2,325)	(3,173)	(2,769)	(17,827)
Transfer from (to) accretable yield	4	714	1,862	(9,193)	(423)	(7,036)
<b>Balance at end of period</b>	<b>\$ 455,789</b>	<b>41,050</b>	<b>5,388</b>	<b>27,279</b>	<b>25,218</b>	<b>554,724</b>

*Covered Loans*

The carrying amount of covered loans at June 30, 2015 and December 31, 2014 is as follows:

June 30 2015	December 31 2014
(In thousands)	

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Contractual required payments receivable	\$	419,259	\$	535,425
Less: Non-accretable discount		21,132		62,410
Cash expected to be collected		398,127		473,015
Less: Accretable yield		104,641		109,859
Carrying amount, gross		293,486		363,156
Less: Allowance for covered loan and lease losses		71,452		64,245
<b>Carrying amount, net</b>	<b>\$</b>	<b>222,034</b>	<b>\$</b>	<b>298,911</b>

## OFG BANCORP

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

The following tables describe the accretable yield and non-accretable discount activity of covered loans for the quarters and six-month periods ended June 30, 2015 and 2014:

## Quarter Ended June 30, 2015

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

## Six- Month Period Ended June 30, 2015

	Loans Secured by 1-4 Family Residential Properties		Construction & Development Secured by 1-4 Family Residential Properties		Leasing	Consumer	Total
		Commercial and Other Construction					
	(In thousands)						
Accretable Yield Activity:							
Balance at beginning of period	\$ 47,636	\$ 37,919	\$ 20,753	\$ 2,479	\$ 1,072	\$ 109,859	
Accretion	(6,794)	(17,902)	(1,024)	(2,329)	(213)	(28,262)	
Transfer from (to) non-accretable discount	14,964	7,456	(1,380)	953	1,051	23,044	
Balance at end of period	\$ 55,806	\$ 27,473	\$ 18,349	\$ 1,103	\$ 1,910	\$ 104,641	

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<b>Balance at beginning of period</b>	\$	27,348	\$	24,464	\$	-	\$	-	\$	10,598	\$	62,410
Change in actual and expected losses		(982)		(17,008)		(1,380)		953		183		(18,234)
Transfer from (to) accretable yield		(14,964)		(7,456)		1,380		(953)		(1,051)		(23,044)
<b>Balance at end of period</b>	\$	<b>11,402</b>	\$	<b>-</b>	\$	<b>-</b>	\$	<b>-</b>	\$	<b>9,730</b>	\$	<b>21,132</b>

## OFG BANCORP

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

## Quarter Ended June 30, 2014

Construction  
&

## Development

## Secured

## by 1-4

## Family

## Residential

## Leasing

## Consumer

## Total

Loans  
Secured  
by 1-4  
Family  
Residential  
PropertiesCommercial  
and Other  
Construction

## Residential

## Leasing

## Consumer

## Total

(In thousands)

## Accretable Yield Activity:

<b>Balance at beginning of period</b>	\$ 54,619	\$ 83,200	\$ 209	\$ 7,332	\$ 2,407	\$ 147,767
Accretion	(4,033)	(17,141)	(1,070)	(2,377)	(259)	(24,880)
Transfer from (to) non-accretable discount	-	4,168	861	145	-	5,174
<b>Balance at end of period</b>	<b>\$ 50,586</b>	<b>\$ 70,227</b>	<b>\$ -</b>	<b>\$ 5,100</b>	<b>\$ 2,148</b>	<b>\$ 128,061</b>

## Non-Accretable Discount Activity:

<b>Balance at beginning of period</b>	\$ 31,340	\$ 67,136	\$ -	\$ -	\$ 8,847	\$ 107,323
Change in actual and expected losses	(1,481)	(16,372)	861	145	(78)	(16,925)
Transfer (to) from accretable yield	-	(4,168)	(861)	(145)	-	(5,174)
<b>Balance at end of period</b>	<b>\$ 29,859</b>	<b>\$ 46,596</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,769</b>	<b>\$ 85,224</b>

## Six- Month Period Ended June 30, 2014

Construction  
&

## Development

## Secured

## by 1-4

## Family

## Residential

## Leasing

## Consumer

## Total

Loans  
Secured  
by 1-4  
Family  
Residential  
PropertiesCommercial  
and Other  
Construction

## Residential

## Leasing

## Consumer

## Total

(In thousands)

## Accretable Yield Activity:

<b>Balance at beginning of period</b>	\$ 53,250	\$ 95,093	\$ 1,690	\$ 10,238	\$ 2,688	\$ 162,959
Accretion	(8,197)	(31,993)	(2,150)	(5,388)	(540)	(48,268)
Transfer from (to) non-accretable discount	5,533	7,127	460	250	-	13,370
<b>Balance at end of period</b>	<b>\$ 50,586</b>	<b>\$ 70,227</b>	<b>\$ -</b>	<b>\$ 5,100</b>	<b>\$ 2,148</b>	<b>\$ 128,061</b>

## Non-Accretable Discount Activity:

<b>Balance at beginning of period</b>	\$ 39,182	\$ 81,092	\$ -	\$ -	\$ 9,203	\$ 129,477
Change in actual and expected losses	(3,790)	(27,369)	460	250	(434)	(30,883)
Transfer (to) from accretable yield	(5,533)	(7,127)	(460)	(250)	-	(13,370)
<b>Balance at end of period</b>	<b>\$ 29,859</b>	<b>\$ 46,596</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,769</b>	<b>\$ 85,224</b>





## OFG BANCORP

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

*Non-accrual Loans*

The following table presents the recorded investment in loans in non-accrual status by class of loans as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
	(In thousands)	
<b><u>Originated and other loans and leases held for investment</u></b>		
<b>Mortgage</b>		
Traditional (by origination year):		
Up to the year 2002	\$ 3,104	\$ 4,427
Years 2003 and 2004	6,317	7,042
Year 2005	3,926	4,585
Year 2006	7,861	9,274
Years 2007, 2008 and 2009	9,991	8,579
Years 2010, 2011, 2012, 2013, 2014 and 2015	9,183	7,365
	40,382	41,272
Non-traditional	3,784	3,224
Loss mitigation program	19,504	20,934
	<b>63,670</b>	<b>65,430</b>
<b>Commercial</b>		
Commercial secured by real estate		
Middle market	14,325	9,534
Retail	9,557	9,000
	23,882	18,534
Other commercial and industrial		
Institutional	197,559	-
Middle market	703	618
Retail	1,797	2,527
Floor plan	23	-
	200,082	3,145
	<b>223,964</b>	<b>21,679</b>
<b>Consumer</b>		
Credit cards	319	375
Personal lines of credit	86	110
Personal loans	1,107	1,092
Cash collateral personal loans	-	13
	<b>1,512</b>	<b>1,590</b>
<b>Auto and leasing</b>	<b>8,587</b>	<b>8,668</b>
<b>Total Non-accrual originated loans</b>	<b>\$ 297,733</b>	<b>\$ 97,367</b>



## OFG BANCORP

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

	June 30, 2015	December 31, 2014
	(In thousands)	
<b><u>Acquired loans accounted under ASC 310-20</u></b>		
<b>Commercial</b>		
Commercial secured by real estate		
Retail	\$ 344	\$ 351
Floor plan	496	407
	840	758
Other commercial and industrial		
Retail	178	195
Floor plan	30	234
	208	429
	<b>1,048</b>	<b>1,187</b>
<b>Consumer</b>		
Credit cards	1,023	1,399
Personal loans	52	77
	<b>1,075</b>	<b>1,476</b>
<b>Auto</b>	<b>1,277</b>	<b>1,512</b>
<b>Total non-accrual acquired loans accounted under ASC 310-20</b>	<b>3,400</b>	<b>4,175</b>
<b>Total non-accrual loans</b>	<b>\$ 301,183</b>	<b>\$ 101,542</b>

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

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

During the quarter ended March 31, 2015, the revolving line of credit to PREPA was classified as non-accrual. At June 30, 2015, this line of credit had an unpaid principal balance of \$197.6 million. For the quarter ended June 30, 2015, interest payments received were applied to principal. As of June 30, 2015, the specific reserve was maintained at \$24 million.

At June 30, 2015 and December 31, 2014, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to \$88.8 million and \$274.4 million, respectively, as they are performing under their new terms. At December 31, 2014, the balance included the revolving

line of credit to PREPA.

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## OFG BANCORP

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

*Impaired Loans*

The Company evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans was \$243.4 million and \$236.9 million at June 30, 2015 and December 31, 2014, respectively. Impaired commercial loans at June 30, 2015 and December 31, 2014 included the PREPA line of credit with an unpaid principal balance of \$197.6 million and \$200.0 million, respectively. The impaired commercial loans were measured based on the fair value of collateral or the present value of cash flows, including those identified as troubled-debt restructurings. The valuation allowance for impaired commercial loans amounted to \$27.4 million and \$841 thousand at June 30, 2015 and December 31, 2014, respectively. The valuation allowance for impaired commercial loans amounted to \$27.4 million including \$24.0 million of PREPA allowance placed during Q1 2015. The total investment in impaired mortgage loans was \$89.3 million and \$94.2 million at June 30, 2015 and December 31, 2014, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to approximately \$8.3 million and \$9.0 million at June 30, 2015 and December 31, 2014, respectively.

*Originated and Other Loans and Leases Held for Investment*

The Company's recorded investment in non-covered 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, 2015 and December 31, 2014 are as follows:

	<b>Unpaid Principal</b>	<b>June 30, 2015 Recorded Investment (In thousands)</b>	<b>Related Allowance</b>	<b>Coverage</b>
Impaired loans with specific allowance:				
Commercial	\$ 215,139	\$ 211,186	\$ 27,401	13%
Residential troubled-debt restructuring	95,881	89,303	8,268	9%
Impaired loans with no specific allowance:				
Commercial	34,305	30,786	N/A	N/A
<b>Total investment in impaired loans</b>	<b>\$ 345,325</b>	<b>\$ 331,275</b>	<b>\$ 35,669</b>	<b>11%</b>

	<b>December 31, 2014 Recorded Investment (In thousands)</b>	<b>Related Allowance</b>	<b>Coverage</b>
<b>Unpaid Principal</b>			

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

## 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)

The Company's recorded investment in non-covered commercial loans categorized as non-covered acquired 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, 2015 and December 31, 2014 are as follows:

	June 30, 2015			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with no specific allowance				
Commercial	\$ 1,435	\$ 1,429	N/A	N/A
<b>Total investment in impaired loans</b>	<b>\$ 1,435</b>	<b>\$ 1,429</b>	<b>\$ -</b>	<b>-</b>

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

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

The Company's recorded investment in non-covered acquired loan pools accounted for under ASC 310-30 and their related allowance for non-covered loan and lease losses at June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015			Coverage to Recorded Investment
	Unpaid Principal	Recorded Investment	Allowance	
	(In thousands)			
Impaired non-covered loan pools:				
Mortgage	\$ 22,901	\$ 23,676	\$ 557	2%
Commercial	230,196	208,083	5,752	3%
Construction	87,488	88,575	9,188	10%
Auto	187,569	195,891	2,862	1%

<b>Total investment in impaired non-covered loan pools</b>	<b>\$</b>	<b>528,154</b>	<b>\$</b>	<b>516,225</b>	<b>\$</b>	<b>18,359</b>	<b>4%</b>
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			December 31 , 2014		Coverage to Recorded Investment			
			Unpaid	Recorded				
			Principal	Investment Allowance				
			(In thousands)					
Impaired non-covered loan pools:								
Commercial		289,228		255,619	5,506	2%		
Construction		90,786		83,751	7,970	10%		
Consumer		35,812		29,888	5	0%		
Total investment in impaired non-covered loan pools		\$	415,826	\$	369,258	\$	13,481	4%



## OFG BANCORP

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

The tables above only present information with respect to non-covered loans and pools accounted for under ASC 310-30 if there is a recorded impairment to such loans or loan pools and a specific allowance for loan losses. As of June 30, 2015, the Company eliminated the specific allowance of \$5 thousand maintained on impaired non-covered acquired consumer loan pool accounted under ASC 310-30 because there was an increase in the net present value of cash flows expected to be collected from such pool when compared with the recorded investment. Likewise, the increase in mortgage and auto loan pools from December 31, 2014 to June 30, 2015 was caused by the establishment of a specific reserve with respect to impaired mortgage and auto loan pools that were required based on the net present value of the cash flows expected to be collected.

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

	Quarter Ended June 30, 2015		2014	
	Interest Income Recognized	Average Recorded Investment (In thousands)	Interest Income Recognized	Average Recorded Investment
<b>Originated and other loans held for investment:</b>				
Impaired loans with specific allowance				
Commercial	\$ 45	\$ 212,414	\$ 39	\$ 7,200
Residential troubled-debt restructuring	781	89,041	663	90,445
Impaired loans with no specific allowance				
Commercial	316	30,015	77	21,951
	<b>1,142</b>	<b>331,470</b>	<b>779</b>	<b>119,596</b>
<b>Acquired loans accounted for under ASC 310-20:</b>				
Impaired loans with no specific allowance				
Commercial	11	1,446	-	-
<b>Total interest income from impaired loans</b>	<b>\$ 1,153</b>	<b>\$ 332,916</b>	<b>\$ 779</b>	<b>\$ 119,596</b>

	Six-Month Period Ended June 30, 2015		2014	
	Interest Income Recognized	Average Recorded Investment (In thousands)	Interest Income Recognized	Average Recorded Investment
<b>Originated and other loans held for investment:</b>				
Impaired loans with specific allowance				
Commercial	\$ 90	\$ 146,144	\$ 78	\$ 6,729
Residential troubled-debt restructuring	1,563	91,216	1,270	88,749

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Impaired loans with no specific allowance

Commercial	631	95,791	154	21,790
	\$ 2,284	\$ 333,151	\$ 1,502	\$ 117,268

**Acquired loans accounted for under ASC 310-20:**

Impaired loans with no specific allowance

Commercial	21	1,923	-	-
<b>Total interest income from impaired loans</b>	<b>\$ 2,305</b>	<b>\$ 335,074</b>	<b>\$ 1,502</b>	<b>\$ 117,268</b>

## OFG BANCORP

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

Covered Loans

The Company's recorded investment in covered loan pools that have recorded impairments and their related allowance for covered loan and lease losses as of June 30, 2015 and December 31, 2014 are as follows:

June 30, 2015				
	Unpaid Principal	Recorded Investment (In thousands)	Allowance	Coverage to Recorded Investment
Impaired covered loan pools:				
Loans secured by 1-4 family residential properties	\$ 124,906	\$ 106,937	\$ 17,594	16%
Construction and development secured by 1-4 family residential properties	46,732	19,152	12,300	64%
Commercial and other construction	132,636	95,655	41,170	43%
Consumer	6,102	1,718	389	23%
<b>Total investment in impaired covered loan pools</b>	<b>\$ 310,376</b>	<b>\$ 223,462</b>	<b>\$ 71,453</b>	<b>32%</b>
December 31, 2014				
	Unpaid Principal	Recorded Investment (In thousands)	Specific Allowance	Coverage to Recorded Investment
Impaired covered loan pools with specific allowance				
Loans secured by 1-4 family residential properties	\$ 134,579	\$ 106,116	\$ 15,522	15%
Construction and development secured by 1-4 family residential properties	57,123	19,562	10,724	55%
Commercial and other construction	93,894	74,069	37,610	51%
Consumer	7,992	4,506	389	9%
<b>Total investment in impaired covered loan pools</b>	<b>\$ 293,588</b>	<b>\$ 204,253</b>	<b>\$ 64,245</b>	<b>31%</b>

## OFG BANCORP

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

*Modifications*

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

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

Six-Month Period Ended June 30, 2015							
Pre-Modification Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)	
(Dollars in thousands)							
Mortgage	97 \$ 11,609	4.65%		348 \$ 11,594	4.13%	349	
Commercial	4 4,533	6.83%		80 4,533	7.00%	141	
Consumer	32 396	14.50%		72 440	14.25%	68	
Auto	1 64	12.95%		72 65	12.95%	72	

Quarter Ended June 30, 2014							
Pre-Modification 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	33 \$ 5,001	6.00%		353 \$ 4,965	4.12%	418	
Commercial	1 73	7.00%		55 73	9.25%	36	
Consumer	3 24	14.00%		77 24	13.98%	72	

## Six-Month Period Ended June 30, 2014

	Number of contracts	Pre-Modification Outstanding Investment Recorded	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months) (Dollars in thousands)	Post-Modification Outstanding Investment Recorded	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
Mortgage	88	\$ 11,813	6.00%	349	\$ 11,446	4.26%	390
Commercial	1	73	7.00%	55	73	9.25%	36
Consumer	8	66	13.00%	70	68	13.31%	68

## OFG BANCORP

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

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

	2015	Six-Month Period Ended June 30,		2014
		Recorded Investment	Number of Contracts	
	Number of Contracts	(Dollars in thousands)		Recorded Investment
Mortgage	60	\$ 6,911	22	\$ 2,703
Consumer	4	\$ 72	5	\$ 101

*Credit Quality Indicators*

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

## OFG BANCORP

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

As of June 30, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of gross non-covered originated and other loans and acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

	June 30, 2015 Risk Ratings						
	Balance		Special			Individually	
	Outstanding	Pass	Mention	Substandard	Doubtful	Measured for	
	(In thousands)						
<b>Commercial - originated and other loans held for investment</b>							
Commercial secured by real estate:							
Corporate	\$ 201,251	\$ 183,630	\$ 15,306	\$ -	\$ -	\$ 2,315	
Institutional	35,113	26,444	8,444	-	-	225	
Middle market	198,061	172,626	7,008	109	-	18,318	
Retail	203,411	182,468	6,229	4,399	-	10,315	
Floor plan	3,097	2,765	192	-	-	140	
Real estate	16,646	16,646	-	-	-	-	
	657,579	584,579	37,179	4,508	-	31,313	
Other commercial and industrial:							
Corporate	65,344	59,684	-	-	-	5,660	
Institutional	405,220	207,661	-	-	-	197,559	
Middle market	102,985	97,775	-	-	-	5,210	
Retail	95,246	91,455	484	1,672	-	1,635	
Floor plan	37,477	34,306	2,565	12	-	594	
	706,272	490,881	3,049	1,684	-	210,658	
Total	1,363,851	1,075,460	40,228	6,192	-	241,971	
<b>Commercial - acquired loans</b>							
<b>(under ASC 310-20)</b>							
Commercial secured by real estate:							
Retail	344	-	-	344	-	-	
Floor plan	2,763	1,521	-	-	-	1,242	
	3,107	1,521	-	344	-	1,242	
Other commercial and industrial:							
Retail	3,960	3,943	-	17	-	-	
Floor plan	1,381	1,264	-	30	-	87	
	5,341	5,207	-	47	-	87	
Total	8,448	6,728	-	391	-	1,329	
<b>Total</b>	<b>\$ 1,372,299</b>	<b>\$ 1,082,188</b>	<b>\$ 40,228</b>	<b>\$ 6,583</b>	<b>\$ -</b>	<b>\$ 243,300</b>	



## OFG BANCORP

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

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

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



**OFG BANCORP**

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

At June 30, 2015 and December 31, 2014, the Company had outstanding credit facilities of approximately \$515.3 million and \$619.0 million, respectively, granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities. A substantial portion of the Company's credit exposure to Puerto Rico's government consists of collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Approximately \$214 million of these loans are general obligations debt of municipalities secured by *ad valorem* taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations debt.

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

At June 30, 2015, we had approximately \$301.0 million of credit facilities to public corporations of the Commonwealth, including:

- PREPA with an outstanding balance of \$197.6 million;
- The State Insurance Fund Corporation with an outstanding balance of \$77.6 million, which is approximately 130% collateralized by a portfolio of A-plus rated securities; and
- The Puerto Rico Housing Finance Authority with an outstanding balance of \$25.2 million to be repaid from abandoned or unclaimed funds at financial institutions that revert to the government under a Puerto Rico escheat law.

The outstanding balance of credit facilities to public corporations decreased during the second quarter as a result of a repayment in full of a \$75 million loan by the Puerto Rico Aqueduct and Sewer Authority.

Oriental Bank is part of a four bank syndicate providing a \$550 million revolving line of credit to finance the purchase of fuel for PREPA's day-to-day power generation activities. Our participation in the line of credit has an unpaid principal balance of \$197.6 million as of June 30, 2015. As part of the bank syndicate, the Bank entered into a forbearance agreement with PREPA, which has been extended several times, most recently until September 15, 2015. In connection with such extensions, PREPA appointed a Chief Restructuring Officer to work alongside the Executive

Director to develop, organize and manage a financial and operational restructuring of PREPA subject to the approval of PREPA's Board of Directors. PREPA also has been in negotiations with its forbearing creditors to restructure its debts and obtain financing for capital improvements needed to its infrastructure. The Company has classified the credit facility to PREPA as substandard and on non-accrual status. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that PREPA had sufficient cash flows for the repayment of the line of credit. This analysis has been further supported by the various restructuring proposals made by PREPA and its creditors. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual and recorded a \$24 million provision during the first quarter of 2015. The impairment analysis was updated for the second quarter with no change in provision. For the quarter ended June 30, 2015, interest payments are being applied to principal.

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

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

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of June 30, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of non-covered gross originated and other loans and acquired loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

	June 30, 2015 Delinquency							In						
	Balance		30-59 days	60-89 days	90-119 days	120-364 days	365+ days	In						
	Outstanding	0-29 days												
	(In thousands)													
<u>Originated and other loans and leases held for investment</u>														
Mortgage														
Traditional														
(by origination year)														
Up to the year 2002	\$ 61,209	\$ 50,718	\$ 4,340	\$ 2,256	\$ 585	\$ 1,034	\$ 1,364							
Years 2003 and 2004	104,304	83,388	8,292	4,616	1,899	1,676	2,685							
Year 2005	57,157	44,825	5,338	2,012	646	733	2,547							
Year 2006	81,874	60,987	6,496	3,314	508	2,311	4,672							
Years 2007, 2008														
	93,206	72,190	4,458	2,028	597	3,859	6,029							
and 2009														
Years 2010, 2011, 2012														
2013, 2014 and 2015	219,924	203,847	3,398	1,528	384	2,738	3,599							
	617,674	515,955	32,322	15,754	4,619	12,351	20,896							
Non-traditional	33,482	27,705	1,450	543	803	1,421	1,560							
Loss mitigation program	98,650	15,626	3,535	1,742	1,107	1,487	1,626							
	749,806	559,286	37,307	18,039	6,529	15,259	24,082							
Home equity secured														
	420	420	-	-	-	-	-							
personal loans														
GNMA's buy-back														
option program	6,961	-	-	-	1,995	2,486	2,480							
	757,187	559,706	37,307	18,039	8,524	17,745	26,562							
<b>Consumer</b>														
Credit cards	20,123	19,381	303	120	152	167	-							
Overdrafts	317	293	22	2	-	-	-							
Unsecured personal lines of credit	2,282	2,105	97	17	25	38	-							
Unsecured personal loans	173,628	170,523	1,533	858	714	-	-							

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Cash collateral personal loans	16,279	16,141	87	51	-	-	-
	<b>212,629</b>	<b>208,443</b>	<b>2,042</b>	<b>1,048</b>	<b>891</b>	<b>205</b>	-
<b>Auto and Leasing</b>	<b>623,198</b>	<b>549,734</b>	<b>47,451</b>	<b>18,593</b>	<b>5,065</b>	<b>2,355</b>	-
	<b>1,593,014</b>	<b>1,317,883</b>	<b>86,800</b>	<b>37,680</b>	<b>14,480</b>	<b>20,305</b>	<b>26,562</b>
<b><u>Acquired loans (accounted for under ASC 310-20)</u></b>							
<b>Consumer</b>							
Credit cards	38,259	35,870	1,005	361	430	593	-
Personal loans	3,246	3,070	104	19	14	39	-
	<b>41,505</b>	<b>38,940</b>	<b>1,109</b>	<b>380</b>	<b>444</b>	<b>632</b>	-
<b>Auto</b>	<b>142,570</b>	<b>128,922</b>	<b>9,364</b>	<b>3,209</b>	<b>788</b>	<b>287</b>	-
	<b>184,075</b>	<b>167,862</b>	<b>10,473</b>	<b>3,589</b>	<b>1,232</b>	<b>919</b>	-
<b>Total</b>	<b>\$ 1,777,089</b>	<b>\$ 1,485,745</b>	<b>\$ 97,273</b>	<b>\$ 41,269</b>	<b>\$ 15,712</b>	<b>\$ 21,224</b>	<b>\$ 26,562</b>

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

	December 31, 2014						
	Delinquency						
	Balance						
	Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days
	(In thousands)						
<b><u>Originated and other loans and leases held for investment</u></b>							
<b>Mortgage</b>							
Traditional							
(by origination year)							
Up to the year 2002	\$ 65,744	\$ 53,432	\$ 3,963	\$ 3,083	\$ 1,044	\$ 1,360	\$ 1,975
Years 2003 and 2004	109,669	86,941	10,391	4,362	1,657	3,215	1,330
Year 2005	60,472	49,275	3,824	2,205	389	1,673	1,893
Year 2006	85,550	65,113	5,263	2,967	1,242	2,801	4,624
Years 2007, 2008							
	93,489	76,246	4,230	1,809	337	3,986	2,813
and 2009							
Years 2010, 2011, 2012							
2013 and 2014	204,424	190,650	2,988	2,490	938	1,397	1,296
	619,348	521,657	30,659	16,916	5,607	14,432	13,931
Non-traditional	36,200	30,916	1,477	584	478	600	2,096
Loss mitigation program	93,443	10,882	995	1,123	802	405	1,246
	748,991	563,455	33,131	18,623	6,887	15,437	17,273
Home equity secured							
	517	517	-	-	-	-	-
personal loans							
GNMA's buy-back							
option program	42,243	-	-	-	6,416	20,729	15,098
	<b>791,751</b>	<b>563,972</b>	<b>33,131</b>	<b>18,623</b>	<b>13,303</b>	<b>36,166</b>	<b>32,371</b>
<b>Consumer</b>							
Credit cards	19,071	18,198	360	139	171	203	-
Overdrafts	307	287	20	-	-	-	-
Unsecured personal lines of credit	2,200	1,970	102	25	38	62	3
Unsecured personal loans	147,939	144,696	1,822	743	623	55	-
Cash collateral personal loans	17,243	16,920	275	39	9	-	-
	<b>186,760</b>	<b>182,071</b>	<b>2,579</b>	<b>946</b>	<b>841</b>	<b>320</b>	<b>3</b>
<b>Auto and Leasing</b>	<b>575,582</b>	<b>503,588</b>	<b>47,658</b>	<b>16,916</b>	<b>5,196</b>	<b>2,224</b>	<b>-</b>
	<b>1,554,093</b>	<b>1,249,631</b>	<b>83,368</b>	<b>36,485</b>	<b>19,340</b>	<b>38,710</b>	<b>32,374</b>
<b><u>Acquired loans (accounted for under ASC 310-20)</u></b>							
<b>Consumer</b>							
Credit cards	41,848	38,419	1,376	654	589	810	

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Personal loans	3,496	3,221	151	47	39	38	-
	<b>45,344</b>	<b>41,640</b>	<b>1,527</b>	<b>701</b>	<b>628</b>	<b>848</b>	-
Auto	<b>184,782</b>	<b>169,064</b>	<b>11,003</b>	<b>3,453</b>	<b>767</b>	<b>495</b>	-
	<b>230,126</b>	<b>210,704</b>	<b>12,530</b>	<b>4,154</b>	<b>1,395</b>	<b>1,343</b>	-
<b>Total</b>	<b>\$ 1,784,219</b>	<b>\$ 1,460,335</b>	<b>\$ 95,898</b>	<b>\$ 40,639</b>	<b>\$ 20,735</b>	<b>\$ 40,053</b>	<b>\$ 32,374</b>

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

## NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

	June 30, 2015	December 31, 2014
	(In thousands)	
<b>Allowance for loans and lease losses on non-covered loans:</b>		
<b>Originated and other loans and leases held for investment:</b>		
Mortgage	\$ 18,076	\$ 19,679
Commercial	34,779	8,432
Consumer	10,464	9,072
Auto and leasing	15,064	14,255
Unallocated	606	1
	<b>78,989</b>	<b>51,439</b>
<b>Acquired loans:</b>		
<b>Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)</b>		
Commercial	54	65
Consumer	2,616	1,211
Auto	2,859	3,321
	<b>5,529</b>	<b>4,597</b>
<b>Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)</b>		
Mortgage	473	-
Commercial	14,940	13,476
Consumer	84	5
Auto	2,862	-
	<b>18,359</b>	<b>13,481</b>
	<b>102,877</b>	<b>69,517</b>
<b>Allowance for loans and lease losses on covered loans:</b>		
Loans secured by 1-4 family residential properties	17,593	15,522
Commercial and other construction	53,470	48,334
Consumer	389	389
	<b>71,452</b>	<b>64,245</b>
<b>Total allowance for loan and lease losses</b>	<b>\$ 174,329</b>	<b>\$ 133,762</b>

*Non-Covered Loans*

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

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

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

current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others. These changes in the allowance for loan and lease losses' look-back period and the result of the assessment in economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

Originated and Other Loans and Leases Held for Investment

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

	Quarter Ended June 30, 2015			
	Mortgage	Commercial	Consumer	Auto and Unsecured Leasing
	(In thousands)			
<b>Allowance for loan and lease losses for non-covered originated and other loans:</b>				
Balance at beginning of period	\$ 18,086	\$ 33,123	\$ 9,405	\$ 15,762
Charge-offs	(1,356)	(497)	(2,309)	(7,662)
Recoveries	67	219	390	3,425
Provision for non-covered	1,279	1,934	2,978	3,539
loan and lease losses				
<b>Balance at end of period</b>	<b>\$ 18,076</b>	<b>\$ 34,779</b>	<b>\$ 10,464</b>	<b>\$ 15,064</b>

	Six-Month Period Ended June 30, 2015			
	Mortgage	Commercial	Consumer	Auto and Unsecured Leasing
	(In thousands)			
<b>Allowance for loan and lease losses for non-covered originated and other loans:</b>				
Balance at beginning of period	\$ 19,679	\$ 8,432	\$ 9,072	\$ 14,255
Charge-offs	(2,770)	(1,489)	(3,985)	(15,798)
Recoveries	67	309	543	6,809
Provision for non-covered	1,100	27,527	4,834	9,798
loan and lease losses				
<b>Balance at end of period</b>	<b>\$ 18,076</b>	<b>\$ 34,779</b>	<b>\$ 10,464</b>	<b>\$ 15,064</b>

June 30, 2015

	Mortgage	Commercial	Consumer	Auto and Leasing
	(In thousands)			
<b>Allowance for loan and lease losses on non-covered originated and other loans:</b>				
Ending allowance balance attributable				
to loans:				
Individually evaluated for impairment	\$ 8,268	\$ 27,401	\$ -	\$ -
Collectively evaluated for impairment	9,808	7,378	10,464	15,000
<b>Total ending allowance balance</b>	<b>\$ 18,076</b>	<b>\$ 34,779</b>	<b>\$ 10,464</b>	<b>\$ 15,000</b>
<b>Loans:</b>				
Individually evaluated for impairment	\$ 89,304	\$ 241,971	\$ -	\$ -
Collectively evaluated for impairment	667,884	1,121,879	212,629	623,000
<b>Total ending loan balance</b>	<b>\$ 757,188</b>	<b>\$ 1,363,850</b>	<b>\$ 212,629</b>	<b>\$ 623,000</b>

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

	Quarter Ended June 30, 2015			
	Mortgage	Commercial	Consumer	Auto and Leasing
	(In thousands)			
<b>Allowance for loan and lease losses for non-covered originated and other loans:</b>				
<b>Balance at beginning of period</b>	\$ 19,511	\$ 13,994	\$ 7,135	\$ 8,731
Charge-offs	(987)	(543)	(1,397)	(5,956)
Recoveries	88	115	244	2,136
Provision (recapture) for non-covered loan and lease losses	450	(1,143)	1,905	6,216
<b>Balance at end of period</b>	<b>\$ 19,062</b>	<b>\$ 12,423</b>	<b>\$ 7,887</b>	<b>\$ 11,127</b>

	Six-Month Period Ended June 30, 2015			
	Mortgage	Commercial	Consumer	Auto and Leasing
	(In thousands)			
<b>Allowance for loan and lease losses for non-covered originated and other loans:</b>				
<b>Balance at beginning of period</b>	\$ 19,937	\$ 14,897	\$ 6,006	\$ 7,866
Charge-offs	(2,201)	(962)	(2,235)	(10,601)
Recoveries	236	213	391	3,660
Provision (recapture) for non-covered loan and lease losses	1,090	(1,725)	3,725	10,202
<b>Balance at end of period</b>	<b>\$ 19,062</b>	<b>\$ 12,423</b>	<b>\$ 7,887</b>	<b>\$ 11,127</b>

	December 31, 2014			
	Mortgage	Commercial	Consumer	Auto and Leasing
	(In thousands)			
<b>Allowance for loan and lease losses on non-covered originated and other loans:</b>				
Ending allowance balance attributable				
to loans:				
Individually evaluated for impairment	\$ 8,968	\$ 841	\$ -	\$ -
Collectively evaluated for impairment	10,711	7,591	9,072	14,300
<b>Total ending allowance balance</b>	<b>\$ 19,679</b>	<b>\$ 8,432</b>	<b>\$ 9,072</b>	<b>\$ 14,300</b>
<b>Loans:</b>				
Individually evaluated for impairment	\$ 94,185	\$ 236,270	\$ -	\$ -
Collectively evaluated for impairment	697,566	1,053,462	186,760	575,000
<b>Total ending loan balance</b>	<b>\$ 791,751</b>	<b>\$ 1,289,732</b>	<b>\$ 186,760</b>	<b>\$ 575,000</b>

During the quarter ended March 31, 2015 the Company placed its \$200 million participation in a line of credit to PREPA on non-accrual status and recorded a \$24.0 million provision for loan and lease losses. During the quarter ended June 30, 2015, interest payments received were applied to principal. As of June 30, 2015, the specific reserve

was maintained at \$24 million.

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## 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)

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

Quarter Ended June 30, 2015					
	Commercial	Consumer	Auto	Unallocated	Total
	(In thousands)				
Allowance for loan and lease losses					
for non-covered acquired loans					
accounted for under ASC 310-20:					
Balance at beginning of period	\$ 49	\$ 1,885	\$ 3,516	\$ -	\$ 5,450
Charge-offs	(16)	(1,303)	(1,038)	-	(2,357)
Recoveries	7	429	502	-	938
Provision (recapture) for non-covered acquired					
loan and lease losses accounted for	14	1,605	(121)	-	1,498
under ASC 310-20					
Balance at end of period	\$ 54	\$ 2,616	\$ 2,859	\$ -	\$ 5,529

Six-Month Period Ended June 30, 2015					
	Commercial	Consumer	Auto	Unallocated	Total
	(In thousands)				
Allowance for loan and lease losses					
for non-covered acquired loans					
accounted for under ASC 310-20:					
Balance at beginning of period	\$ 65	\$ 1,211	\$ 3,321	\$ -	\$ 4,597
Charge-offs	(16)	(2,686)	(2,304)	-	(5,006)
Recoveries	17	563	1,072	-	1,652
(Recapture) Provision for non-covered acquired					
loan and lease losses accounted for	(12)	3,528	770	-	4,286
under ASC 310-20					

<b>Balance at end of period</b>	<b>\$ 54</b>	<b>\$ 2,616</b>	<b>\$ 2,859</b>	<b>\$ -</b>	<b>\$ 5,529</b>
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	Commercial	Consumer	June 30, 2015 Auto (In thousands)	Unallocated	Total
<b>Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:</b>					
Ending allowance balance attributable					
to loans:					
Collectively evaluated for impairment	\$ 54	\$ 2,616	\$ 2,859	\$ -	\$ 5,529
<b>Total ending allowance balance</b>	<b>\$ 54</b>	<b>\$ 2,616</b>	<b>\$ 2,859</b>	<b>\$ -</b>	<b>\$ 5,529</b>
<b>Loans:</b>					
Individually evaluated for impairment	\$ 1,429	\$ -	\$ -	\$ -	\$ 1,429
Collectively evaluated for impairment	7,019	41,505	142,570	-	191,094
<b>Total ending loan balance</b>	<b>\$ 8,448</b>	<b>\$ 41,505</b>	<b>\$ 142,570</b>	<b>\$ -</b>	<b>\$ 192,523</b>



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

	Quarter Ended June 30, 2014				
	Commercial	Consumer	Auto	Unallocated	Total
	(In thousands)				
<b>Allowance for loan and lease losses</b>					
<b>for non-covered acquired loans</b>					
<b>accounted for under ASC 310-20:</b>					
<b>Balance at beginning of period</b>	\$ 867	\$ 504	\$ 2,247	\$ -	\$ 3,618
Charge-offs	(110)	(1,952)	(1,370)	-	(3,432)
Recoveries	30	124	535	-	689
Provision (recapture) for non-covered acquired					
loan and lease losses accounted for	(323)	1,662	1,230	-	2,569
under ASC 310-20					
<b>Balance at end of period</b>	\$ 464	\$ 338	\$ 2,642	\$ -	\$ 3,444

	Six-Month Period Ended June 30, 2014				
	Commercial	Consumer	Auto	Unallocated	Total
	(In thousands)				
<b>Allowance for loan and lease losses</b>					
<b>for non-covered acquired loans</b>					
<b>accounted for under ASC 310-20:</b>					
<b>Balance at beginning of period</b>	\$ 926	\$ -	\$ 1,428	\$ -	\$ 2,354
Charge-offs	(284)	(4,010)	(2,666)	-	(6,960)
Recoveries	30	224	985	-	1,239
Provision (recapture)for non-covered acquired					
loan and lease losses accounted for	(208)	4,124	2,895	-	6,811
under ASC 310-20					
<b>Balance at end of period</b>	\$ 464	\$ 338	\$ 2,642	\$ -	\$ 3,444

	Commercial	Consumer
	(In millions)	(In millions)
<b>Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:</b>		
Ending allowance balance attributable		
to loans:		
Collectively evaluated for impairment	\$ 65	\$ 1,211
<b>Total ending allowance balance</b>	<b>\$ 65</b>	<b>\$ 1,211</b>
<b>Loans:</b>		
Individually evaluated for impairment	\$ 672	\$ 12,003
Collectively evaluated for impairment		45,341
<b>Total ending loan balance</b>	<b>\$ 12,675</b>	<b>\$ 45,341</b>

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

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

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

	Quarter Ended June 30, 2015					Total				
	Mortgage	Commercial	Consumer	Auto						
	(In thousands)									
<b>Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:</b>										
Balance at beginning of period	\$	473	\$	13,687	\$	6	\$	-	\$	14,166
Provision (recapture) for non-covered acquired										
loan and lease losses accounted for		-		1,253		78		2,862		4,193
under ASC 310-30										
Balance at end of period	\$	473	\$	14,940	\$	84	\$	2,862	\$	18,359

	Six-Month Period Ended June 30, 2015					
	Mortgage	Commercial	Consumer	Auto	Total	
	(In thousands)					
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:						
Balance at beginning of period	\$ -	\$ 13,476	\$ 5	\$ -	\$ 13,481	
Provision (recapture) for non-covered acquired						
loan and lease losses accounted for	473	1,464	79	2,862	4,878	
under ASC 310-30						
Balance at end of period	\$ 473	\$ 14,940	\$ 84	\$ 2,862	\$ 18,359	

## OFG BANCORP

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

	Quarter Ended June 30, 2014				
	Mortgage	Commercial	Consumer	Auto	Total
	(In thousands)				
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:					
Balance at beginning of period	\$ -	\$ 2,653	\$ 405	\$ -	\$ 3,058
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-30	-	3,563	(343)	-	3,220
Balance at end of period	\$ -	\$ 6,216	\$ 62	\$ -	\$ 6,278
	Six-Month Period Ended June 30, 2014				
	Mortgage	Commercial	Consumer	Auto	Total
	(In thousands)				
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:					
Balance at beginning of period	\$ -	\$ 1,713	\$ 418	\$ 732	\$ 2,863
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-30	-	4,503	(356)	(732)	3,415
Balance at end of period	\$ -	\$ 6,216	\$ 62	\$ -	\$ 6,278

## OFG BANCORP

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

*Covered Loans*

For covered loans, 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 changes in the allowance for loan and lease losses on covered loans for the quarters and six-month periods ended June 30, 2015 and 2014 were as follows:

	Quarter Ended June 30, 2015				
	Mortgage	Commercial	Consumer	Leasing	Total
	(In thousands)				
<b>Allowance for loan and lease losses for covered loans:</b>					
<b>Balance at beginning of period</b>	\$ 17,340	\$ 52,922	\$ 389	\$ -	\$ 70,651
Provision for covered loan and lease losses, net	148	(253)	-	-	(105)
FDIC shared-loss portion of provision for covered loan and lease losses, net	105	801	-	-	906
<b>Balance at end of period</b>	<b>\$ 17,593</b>	<b>\$ 53,470</b>	<b>\$ 389</b>	<b>\$ -</b>	<b>\$ 71,452</b>

	Six-Month Period Ended June 30, 2015				
	Mortgage	Commercial	Consumer	Leasing	Total
	(In thousands)				
<b>Allowance for loan and lease losses for covered loans:</b>					
<b>Balance at beginning of period</b>	\$ 15,522	\$ 48,334	\$ 389	\$ -	\$ 64,245
Provision for (recapture) covered loan and lease losses, net	1,966	2,738	-	-	4,704
FDIC shared-loss portion of provision for covered loan and lease losses, net	105	2,398	-	-	2,503
<b>Balance at end of period</b>	<b>\$ 17,593</b>	<b>\$ 53,470</b>	<b>\$ 389</b>	<b>\$ -</b>	<b>\$ 71,452</b>

## OFG BANCORP

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

	Quarter Ended June 30, 2014				
	Mortgage	Commercial	Construction	Leasing	Total
	(In thousands)				
<b>Allowance for loan and lease losses for covered loans:</b>					
<b>Balance at beginning of period</b>	\$ 14,221	\$ 39,562	\$ 615	\$ -	\$ 54,398
Provision for covered loan and lease losses, net	411	1,184	-	-	1,595
FDIC shared-loss portion of provision for covered loan and lease losses, net	292	3,230	-	-	3,522
<b>Balance at end of period</b>	<b>\$ 14,924</b>	<b>\$ 43,976</b>	<b>\$ 615</b>	<b>\$ -</b>	<b>\$ 59,515</b>

	Six-Month Period Ended June 30, 2014				
	Mortgage	Commercial	Construction	Leasing	Total
	(In thousands)				
<b>Allowance for loan and lease losses for covered loans:</b>					
<b>Balance at beginning of period</b>	\$ 12,495	\$ 39,619	\$ 615	\$ -	\$ 52,729
Provision for (recapture) covered loan and lease losses, net	2,309	915	-	-	3,224
FDIC shared-loss portion of provision for covered loan and lease losses, net	120	3,442	-	-	3,562
<b>Balance at end of period</b>	<b>\$ 14,924</b>	<b>\$ 43,976</b>	<b>\$ 615</b>	<b>\$ -</b>	<b>\$ 59,515</b>

FDIC shared-loss portion of provision for (recapture of) covered loans and lease losses net, represents the credit impairment losses to be covered under the FDIC loss-share agreement which is increasing (decreasing) the FDIC loss-share indemnification asset.

Net provision for covered loans includes both additional reserves and reserve releases for different pools. The pools for which there were releases are also subject to a reduction to the FDIC shared-loss indemnification asset because of lower expected losses which are recognized as recaptures.

## OFG BANCORP

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

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

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

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

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

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
<b><u>FDIC indemnification asset:</u></b>				
<b>Balance at beginning of period</b>	\$ 75,221	\$ 166,194	\$ 97,378	\$ 189,240
Shared-loss agreements reimbursements from the FDIC	(24,387)	(10,464)	(38,087)	(18,700)
Increase (decrease) in expected credit losses to be				
covered under shared-loss agreements, net	906	3,522	2,503	3,562
FDIC indemnification asset expense	(22,512)	(17,499)	(34,733)	(35,121)
Incurred expenses to be reimbursed under shared-loss				
agreements	(6,524)	1,907	(4,357)	4,679
<b>Balance at end of period</b>	<b>\$ 22,704</b>	<b>\$ 143,660</b>	<b>\$ 22,704</b>	<b>\$ 143,660</b>
<b><u>True-up payment obligation:</u></b>				
<b>Balance at beginning of period</b>	\$ 22,844	\$ 19,375	\$ 21,981	\$ 18,510
Change in true-up payment obligation	733	856	1,596	1,721
<b>Balance at end of period</b>	<b>\$ 23,577</b>	<b>\$ 20,231</b>	<b>\$ 23,577</b>	<b>\$ 20,231</b>

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

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



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

The FDIC loss share coverage for the commercial loans and other non-single family loans was in effect until June 30, 2015. The coverage for the single family residential loans will expire on June 30, 2020. Accordingly, the Company amortized the remaining portion of the FDIC indemnification asset attributable to non-single family loans at the close of the second quarter of 2015. At June 30, 2015, the Company had a \$39.5 million receivable from the FDIC, included in other assets in the unaudited statement of financial condition, corresponding to \$12.9 million for the Q1 2015 loss-share certification that was received during July 2015 and \$26.6 million for the Q2 2015 loss-share certifications for commercial and other non-single family loans. At June 30, 2015, the FDIC indemnification asset reflects the balance only for single family residential mortgage loans. Notwithstanding the expiration of loss share coverage of non-single family loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a potential sale of a pool of loss share assets covered under the non-single family loss share agreement. Pursuant to such agreement, the FDIC agreed to pay up to \$20 million in loss share coverage with respect to the aggregate loss resulting from any portfolio sale within 120 days of the agreement.

The FDIC indemnification asset expense of \$22.5 million for the quarter increased when compared to \$17.5 million for the second quarter of 2014. The expense of \$34.7 million for the six-month period ended June 30, 2015 stayed relatively flat when compared to \$35.1 million for the same period in 2014. The increase during the quarter was principally driven by differences between the expected losses realized during the last months of the non-single family shared loss agreement and the losses that were ultimately realized and are expected to be collected from the FDIC. For the six-month periods ended June 30, 2015 and 2014, the amortization expense totaled \$2.1 million and \$2 thousand, respectively was from stepped up cost recoveries on certain construction, commercial, and leasing pools.

Also in connection with the FDIC assisted acquisition, the Bank agreed to make a true-up payment, also known as a clawback liability or clawback provision, to the FDIC on the date that is 45 days following the last day (such day, the “True-Up Measurement Date”) of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of \$906.0 million (or \$181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset premium (discount) of (\$227.5 million) (or (\$56.9 million)); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of \$23.6 million and \$22.0 million, net of discount, as of June 30, 2015 and December 31, 2014, respectively. The estimated liability is included within accrued expenses and other liabilities in the unaudited consolidated statements of financial condition.

The true-up payment obligation, also known as clawback liability, may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value. During the quarters and six-month periods ended June 30, 2015 and 2014 the fair value of the true-up payment obligation increased by \$733 thousand and \$856 thousand and \$1.6 million and \$1.7 million, respectively. These changes in fair value are included as change in

true-up payment obligation within FDIC shared-loss expense, net in the consolidated statements of operations.

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

		<b>June 30, 2015</b>		<b>December 31, 2014</b>
			<b>(In thousands)</b>	
Carrying amount (fair value)	\$	23,577	\$	21,981
Undiscounted amount	\$	37,456	\$	40,266

**OFG BANCORP****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****NOTE 7 - SERVICING ASSETS**

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

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

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

At June 30, 2015, the servicing asset amounted to \$5.8 million (\$14.0 million — December 31, 2014) related to mortgage servicing rights.

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

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

<b>Quarter Ended June 30,</b>	<b>Six-Month Period Ended June 30,</b>
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	2015	2014	2015	2014
	(In thousands)		(In thousands)	
<b>Fair value at beginning of year</b>	\$ 12,164	\$ 13,970	\$ 13,992	\$ 13,801
Sale of mortgage servicing rights	(6,985)	-	(6,985)	-
Servicing from mortgage securitizations or asset transfers	1,529	490	2,060	1,053
Changes due to payments on loans	(313)	(271)	(732)	(465)
Changes in fair value related to price of MSR's held for sale	(835)	-	(2,716)	-
Changes in fair value due to changes in valuation model				
inputs or assumptions				
	231	(534)	172	(734)
<b>Fair value at end of year</b>	\$ 5,791	\$ 13,655	\$ 5,791	\$ 13,655

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

	Six-Month Period Ended June 30,	
	2015	2014
<b>Constant prepayment rate</b>	4.10% - 10.22%	5.60% - 10.08%
<b>Discount rate</b>	10.00% - 12.00%	10.00% - 12.00%

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

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

		<b>June 30, 2015</b> <b>(In thousands)</b>
<b><u>Mortgage-related servicing asset</u></b>		
Carrying value of mortgage servicing asset	\$	5,791