

OFG BANCORP
Form 10-Q
November 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

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

44,678,475 common shares (\$1.00 par value per share) outstanding as of October 31, 2014

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

ITEM 1. *FINANCIAL STATEMENTS*

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2014 AND DECEMBER 31, 2013

		September 30,		December 31,
		2014		2013
		(In thousands)		
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	\$	663,462	\$	614,302
Money market investments		7,777		6,967
Total cash and cash equivalents		671,239		621,269
Restricted cash		32,907		82,199
Securities purchased under agreements to resell		-		60,000
Investments:				
Trading securities, at fair value, with amortized cost of \$2,419 (December 31, 2013 - \$2,448)		1,687		1,869
Investment securities available-for-sale, at fair value, with amortized cost of \$1,249,769 (December 31, 2013 - \$1,575,043)		1,273,879		1,588,425
Investment securities held-to-maturity, at amortized cost, with fair value of \$144,217		144,305		-
Federal Home Loan Bank (FHLB) stock, at cost		21,189		24,450
Other investments		65		65
Total investments		1,441,125		1,614,809
Loans:				
Mortgage loans held-for-sale, at lower of cost or fair value		16,757		46,529
Non-covered loans, net of allowance for loan and lease losses of \$64,859 (December 31, 2013 - \$54,298)		4,528,452		4,615,929
Covered loans, net of allowance for loan and lease losses of \$62,227 (December 31, 2013 - \$52,729)		311,693		356,961
Total loans, net		4,856,902		5,019,419
Other assets:				
FDIC indemnification asset		120,619		189,240
Foreclosed real estate covered under shared-loss agreements with the FDIC		49,814		33,209
Foreclosed real estate not covered under shared-loss agreements with the FDIC		50,750		56,815
Accrued interest receivable		19,665		18,734

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Deferred tax asset, net			121,217			137,564
Premises and equipment, net			82,099			82,903
Customers' liability on acceptances			21,077			23,042
Servicing assets			13,986			13,801
Derivative assets			8,445			20,502
Goodwill			86,069			86,069
Other assets			97,425			98,440
Total assets		\$	7,673,339		\$	8,158,015
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits:						
Demand deposits		\$	2,132,073			2,138,005
Savings accounts			1,263,115			1,194,567
Time deposits			1,673,987			2,050,693
Total deposits			5,069,175			5,383,265
Borrowings:						
Securities sold under agreements to repurchase			1,012,228			1,267,618
Advances from FHLB			334,787			336,143
Subordinated capital notes			101,190			100,010
Other borrowings			3,872			3,663
Total borrowings			1,452,077			1,707,434
Other liabilities:						
Securities purchased but not yet received			30,057			-
Derivative liabilities			11,414			14,937
Acceptances executed and outstanding			21,077			23,042
Accrued expenses and other liabilities			159,541			144,424
Total liabilities			6,743,341			7,273,102
Commitments and contingencies (See Note 18)						
Stockholders' equity:						
Preferred stock; 10,000,000 shares authorized;						
1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D						
issued and outstanding, (December 31, 2013 - 1,340,000; 1,380,000; and 960,000) \$25 liquidation value			92,000			92,000
84,000 shares of Series C issued and outstanding (December 31, 2013 - 84,000); \$1,000 liquidation value			84,000			84,000
Common stock, \$1 par value; 100,000,000 shares authorized; 52,761,295 shares issued:						
45,059,988 shares outstanding (December 31, 2013 - 52,707,023; 45,676,922)			52,761			52,707
Additional paid-in capital			539,522			538,071
Legal surplus			68,437			61,957
Retained earnings			170,519			133,629
			(90,652)			(80,642)

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Treasury stock, at cost, 7,701,307 shares (December 31, 2013 - 7,030,101 shares)						
Accumulated other comprehensive income, net of tax of \$1,867 (December 31, 2013 -\$831)			13,411			3,191
Total stockholders' equity			929,998			884,913
Total liabilities and stockholders' equity		\$	7,673,339		\$	8,158,015
See notes to unaudited consolidated financial statements.						

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UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands, except per share data)							
Interest income:								
Non-covered loans	\$	87,662	\$	87,655	\$	260,969	\$	259,567
Covered loans		20,886		21,657		69,153		65,884
Total interest income from loans		108,548		109,312		330,122		325,451
Mortgage-backed securities		10,842		9,662		35,243		29,559
Investment securities and other		911		2,127		3,910		6,564
Total interest income		120,301		121,101		369,275		361,574
Interest expense:								
Deposits		7,661		11,334		25,804		30,757
Securities sold under agreements to repurchase		7,453		7,211		22,238		21,569
Advances from FHLB and other borrowings		2,314		2,321		6,896		6,275
Subordinated capital notes		1,002		1,144		2,990		3,973
Total interest expense		18,430		22,010		57,928		62,574
Net interest income		101,871		99,091		311,347		299,000
Provision for non-covered loan and lease losses		16,142		9,900		39,424		55,343
Provision for covered loan and lease losses, net		1,115		3,074		4,339		4,957
Total provision for loan and lease losses		17,257		12,974		43,763		60,300
Net interest income after provision for loan and lease losses		84,614		86,117		267,584		238,700
Non-interest income:								
Banking service revenue		9,753		12,146		30,305		36,491
Wealth management revenue		7,113		7,394		21,316		23,084
Mortgage banking activities		2,097		2,334		5,346		9,299
Total banking and financial service revenues		18,963		21,874		56,967		68,874
FDIC shared-loss expense, net:								
		(16,059)		(15,198)		(51,180)		(46,623)

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FDIC indemnification asset expense									
Change in true-up payment obligation	(875)		(767)		(2,596)			(2,178)	
	(16,934)		(15,965)		(53,776)			(48,801)	
Net gain (loss) on:									
Sale of securities	-		-		4,366			-	
Derivatives	7		(811)		(463)			(1,746)	
Early extinguishment of debt	-		-		-			1,061	
Other non-interest income	455		(1,775)		1,133			575	
Total non-interest income, net	2,491		3,323		8,227			19,963	
Non-interest expense:									
Compensation and employee benefits	18,592		22,590		61,086			69,927	
Professional and service fees	3,807		4,409		11,525			16,262	
Occupancy and equipment	8,770		8,270		25,684			25,552	
Insurance	2,099		1,828		6,506			7,229	
Electronic banking charges	4,637		3,694		14,085			11,458	
Information technology expenses	1,289		2,729		4,589			7,708	
Advertising, business promotion, and strategic initiatives	1,825		1,471		5,274			4,550	
Merger and restructuring charges	-		2,252		-			13,060	
Foreclosure, repossession and other real estate expenses	7,842		5,703		20,783			12,603	
Loan servicing and clearing expenses	1,870		2,133		5,598			5,493	
Taxes, other than payroll and income taxes	3,494		4,024		11,005			11,778	
Communication	820		782		2,590			2,481	
Printing, postage, stationary and supplies	620		824		1,820			2,841	
Director and investor relations	250		230		794			843	
Other	3,660		2,295		9,488			6,749	
Total non-interest expense	59,575		63,234		180,827			198,534	
Income before income taxes	27,530		26,206		94,984			60,129	
Income tax expense (benefit)	7,998		6,585		30,396			(18,223)	
Net income	19,532		19,621		64,588			78,352	
Less: dividends on preferred stock	(3,465)		(3,465)		(10,396)			(10,396)	
Income available to common shareholders	\$ 16,067		\$ 16,156		\$ 54,192			\$ 67,956	
Earnings per common share:									

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Basic	\$	0.36	\$	0.35	\$	1.20	\$	1.49
Diluted	\$	0.34	\$	0.34	\$	1.14	\$	1.39
Average common shares outstanding and equivalents		52,362		53,322		52,440		53,053
Cash dividends per share of common stock	\$	0.08	\$	0.06	\$	0.24	\$	0.18
See notes to unaudited consolidated financial statements.								

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UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)							
Net income	\$	19,532	\$	19,621	\$	64,588	\$	78,352
Other comprehensive income (loss) before tax:								
Unrealized gain (loss) on securities available-for-sale		(9,410)		(5,779)		15,094		(52,346)
Realized gain on investment securities included in net income		-		-		(4,366)		-
Unrealized gain on cash flow hedges		1,798		233		2,189		4,711
Other comprehensive income (loss) before taxes		(7,612)		(5,546)		12,917		(47,635)
Income tax effect		(732)		611		(2,697)		2,587
Other comprehensive income (loss) after taxes		(8,344)		(4,935)		10,220		(45,048)
Comprehensive income	\$	11,188	\$	14,686	\$	74,808	\$	33,304
See notes to unaudited consolidated financial statements.								

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

	Nine-Month Period Ended September 30,			
	2014		2013	
	(In thousands)			
Preferred stock:				
Balance at beginning of period	\$	176,000	\$	176,000
Balance at end of period		176,000		176,000
Common stock:				
Balance at beginning of period		52,707		52,671
Exercised stock options		54		20
Balance at end of period		52,761		52,691
Additional paid-in capital:				
Balance at beginning of period		538,071		537,453
Stock-based compensation expense		1,248		1,360
Exercised stock options		589		187
Lapsed restricted stock units		(386)		(728)
Common stock issuance costs		-		(16)
Preferred stock issuance costs		-		(25)
Balance at end of period		539,522		538,231
Legal surplus:				
Balance at beginning of period		61,957		52,143
Transfer from retained earnings		6,480		7,724
Balance at end of period		68,437		59,867
Retained earnings:				
Balance at beginning of period		133,629		70,734
Net income		64,588		78,352
Cash dividends declared on common stock		(10,822)		(8,219)
Cash dividends declared on preferred stock		(10,396)		(10,396)
Transfer to legal surplus		(6,480)		(7,724)
Balance at end of period		170,519		122,747
Treasury stock:				
Balance at beginning of period		(80,642)		(81,275)
Stock repurchased		(10,394)		-
Lapsed restricted stock units		384		556
Stock used to match defined contribution plan		-		77
Balance at end of period		(90,652)		(80,642)
Accumulated other comprehensive income,				

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net of tax:					
Balance at beginning of period		3,191			55,880
Other comprehensive income (loss), net of tax		10,220			(45,048)
Balance at end of period		13,411			10,832
Total stockholders' equity	\$	929,998		\$	879,726
See notes to unaudited consolidated financial statements.					

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Nine-Month Period Ended September 30,			
	2014		2013	
	(In thousands)			
Cash flows from operating activities:				
Net income	\$	64,588	\$	78,352
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred loan origination fees, net of costs		2,065		733
Amortization of fair value premiums, net of discounts, on acquired loans		9,914		8,239
Amortization of investment securities premiums, net of accretion of discounts		1,048		17,116
Amortization of core deposit and customer relationship intangibles		1,627		1,932
Amortization of fair value premiums on acquired deposits		4,349		12,032
FDIC shared-loss expense, net		53,776		48,801
Depreciation and amortization of premises and equipment		7,415		7,703
Deferred income tax expense (benefit), net		20,418		(18,816)
Provision for covered and non-covered loan and lease losses, net		43,763		60,300
Stock-based compensation		1,248		1,360
(Gain) loss on:				
Sale of securities		(4,366)		-
Sale of mortgage loans held-for-sale		(3,891)		(2,009)
Derivatives		584		224
Early extinguishment of debt		-		(1,061)
Foreclosed real estate		9,185		5,321
Sale of other repossessed assets		4,506		1,813
Sale of premises and equipment		(11)		-
Originations of loans held-for-sale		(130,547)		(239,804)
Proceeds from sale of loans held-for-sale		72,211		125,245
Net (increase) decrease in:				
Trading securities		182		(1,629)
Accrued interest receivable		(931)		(4,802)

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Servicing assets		(185)		(2,856)
Other assets		8,538		15,984
Net increase (decrease) in:				
Accrued interest on deposits and borrowings		(1,811)		(1,658)
Accrued expenses and other liabilities		(3,099)		13,937
Net cash provided by operating activities		160,576		126,457
Cash flows from investing activities:				
Purchases of:				
Investment securities available-for-sale		(219,027)		(32,874)
Investment securities held-to-maturity		(115,396)		-
FHLB stock		(84,375)		(32,562)
Maturities and redemptions of:				
Investment securities available-for-sale		429,939		477,610
Investment securities held-to-maturity		1,045		-
FHLB stock		87,636		46,503
Proceeds from sales of:				
Investment securities available-for-sale		189,249		120,526
Foreclosed real estate and other repossessed assets		33,915		44,754
Loans held-for-investment		9,378		-
Premises and equipment		25		896
Origination and purchase of loans, excluding loans held-for-sale		(545,776)		(911,443)
Principal repayment of loans, including covered loans		561,479		806,676
Reimbursements from the FDIC on shared-loss agreements		31,537		32,732
Additions to premises and equipment		(6,626)		(6,747)
Net change in securities purchased under agreements to resell		60,000		(5,000)
Net change in restricted cash		49,292		(2,517)
Net cash provided by investing activities		482,295		538,554

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013 – (Continued)

	Nine-Month Period Ended September 30,			
	2014		2013	
	(In thousands)			
Cash flows from financing activities:				
Net increase (decrease) in:				
Deposits		(306,917)		(96,552)
Short term borrowings		-		(92,210)
Securities sold under agreements to repurchase		(255,000)		(427,931)
FHLB advances, federal funds purchased, and other borrowings		(1,142)		(199,731)
Subordinated capital notes		1,180		(45,491)
Exercise of stock options and restricted units lapsed, net		641		207
Purchase of treasury stock		(10,394)		-
Termination of derivative instruments		-		1,483
Dividends paid on preferred stock		(10,396)		(10,226)
Dividends paid on common stock		(10,873)		(8,219)
Net cash used in financing activities		(592,901)		(878,670)
Net change in cash and cash equivalents		49,970		(213,659)
Cash and cash equivalents at beginning of period		621,269		855,235
Cash and cash equivalents at end of period	\$	671,239	\$	641,576
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:				
Interest paid	\$	63,082	\$	64,272
Income taxes paid	\$	1,839	\$	378
Mortgage loans securitized into mortgage-backed securities	\$	71,466	\$	117,687
Securities purchased but not yet received	\$	30,057	\$	-
Transfer from loans to foreclosed real estate and other repossessed assets	\$	67,296	\$	65,716
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	\$	5,268	\$	42,289
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	\$	25,801	\$	-
See notes to unaudited consolidated financial statements.				

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

OFG Bancorp (the “Company”) is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. The Company operates through various subsidiaries including, a commercial bank, Oriental Bank (or the “Bank”), a securities broker-dealer, Oriental Financial Services Corp. (“Oriental Financial Services”), an insurance agency, Oriental Insurance, Inc. (“Oriental Insurance”) and a retirement plan administrator, Caribbean Pension Consultants, Inc. (“CPC”). Through these subsidiaries and their respective divisions, the Company provides a wide range of banking and financial services such as commercial, consumer and mortgage lending, auto loans, financial planning, insurance sales, money management and investment banking and brokerage services, as well as corporate and individual trust services. On April 25, 2013, the Company changed its corporate name from Oriental Financial Group Inc. to OFG Bancorp.

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

Recent Accounting Developments

In August 2014, the Financial Accounting Standard Board (“FASB”) issued a new going concern standard, which requires management to assess at each interim and annual reporting period whether substantial doubt exists about the company’s ability to continue as a going concern. Substantial doubt exists if it is probable (the same threshold that is used for contingencies) that the company will be unable to meet its obligations as they become due within one year after the date the financial statements are issued or available to be issued (assessment date). Management needs to consider known (and reasonably knowable) events and conditions at the assessment date. For all entities, this standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, with earlier adoption permitted. The adoption of this standard will have no material impact on our financial position or results of operations.

In August 2014, FASB issued new guidance requiring creditors to classify certain foreclosed, government-guaranteed, mortgage loans as receivables. The receivable is measured at the amount expected to be recovered under the guarantee, which is not treated as a separate unit of account. For public business entities, this guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014, with earlier adoption permitted if the entity already has adopted Accounting Standards Update (“ASU”) 2014-04. An entity should adopt the amendments in this update using either a prospective transition method or a modified retrospective transition method. We are currently evaluating the impact that the adoption of this guidance will have on our financial position and results of operations.

Other than the accounting pronouncements disclosed above, there was no other new accounting pronouncement issued during the third quarter of 2014 that could have a material impact on the Company’s financial position, operating results or financials statement disclosures.

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

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

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Cash pledged as collateral to other financial institutions to secure:				
Securities sold under agreements to repurchase	\$	24,500	\$	67,029
Derivatives		2,980		2,980
Obligations under agreement of loans sold with recourse		5,427		12,190
	\$	32,907	\$	82,199

The Company delivers cash as collateral to meet margin calls for some long term securities sold under agreements to repurchase. At September 30, 2014 and December 31, 2013, the Company had cash pledged as collateral for securities sold under agreements to repurchase amounting to \$24.5 million and \$67.0 million, respectively.

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

As part of the BBVAPR Acquisition, the Company assumed various contracts with the Federal National Mortgage Association ("FNMA") which required collateral to guarantee the repurchase, if necessary, of certain mortgage loans sold with recourse. At September 30, 2014 and December 31, 2013, the Company had \$5.4 million and \$12.2 million, respectively, of cash pledged as collateral for such recourse obligations.

NOTE 3 – INVESTMENT SECURITIES***Money Market Investments***

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At September 30, 2014 and December 31, 2013, money market instruments included as part of cash and cash equivalents amounted to \$7.8 million and \$7.0 million, respectively.

Securities Purchased Under Agreements to Resell

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

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

	September 30, 2014						Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value			
	(In thousands)						
Available-for-sale							
Mortgage-backed securities							
FNMA and FHLMC certificates	\$ 1,023,303	\$ 36,414	\$ 3,082	\$ 1,056,635		3.13%	
GNMA certificates	5,241	348	21	5,568		4.92%	
CMOs issued by US government-sponsored agencies	189,142	206	4,390	184,958		1.80%	
Total mortgage-backed securities	1,217,686	36,968	7,493	1,247,161		2.93%	
Investment securities							
Obligations of US government-sponsored agencies	7,795	-	34	7,761		1.32%	
Obligations of Puerto Rico government and political subdivisions	20,915	-	5,469	15,446		5.41%	
Other debt securities	3,373	138	-	3,511		2.91%	
Total investment securities	32,083	138	5,503	26,718		4.15%	
Total securities available for sale	\$ 1,249,769	\$ 37,106	\$ 12,996	\$ 1,273,879		2.96%	
Held-to-maturity							
Mortgage-backed securities							
FNMA and FHLMC certificates	144,305	82	170	144,217		1.95%	
Total	\$ 1,394,074	\$ 37,188	\$ 13,166	\$ 1,418,096		2.86%	

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	September 30, 2014							
	Available-for-sale				Held-to-maturity			
	Amortized Cost		Fair Value		Amortized Cost		Fair Value	
	(In thousands)				(In thousands)			
Mortgage-backed securities								
Due after 5 to 10 years								
FNMA and FHLMC certificates	\$	22,896	\$	23,243	\$	-	\$	-
Total due after 5 to 10 years		22,896		23,243		-		-
Due after 10 years								
FNMA and FHLMC certificates		1,000,407		1,033,392		144,305		144,217
GNMA certificates		5,241		5,568		-		-
CMOs issued by US government-sponsored agencies		189,142		184,958		-		-
Total due after 10 years		1,194,790		1,223,918		144,305		144,217
Total mortgage-backed securities		1,217,686		1,247,161		144,305		144,217
Investment securities								
Due from 1 to 5 years								
Obligations of Puerto Rico government and political subdivisions		10,450		8,628		-		-
Total due from 1 to 5 years		10,450		8,628		-		-
Due after 5 to 10 years								
Obligations of US government and sponsored agencies		7,795		7,761		-		-
Total due after 5 to 10 years		7,795		7,761		-		-
Due after 10 years								
Obligations of Puerto Rico government and political subdivisions		10,465		6,818		-		-

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Other debt securities		3,373			3,511			-			-
Total due after 10 years		13,838			10,329			-			-
Total investment securities		32,083			26,718			-			-
Total securities available-for-sale	\$	1,249,769		\$	1,273,879		\$	144,305		\$	144,217

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the nine-month period ended September 30, 2014, the Company sold \$74.1 million of available-for-sale Government National Mortgage Association (“GNMA”) certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period.

In addition, during the nine-month period ended September 30, 2014, the Company sold \$110.8 million of available-for-sale FNMA and FHLMC certificates because the Company believed that gains could be realized and that there were good opportunities to invest the proceeds in other investment securities with attractive yields and terms that would allow the Company to continue protecting its net interest margin. The Company recorded a net gain on sale of these securities of \$4.4 million. The table below presents the gross realized gains by category for such period. There was no realized gain or loss for the nine-month period ended September 30, 2013.

Description	Nine-Month Period Ended September 30, 2014							
	Sale Price		Book Value		Gross		Gross	
	at Sale		at Sale		Gains		Losses	
	(In thousands)							
Sale of securities available-for-sale								
Mortgage-backed securities								
FNMA and FHLMC certificates	\$	115,158	\$	110,792	\$	4,366	\$	-
GNMA certificates		74,091		74,091		-		-
Total	\$	189,249	\$	184,883	\$	4,366	\$	-

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at September 30, 2014 and December 31, 2013:

	September 30, 2014					
	12 months or more					
	Amortized		Unrealized		Fair	
	Cost		Loss		Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	\$	149,957	\$	4,242	\$	145,716
FNMA and FHLMC certificates		183,479		3,049		180,430
Obligations of Puerto Rico government and political subdivisions		20,915		5,469		15,446
GNMA certificates		197		22		176
	\$	354,548	\$	12,782	\$	341,768
	Less than 12 months					
	Amortized		Unrealized		Fair	
	Cost		Loss		Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	\$	15,746	\$	148	\$	15,598
FNMA and FHLMC certificates		26,220		33		26,187
Obligations of US government and sponsored agencies		7,796		34		7,761
Securities held-to-maturity						
FNMA and FHLMC Certificates		95,598		170		95,428
	\$	145,359	\$	385	\$	144,974
	Total					
	Amortized		Unrealized		Fair	
	Cost		Loss		Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	\$	165,703	\$	4,390	\$	161,314
FNMA and FHLMC certificates		209,699		3,082		206,617
Obligations of Puerto Rico government and political subdivisions		20,915		5,469		15,446
Obligations of US government and sponsored agencies		7,796		34		7,761

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GNMA certificates		197			22			176
		404,309			12,996			391,314
Securities held-to-maturity								
FNMA and FHLMC Certificates		95,598			170			95,428
	\$	499,907		\$	13,166		\$	486,742

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Most of the investment (\$479.0 million or 96%) with an unrealized loss position at September 30, 2014 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 (\$20.9 million or 4%) with an unrealized loss position at September 30, 2014 consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The recent decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. Moreover, uncertainty in regards to the impact of the recently enacted Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”) and the related subsequent negative rating decisions taken by the credit rating agencies has affected the market value of these securities.

As of September 30, 2014, 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 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 at maturity in the range of 2.509% to 15.340%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 84.660% and 97.491%). 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 September 30, 2014.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

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

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Non-covered loans:				
Originated and other loans and leases held for investment:				
Mortgage	\$	791,106	\$	766,265
Commercial		1,217,235		1,127,657
Consumer		175,882		127,744
Auto and leasing		542,892		379,874
		2,727,115		2,401,540
Acquired loans:				
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)				
Commercial		26,984		77,681
Consumer		47,284		56,174
Auto		210,808		301,584
		285,076		435,439
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)				
Mortgage		670,188		717,904
Commercial		485,444		545,117
Construction		108,694		126,427

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Consumer		36,470		63,620
Auto		276,749		379,145
		1,577,545		1,832,213
		4,589,736		4,669,192
Deferred loan cost , net		3,575		1,035
Loans receivable		4,593,311		4,670,227
Allowance for loan and lease losses on non-covered loans		(64,859)		(54,298)
Loans receivable, net		4,528,452		4,615,929
Mortgage loans held-for-sale		16,757		46,529
Total non-covered loans, net		4,545,209		4,662,458
Covered loans:				
Loans secured by 1-4 family residential properties		121,658		121,748
Construction and development secured by 1-4 family residential properties		18,947		17,304
Commercial and other construction		228,410		264,249
Consumer		4,905		6,119
Leasing		-		270
Total covered loans		373,920		409,690
Allowance for loan and lease losses on covered loans		(62,227)		(52,729)
Total covered loans, net		311,693		356,961
Total loans, net	\$	4,856,902	\$	5,019,419

During the nine-month period ended September 30, 2014, the Company reclassified \$25.8 million in mortgage loans held-for-sale to held-for-investment.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	September 30, 2014								
									Loans 90+
									Days Past
									Due and
	30-59 Days	60-89 Days	90+ Days	Total Past					Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans			Accruing
	(In thousands)								
Mortgage									
Traditional (by origination year):									
Up to the year 2002	\$ 5,996	\$ 3,283	\$ 3,424	\$ 12,703	\$ 55,635	\$ 68,338	\$	141	
Years 2003 and 2004	6,679	1,730	3,471	11,880	50,464	62,344		-	
Year 2005	7,368	3,295	8,258	18,921	69,510	88,431		89	
Year 2006	10,274	5,678	6,041	21,993	91,218	113,211		114	
Years 2007, 2008									
and 2009	3,285	3,095	7,647	14,027	83,036	97,063		59	

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Years 2010, 2011, 2012, 2013 and 2014	4,938	1,368	5,706	12,012	181,550	193,562	509
	38,540	18,449	34,547	91,536	531,413	622,949	912
Non-traditional	1,084	783	3,022	4,889	32,886	37,775	-
Loss mitigation program	10,022	7,358	14,625	32,005	57,578	89,583	5,773
	49,646	26,590	52,194	128,430	621,877	750,307	6,685
Home equity secured personal loans	-	-	126	126	607	733	-
GNMA's buy-back option program	-	-	40,066	40,066	-	40,066	-
	49,646	26,590	92,386	168,622	622,484	791,106	6,685
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	113,976	113,976	-
Institutional	-	-	-	-	37,177	37,177	-
Middle market	-	1,071	638	1,709	142,830	144,539	-
Retail	1,164	129	7,258	8,551	153,091	161,642	-
Floor plan	-	-	-	-	1,666	1,666	-
Real estate	-	-	-	-	11,878	11,878	-
	1,164	1,200	7,896	10,260	460,618	470,878	-
Other commercial and industrial:							
Corporate	-	-	-	-	60,402	60,402	-
Institutional	-	-	-	-	482,277	482,277	-
Middle market	-	-	628	628	82,577	83,205	-
Retail	267	144	809	1,220	79,592	80,812	-
Floor plan	-	-	-	-	39,661	39,661	-
	267	144	1,437	1,848	744,509	746,357	-
	1,431	1,344	9,333	12,108	1,205,127	1,217,235	-

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2014												
													Loans 90+
													Days Past
													Due and
	30-59 Days	60-89 Days	90+ Days	Total Past									Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans	Accruing						
	(In thousands)												
Consumer													
Credit cards	238	189	408	835	17,022	17,857	-						
Overdrafts	20	2	1	23	317	340	-						
Personal lines of credit	67	132	29	228	1,823	2,051	-						
Personal loans	1,666	627	604	2,897	135,711	138,608	-						
Cash collateral personal loans	214	132	36	382	16,644	17,026	-						
	2,205	1,082	1,078	4,365	171,517	175,882	-						
Auto and leasing	43,537	15,956	8,279	67,772	475,120	542,892	-						
Total	\$ 96,819	\$ 44,972	\$ 111,076	\$ 252,867	\$ 2,474,248	\$ 2,727,115	\$ 6,685						

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

At September 30, 2014 and December 31, 2013, the Company had \$458.0 million and \$515.4 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. This entire amount was current at September 30, 2014.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

The following tables present the aging of the recorded investment in gross acquired loans accounted for under ASC 310-20 as of September 30, 2014 and December 31, 2013, by class of loans:

	September 30, 2014										Loans 90+
											Days Past
											Due and
	30-59 Days	60-89 Days	90+ Days	Total Past							Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans	Accruing				
	(In thousands)										
Commercial											
Commercial secured by real estate											
Corporate	\$ -	\$ -	\$ -	\$ -	\$ 3,746	\$ 3,746	\$ -				
Retail	-	-	342	342	482	824	-				
Floor plan	-	-	101	101	3,972	4,073	-				
	-	-	443	443	8,200	8,643	-				
Other commercial and industrial											

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Corporate	-	-	-	-	2,915	2,915	-
Retail	169	73	451	693	7,328	8,021	-
Floor plan	97	40	108	245	7,160	7,405	-
	266	113	559	938	17,403	18,341	-
	266	113	1,002	1,381	25,603	26,984	-
Consumer							
Credit cards	1,625	678	1,328	3,631	40,051	43,682	-
Personal loans	160	83	66	309	3,293	3,602	-
	1,785	761	1,394	3,940	43,344	47,284	-
Auto	11,372	4,137	1,537	17,046	193,762	210,808	-
Total	\$ 13,423	\$ 5,011	\$ 3,933	\$ 22,367	\$ 262,709	\$ 285,076	\$ -

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013									
									Loans 90+
									Days Past
									Due and
	30-59 Days	60-89 Days	90+ Days	Total Past					Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans	Accruing		
(In thousands)									
Commercial									
Commercial secured by real estate									
Corporate	\$ -	\$ -	\$ -	\$ -	\$ 10,166	\$ 10,166	\$ -		
Retail	431	331	868	1,630	4,140	5,770	-		
Floor plan	-	-	101	101	2,576	2,677	-		
	431	331	969	1,731	16,882	18,613	-		
Other commercial and industrial									
Corporate	14	83	-	97	9,696	9,793	-		
Retail	1,717	1,418	659	3,794	23,544	27,338	-		
Floor plan	35	193	18	246	21,691	21,937	-		
	1,766	1,694	677	4,137	54,931	59,068	-		
	2,197	2,025	1,646	5,868	71,813	77,681	-		
Consumer									
Credit cards	2,217	1,200	2,068	5,485	46,714	52,199	-		
Personal loans	196	7	91	294	3,681	3,975	-		
	2,413	1,207	2,159	5,779	50,395	56,174	-		
Auto	12,534	3,616	1,608	17,758	283,826	301,584	-		
Total	\$ 17,144	\$ 6,848	\$ 5,413	\$ 29,405	\$ 406,034	\$ 435,439	\$ -		

OFG BANCORP

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)

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 September 30, 2014 and December 31, 2013 is as follows:

	September 30,		December 31,
	2014		2013
	(In thousands)		
Contractual required payments receivable	\$ 2,505,662		\$ 2,929,353
Less: Non-accretable discount	523,987		579,587
Cash expected to be collected	1,981,675		2,349,766
Less: Accretable yield	404,130		517,553
Carrying amount, gross	1,577,545		1,832,213
Less: allowance for loan and lease losses	10,120		2,863
Carrying amount, net	\$ 1,567,425		\$ 1,829,350

During the quarter ended September 30, 2014, the Company sold non-performing residential mortgage loans that were accounted for under ASC 310-30 with a carrying amount of \$19.7 million. No gain or loss was realized in the transaction in accordance to ASC 310-30 accounting.

At September 30, 2014 and December 31, 2013, the Company had \$168.7 million and \$180.5 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 September 30, 2014.

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 nine-month periods ended September 30, 2014 and 2013, excluding covered loans:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
(In thousands)								
Accretable Yield Activity								
Balance at beginning of period	\$	444,606	\$	561,485	\$	517,553	\$	655,833
Accretion		(38,340)		(48,352)		(118,323)		(150,447)
Transfer from (to) non-accretable discount		(2,136)		6,010		4,900		13,757
Balance at end of period	\$	404,130	\$	519,143	\$	404,130	\$	519,143
	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
(In thousands)								
Non-Accretable Discount Activity								
Balance at beginning of period	\$	554,724	\$	686,231	\$	579,587	\$	714,462
Principal losses		(32,873)		(44,301)		(50,700)		(64,785)
Transfer from (to) accretable yield		2,136		(6,010)		(4,900)		(13,757)
Balance at end of period	\$	523,987	\$	635,920	\$	523,987	\$	635,920

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

The carrying amount of covered loans at September 30, 2014 and December 31, 2013 is as follows:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Contractual required payments receivable	\$	561,844	\$	702,126
Less: Non-accretable discount		77,940		129,477
Cash expected to be collected		483,904		572,649
Less: Accretable yield		109,984		162,959
Carrying amount, gross		373,920		409,690
Less: Allowance for covered loan and lease losses		62,227		52,729
Carrying amount, net	\$	311,693	\$	356,961

The following tables describe the accretable yield and non-accretable discount activity of covered loans for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)							
Accretable Yield Activity								
Balance at beginning of period	\$	128,061	\$	167,132	\$	162,959	\$	188,008
Accretion		(20,886)		(21,657)		(69,154)		(65,884)
Transfer from non-accretable discount		2,809		23,070		16,179		46,421
Balance at end of period	\$	109,984	\$	168,545	\$	109,984	\$	168,545
	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2013		2013		2014		2013	
	(In thousands)							
Non-Accretable Discount Activity								

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Balance at beginning of period	\$	85,224	\$	192,259	\$	129,477	\$	237,555
Principal losses		(4,475)		(7,762)		(35,358)		(29,707)
Transfer to accretable yield		(2,809)		(23,070)		(16,179)		(46,421)
Balance at end of period	\$	77,940	\$	161,427	\$	77,940	\$	161,427

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

The following table presents the recorded investment in loans in non-accrual status by class of loans as of September 30, 2014 and December 31, 2013:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Originated and other loans and leases held for investment				
Mortgage				
Traditional (by origination year):				
Up to the year 2002	\$	3,613	\$	3,428
Years 2003 and 2004		3,749		1,845
Year 2005		9,117		4,922
Year 2006		7,019		4,418
Years 2007, 2008 and 2009		9,817		4,511
Years 2010, 2011, 2012, 2013 and 2014		6,244		7,818
		39,559		26,942
Non-traditional		3,022		2,311
Loss mitigation program		17,636		18,792
		60,217		48,045
Home equity secured personal loans		125		138
		60,342		48,183
Commercial				
Commercial secured by real estate				
Middle market		10,608		11,895
Retail		8,942		7,208
		19,550		19,103
Other commercial and industrial				
Middle market		628		1,134
Retail		2,112		2,485
Floor plan		-		108
		2,740		3,727
		22,290		22,830
Consumer				
Credit cards		408		232
Overdrafts		1		-

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Personal lines of credit		35			84
Personal loans		761			485
Cash collateral personal loans		36			4
		1,241			805
Auto and leasing		9,008			5,089
	\$	92,881		\$	76,907

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Acquired loans accounted under ASC 310-20				
Commercial				
Commercial secured by real estate				
Retail	\$	342	\$	956
Floor plan		101		101
		443		1,057
Other commercial and industrial				
Corporate		-		97
Retail		455		1,371
Floor plan		121		18
		576		1,486
		1,019		2,543
Consumer				
Credit cards		1,326		2,068
Personal loans		76		151
		1,402		2,219
Auto		1,746		1,608
		4,167		6,370
Total non-accrual loans	\$	97,048	\$	83,277

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 placed in non-accrual when they become 18 months or more past due, since they are insured loans.

At September 30, 2014 and December 31, 2013, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to \$273.6 million and \$66.5 million, respectively, as they are performing under their new terms. During the quarter ended September 30, 2014, the revolving line of credit to finance the purchase of fuel for the day to day power generation activities of the Puerto Rico Electric Power Authority (“PREPA”) was classified substandard and a troubled-debt restructuring. Based on our analysis, the loan is being maintained in accrual status requiring no impairment. At September 30, 2014 this line of

credit had an unpaid principal balance of \$200.0 million.

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 \$226.8 million and \$28.4 million at September 30, 2014 and December 31, 2013, respectively. Impaired commercial loans at September 30, 2014 included the PREPA line of credit with an unpaid principal balance of \$200.0 million. 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 \$1.1 million and \$1.4 million at September 30, 2014 and December 31, 2013, respectively. The total investment in impaired mortgage loans was \$91.7 million and \$84.5 million at September 30, 2014 and December 31, 2013, 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 \$7.9 million and \$8.7 million at September 30, 2014 and December 31, 2013, 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 September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014							
	Unpaid		Recorded		Related			
	Principal		Investment		Allowance		Coverage	
	(In thousands)							
Impaired loans with specific allowance:								
Commercial	\$	5,297	\$	4,731	\$	1,108		23%
Residential troubled-debt restructuring		97,289		91,692		7,932		9%
Impaired loans with no specific allowance:								
Commercial		228,968		221,852		N/A		N/A
Total investment in impaired loans	\$	331,554	\$	318,275	\$	9,040		3%

	December 31, 2013							
	Unpaid		Recorded		Related			
	Principal		Investment		Allowance		Coverage	
	(In thousands)							
Impaired loans with specific allowance								
Commercial	\$	6,600	\$	5,553	\$	1,431		26%
Residential troubled-debt restructuring		89,539		84,494		8,708		10%
Impaired loans with no specific allowance								
Commercial		27,914		22,592		N/A		N/A
Total investment in impaired loans	\$	124,053	\$	112,639	\$	10,139		9%

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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 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 September 30, 2014 and December 31, 2013 are as follows:

September 30, 2014									
	Unpaid		Recorded		Related				
	Principal		Investment		Allowance		Coverage		
(In thousands)									
Impaired loans with no specific allowance									
Commercial		208		208		N/A			N/A
Total investment in impaired loans	\$	208	\$	208	\$	-			0%
December 31, 2013									
	Unpaid		Recorded		Specific				
	Principal		Investment		Allowance		Coverage		
(In thousands)									
Impaired loans with no specific allowance									
Commercial		208		208		N/A			N/A
Total investment in impaired loans	\$	208	\$	208	\$	-			0%

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 September 30, 2014 and December 31, 2013 are as follows:

September 30, 2014									
---------------------------	--	--	--	--	--	--	--	--	--

									Coverage
	Unpaid		Recorded						to
	Principal		Investment		Allowance				Recorded
									Investment
	(In thousands)								
Impaired non-covered loan pools:									
Commercial	\$	294,966	\$	257,234	\$	4,613			2%
Construction		52,367		45,770		5,502			12%
Consumer		42,897		36,463		5			0%
Total investment in impaired non-covered loan pools	\$	390,230	\$	339,467	\$	10,120			3%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013							
	Unpaid		Recorded				Coverage	
	Principal		Investment		Allowance		to	
							Recorded	
(In thousands)								
Impaired non-covered loan pools:								
Mortgage	\$	5,183	\$	4,718	\$	57		1%
Commercial		48,100		40,411		394		1%
Construction		21,526		17,818		1,319		7%
Consumer		73,043		63,606		361		1%
Auto		379,236		377,316		732		0%
Total investment in impaired non-covered loan pools	\$	527,088	\$	503,869	\$	2,863		1%

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 nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,							
	2014				2013			
	Interest Income Recognized		Average Recorded Investment		Interest Income Recognized		Average Recorded Investment	
(In thousands)								
Impaired loans with specific allowance								
Commercial	\$	28	\$	5,103	\$	5	\$	9,039
Residential troubled-debt restructuring		666		91,293		712		82,388
Impaired loans with no specific allowance								
Commercial		1,728		89,029		146		28,805
Total interest income from impaired loans	\$	2,422	\$	185,425	\$	863	\$	120,232

	Nine-Month Period Ended September 30,									
	2014					2013				
	Interest Income Recognized		Average Recorded Investment			Interest Income Recognized		Average Recorded Investment		
	(In thousands)									
Impaired loans with specific allowance										
Commercial	\$	83			\$ 6,187	\$	16			\$ 14,872
Residential troubled-debt restructuring		1,876			89,597		1,942			81,406
Impaired loans with no specific allowance										
Commercial		5,185			44,203		438			26,471
Total interest income from impaired loans	\$	7,144			\$ 139,987	\$	2,396			\$ 122,749

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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 September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014							
	Unpaid		Recorded		Specific		Coverage	
	Principal		Investment		Allowance		to Recorded	
							Investment	
(In thousands)								
Impaired covered loan pools:								
Loans secured by 1-4 family residential properties	\$	138,029	\$	106,823	\$	15,252		14%
Construction and development secured by 1-4 family residential properties		61,562		20,249		8,679		43%
Commercial and other construction		105,542		73,424		37,907		52%
Consumer		8,408		4,844		389		8%
Total investment in impaired covered loan pools	\$	313,541	\$	205,340	\$	62,227		30%

	December 31, 2013							
	Unpaid		Recorded		Specific		Coverage	
	Principal		Investment		Allowance		to Recorded	
							Investment	
(In thousands)								
Impaired covered loan pools with specific allowance								
Loans secured by 1-4 family residential properties	\$	52,142	\$	38,179	\$	12,495		33%
Construction and development secured by 1-4 family residential properties		66,037		17,304		6,866		40%

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Commercial and other construction		209,566			111,946			32,753		29%
Consumer		10,512			5,857			615		11%
Total investment in impaired covered loan pools	\$	338,257		\$	173,286		\$	52,729		30%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

The following tables present the troubled-debt restructurings during the quarters and nine-month periods ended September 30, 2014 and 2013:

Quarter Ended September 30, 2014							
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
(Dollars in thousands)							
Mortgage	26	\$ 3,016	5.62%	347	\$ 2,965	4.22%	
Commercial	20	200,007	7.25%	3	200,007	7.25%	
Consumer	6	58	10.00%	61	68	9.66%	
Nine-Month Period Ended September 30, 2014							
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
(Dollars in thousands)							
Mortgage	113	\$ 14,562	5.99%	349	\$ 14,162	4.21%	
Commercial	21	200,080	7.25%	3	200,080	7.25%	
Consumer	13	123	11.77%	66	136	11.48%	
Quarter Ended September 30, 2013							
	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	21	\$ 2,887	6.74%	352	\$ 3,066	6.74%	
Nine-Month Period Ended September 30, 2013							

	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	102	\$ 12,828	6.43%	334	\$ 13,685	5.15%	
Commercial	2	1,842	8.99%	87	1,842	4.00%	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents troubled-debt restructurings for which there was a payment default during the twelve-month periods ended September 30, 2014 and 2013:

	Twelve-Month Period Ended September 30,								
	2014				2013				
	Number of Contracts		Recorded Investment		Number of Contracts		Recorded Investment		
	(Dollars in thousands)								
Mortgage	15		\$	1,739		30		\$	3,097
Consumer	2		\$	5		-		\$	-

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of September 30, 2014 and December 31, 2013, 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:

	September 30, 2014												
	Risk Ratings												
	Balance			Special			Substandard			Doubtful			Individually
	Outstanding	Pass	Mention	Substandard	Doubtful	Impairment							
	(In thousands)												
Commercial - originated and other loans held for investment													
Commercial secured by real estate:													
Corporate	\$ 113,976	\$ 90,006	\$ 23,970	\$ -	\$ -	\$ -							
Institutional	37,177	27,232	9,702	-	-	243							
Middle market	144,539	127,640	3,707	-	-	13,192							
Retail	161,642	147,034	3,020	2,441	-	9,147							
Floor plan	1,666	594	971	101	-	-							
Real estate	11,878	11,878	-	-	-	-							
	470,878	404,384	41,370	2,542	-	22,582							
Other commercial and industrial:													
Corporate	60,402	60,402	-	-	-	-							
Institutional	482,275	282,293	-	-	-	199,982							
Middle market	83,206	77,504	3,144	-	-	2,558							
Retail	80,813	76,684	308	2,360	-	1,461							
Floor plan	39,661	38,301	1,147	213	-	-							
	746,357	535,184	4,599	2,573	-	204,001							
Total	1,217,235	939,568	45,969	5,115	-	226,583							
Commercial - acquired loans (under ASC 310-20)													

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Commercial secured by real estate:														
Corporate		3,746		3,746		-		-		-				-
Retail		824		467		-		357		-				-
Floor plan		4,073		4,073		-		-		-				-
		8,643		8,286		-		357		-				-
Other commercial and industrial:														
Corporate		2,915		2,915		-		-		-				-
Retail		8,021		7,612		9		400		-				-
Floor plan		7,405		7,405		-		-		-				-
		18,341		17,932		9		400		-				-
Total		26,984		26,218		9		757		-				-
Total	\$	1,244,219	\$	965,786	\$	45,978	\$	5,872	\$	-	\$	226,583		

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013													
Risk Ratings													
													Individually
	Balance				Special								Measured for
	Outstanding		Pass		Mention	Substandard		Doubtful					Impairment
(In thousands)													
Commercial - originated and other loans held for investment													
Commercial secured by real estate:													
Corporate	\$ 54,796	\$	54,796	\$	-	\$	-	\$	-	\$	-	\$	-
Institutional	4,050		4,050		-		-		-		-		-
Middle market	161,583		133,061		16,627		118		-		-		11,777
Retail	166,642		149,018		2,182		2,258		-		-		13,184
Floor plan	1,835		1,835		-		-		-		-		-
Real estate	11,655		11,655		-		-		-		-		-
	400,561		354,415		18,809		2,376		-		-		24,961
Other commercial and industrial:													
Corporate	32,598		32,598		-		-		-		-		-
Institutional	536,445		536,445		-		-		-		-		-
Middle market	58,897		53,868		3,466		198		-		-		1,365
Retail	61,510		58,742		257		691		-		-		1,820
Floor plan	37,646		37,350		188		108		-		-		-
	727,096		719,003		3,911		997		-		-		3,185
Total	1,127,657		1,073,418		22,720		3,373		-		-		28,146
Commercial - acquired loans (under ASC 310-20)													
Commercial secured by real estate:													
Corporate	10,166		10,166		-		-		-		-		-

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Retail		5,770		4,378		443		949		-		-
Floor plan		2,677		2,576		-		101		-		-
		18,613		17,120		443		1,050		-		-
Other commercial and industrial:												
Corporate		9,793		9,696		-		97		-		-
Retail		27,338		26,044		150		1,144		-		-
Floor plan		21,937		21,769		168		-		-		-
		59,068		57,509		318		1,241		-		-
Total		77,681		74,629		761		2,291		-		-
Total	\$	1,205,338	\$	1,148,047	\$	23,481	\$	5,664	\$	-	\$	28,146

All loans individually measured for impairment are classified as substandard as of September 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2014 and December 31, 2013, we had approximately \$647.9 million and \$763.4 million, respectively, of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which \$626.8 million and \$696.0 million, respectively, were outstanding as of such dates. A substantial portion of our credit exposure to the government of Puerto Rico consists of collateralized loans or obligations that have a specific source of income or revenues identified for its repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services, such as water and electric power utilities. Public corporations have varying degrees of independence from the central government and many have received appropriations or are due other payments from it. We also have loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all their general obligation bonds and notes. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

In the second quarter of 2014, the government enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”), which establishes procedures for the adjustment of certain public corporations’ debts. The Recovery Act states in its preamble that it further promotes the central government’s public policy objectives of no longer providing financial support to public corporations and promoting their economic independence. The Recovery Act, which is without precedent and is being challenged in federal court on constitutional grounds, has increased the level of uncertainty as to the rights of the affected public corporation’s creditors. As of September 30, 2014, we had approximately \$382.1 million of credit facilities granted to public corporations authorized to initiate proceedings under the Recovery Act.

Oriental Bank is part of a four bank syndicate providing a \$550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of PREPA, a public corporation authorized to seek relief under the Recovery Act. The Bank’s participation in the line of credit has an unpaid principal balance of \$200.0 million as of September 30, 2014. The Company, as part of the bank syndicate, agreed during the quarter to extend its credit facility with PREPA to March 31, 2015. In connection with such extension, 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. PREPA also committed to delivering a comprehensive business plan by December 15, 2014 and a full debt restructuring plan by March 2, 2015. After the 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. Based on the experience and knowledge of the borrower, independent scenarios were developed to assess the collectability of the Company’s current credit exposure to PREPA. Such scenarios project very probable outcomes based on a conservative set of assumptions related to PREPA’s ability for future cash flow generation. The Company concluded that the loan should be maintained in accrual status requiring no impairment.

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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 September 30, 2014 and December 31, 2013, 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:

	September 30, 2014									
	Delinquency									
	Balance									Individually Measured for
Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Impairment			
(In thousands)										
Originated and other loans and leases held for investment										
Mortgage										
Traditional (by origination year)										
Up to the year 2002	\$ 68,338	\$ 54,931	\$ 5,831	\$ 3,160	\$ 537	\$ 999	\$ 1,888	\$ 992		
Years 2003 and 2004	62,344	49,747	6,309	1,730	221	1,623	1,489	1,225		
Year 2005	88,431	66,895	6,451	3,236	831	3,768	3,659	3,591		
Year 2006	113,211	90,157	9,821	5,471	1,740	2,479	1,759	1,784		
Years 2007, 2008 and 2009	97,063	79,950	2,874	2,774	839	3,181	3,352	4,093		
Years 2010, 2011, 2012	193,562	180,558	4,088	1,224	106	1,597	1,281	4,708		

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2013 and 2014																				
	622,949	522,238	35,374	17,595	4,274	13,647	13,428	16,393												
Non-traditional	37,775	32,886	1,084	783	259	1,047	1,667	49												
Loss mitigation program	89,583	9,249	1,665	789	628	1,022	980	75,250												
	750,307	564,373	38,123	19,167	5,161	15,716	16,075	91,692												
Home equity secured personal loans	733	607	-	-	-	-	126	-												
GNMA's buy-back option program	40,066	-	-	-	8,825	18,512	12,729	-												
	791,106	564,980	38,123	19,167	13,986	34,228	28,930	91,692												
Consumer																				
Credit cards	17,857	17,022	238	189	140	268	-	-												
Overdrafts	340	318	20	2	-	-	-	-												
Unsecured personal lines of credit	2,051	1,823	67	132	-	26	3	-												
Unsecured personal loans	138,608	135,169	1,586	614	579	22	-	638												
Cash collateral personal loans	17,026	16,644	214	132	36	-	-	-												
	175,882	170,976	2,125	1,069	755	316	3	638												
Auto and Leasing	542,892	475,120	43,537	15,956	5,662	2,617	-	-												
	1,509,880	1,211,076	83,785	36,192	20,403	37,161	28,933	92,330												
Acquired loans (accounted for under ASC 310-20)																				
Consumer																				
Credit cards	43,682	40,053	1,625	678	483	843	-	-												
Personal loans	3,602	3,293	160	83	32	34	-	-												
	47,284	43,346	1,785	761	515	877	-	-												
Auto	210,808	193,762	11,372	4,137	1,209	328	-	-												
	258,092	237,108	13,157	4,898	1,724	1,205	-	-												
Total	\$ 1,767,972	\$ 1,448,184	\$ 96,942	\$ 41,090	\$ 22,127	\$ 38,366	\$ 28,933	\$ 92,330												

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013										
Delinquency										
	Balance									Individually Measured for
	Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days			Impairment
(In thousands)										
Originated and other loans and leases held for investment										
Mortgage										
Traditional (by origination year)										
Up to the year 2002	\$ 76,512	\$ 64,743	\$ 6,594	\$ 1,634	\$ 868	\$ 1,082	\$ 1,458	\$	\$	133
Years 2003 and 2004	65,117	56,283	4,722	1,938	56	1,437	352			329
Year 2005	89,541	74,016	8,414	2,119	1,198	3,037	573			184
Year 2006	120,322	99,243	12,055	4,312	1,148	2,755	515			294
Years 2007, 2008 and 2009	101,150	91,920	3,464	1,104	1,264	2,844	554			-
Years 2010, 2011, 2012 and 2013	149,546	134,577	3,192	1,609	115	974	989			8,090
	602,188	520,782	38,441	12,716	4,649	12,129	4,441			9,030
Non-traditional	42,102	35,168	3,217	1,162	-	1,324	833			398
Loss mitigation program	86,318	7,762	1,376	149	624	312	1,029			75,066

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	730,608	563,712	43,034	14,027	5,273	13,765	6,303	84,494
Home equity secured								
personal loans	736	598	-	-	-	126	12	-
GNMA's buy-back								
option program	34,921	-	-	-	7,670	14,425	12,826	-
	766,265	564,310	43,034	14,027	12,943	28,316	19,141	84,494
Consumer								
Credit cards	15,241	14,555	287	168	118	113	-	-
Overdrafts	372	322	46	4	-	-	-	-
Unsecured personal lines of credit	1,981	1,844	33	38	25	34	7	-
Unsecured personal loans	94,560	92,102	1,272	399	300	39	13	435
Cash collateral personal loans	15,590	15,223	324	43	-	-	-	-
	127,744	124,046	1,962	652	443	186	20	435
Auto and Leasing	379,874	339,817	25,532	9,437	3,397	1,691	-	-
	1,273,883	1,028,173	70,528	24,116	16,783	30,193	19,161	84,929
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	52,199	46,713	2,217	1,200	828	1,241	-	-
Personal loans	3,975	3,681	196	7	60	31	-	-
	56,174	50,394	2,413	1,207	888	1,272	-	-
Auto	301,584	283,825	12,534	3,616	1,095	514	-	-
	357,758	334,219	14,947	4,823	1,983	1,786	-	-
Total	\$ 1,631,641	\$ 1,362,392	\$ 85,475	\$ 28,939	\$ 18,766	\$ 31,979	\$ 19,161	\$ 84,929

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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 September 30, 2014 and December 31, 2013 was as follows:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Allowance for loans and lease losses on non-covered loans:				
Originated and other loans and leases held for investment:				
Mortgage	\$	18,872	\$	19,937
Commercial		9,112		14,897
Consumer		8,709		6,006
Auto and leasing		13,404		7,866
Unallocated		182		375
		50,279		49,081
Acquired loans:				
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)				
Commercial		270		926
Consumer		1,031		-
Auto		3,159		1,428
		4,460		2,354
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)				
Commercial		10,115		1,713
Consumer		5		418
Auto		-		732
		10,120		2,863
		64,859		54,298
Allowance for loans and lease losses on covered loans:				
Loans secured by 1-4 family residential properties		15,252		12,495
Commercial and other construction		46,586		39,619
Consumer		389		615
		62,227		52,729
Total allowance for loan and lease losses	\$	127,086	\$	107,027

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 March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. Same analysis was performed for the commercial portfolio during the quarter ended June 30, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months for auto and leasing and consumer. For the commercial portfolio, a look back period of 12 months was maintained. In addition, during the quarter ended June 30, 2014, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration the current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others. These changes in the allowance for loan and

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

lease losses' look-back period for the consumer and auto and leasing portfolios, and 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 September 30, 2014									
								Auto and		
	Mortgage	Commercial	Consumer	Leasing	Unallocated	Total				
	(In thousands)									
Allowance for loan and lease losses for non-covered originated and other loans:										
Balance at beginning of period	\$ 19,062	\$ 12,423	\$ 7,887	\$ 11,127	\$ 139	\$ 50,638				
Charge-offs	(1,563)	(1,081)	(1,585)	(7,393)	-	(11,622)				
Recoveries	138	56	66	2,434	-	2,694				
Provision (recapture) for non-covered originated and other loan and lease losses	1,235	(2,286)	2,341	7,236	43	8,569				
Balance at end of period	\$ 18,872	\$ 9,112	\$ 8,709	\$ 13,404	\$ 182	\$ 50,279				
	Nine-Month Period Ended September 30, 2014									
							Auto and			
	Mortgage	Commercial	Consumer	Leasing	Unallocated	Total				
	(In thousands)									

Allowance for loan and lease losses for non-covered originated and other loans:													
Balance at beginning of period	\$	19,937	\$	14,897	\$	6,006	\$	7,866	\$	375	\$	49,081	
Charge-offs		(3,764)		(2,043)		(3,820)		(17,994)		-		(27,621)	
Recoveries		374		269		457		6,094		-		7,194	
Provision (recapture) for non-covered originated and other loan and lease losses		2,325		(4,011)		6,066		17,438		(193)		21,625	
Balance at end of period	\$	18,872	\$	9,112	\$	8,709	\$	13,404	\$	182	\$	50,279	

	September 30, 2014														
	Mortgage			Commercial			Consumer			Auto and Leasing		Unallocated		Total	
	(In thousands)														
Allowance for loan and lease losses on non-covered originated and other loans:															
Ending allowance balance attributable to loans:															
Individually evaluated for impairment	\$	7,932	\$	1,108	\$	-	\$	-	\$	-	\$	-	\$	9,040	
Collectively evaluated for impairment		10,940		8,004		8,709		13,404		182				41,239	
Total ending allowance balance	\$	18,872	\$	9,112	\$	8,709	\$	13,404	\$	182	\$		\$	50,279	
Loans:															
Individually evaluated for impairment	\$	91,692	\$	226,583	\$	-	\$	-	\$	-	\$	-	\$	318,275	
Collectively evaluated for impairment		699,414		990,652		175,882		542,892		-				2,408,840	

Total ending loan balance	\$ 791,106		\$ 1,217,235		\$ 175,882		\$ 542,892		\$ -		\$ 2,727,115
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losses														
Balance at end of period	\$	20,991	\$	14,715	\$	4,828	\$	6,118	\$	921	\$	47,573		

	December 31, 2013													
	Mortgage		Commercial		Consumer		Auto and Leasing		Unallocated		Total			
	(In thousands)													
Allowance for loan and lease losses for non-covered originated and other loans:														
Ending allowance balance attributable to loans:														
Individually evaluated for impairment	\$	8,708	\$	1,431	\$	-	\$	-	\$	-	\$	10,139		
Collectively evaluated for impairment		11,229		13,466		6,006		7,866		375		38,942		
Total ending allowance balance	\$	19,937	\$	14,897	\$	6,006	\$	7,866	\$	375	\$	49,081		
Loans:														
Individually evaluated for impairment	\$	84,494	\$	28,145	\$	-	\$	-	\$	-	\$	112,639		
Collectively evaluated for impairment		681,771		1,099,512		127,744		379,874		-		2,288,901		
Total ending loans balance	\$	766,265	\$	1,127,657	\$	127,744	\$	379,874	\$	-	\$	2,401,540		

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2013									
	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	\$	924	\$	-	\$	-	\$	-	\$	924
Charge-offs		-		(1,233)		(1,598)		-		(2,831)
Recoveries		6		88		884		-		978
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		431		1,145		1,394		-		2,970
Balance at end of period	\$	1,361	\$	-	\$	680	\$	-	\$	2,041
	Nine-Month Period Ended September 30, 2013									
	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	\$	-	\$	-	\$	-	\$	-	\$	-
Charge-offs		(25)		(3,847)		(4,723)		-		(8,595)

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Recoveries		6		932		3,000		-		3,938
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		1,380		2,915		2,403		-		6,698
Balance at end of period	\$	1,361	\$	-	\$	680	\$	-	\$	2,041

	December 31, 2013									
	Commercial		Consumer		Auto		Unallocated			Total
	(In thousands)									
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:										
Ending allowance balance attributable to loans:										
Collectively evaluated for impairment		926		-		1,428		-		2,354
Total ending allowance balance	\$	926	\$	-	\$	1,428	\$	-	\$	2,354
Loans:										
Collectively evaluated for impairment		77,681		56,174		301,584		-		435,439
Total ending loan balance	\$	77,681	\$	56,174	\$	301,584	\$	-	\$	435,439

loan and lease losses accounted for															
under ASC 310-30															
Balance at end of period	\$	-	\$	10,115	\$	-	\$	5	\$	-	\$	10,120			

Non-covered acquired loans accounted for under ASC 310-30 were recognized at fair value as of December 18, 2012, which included the impact of expected credit losses, and therefore, no allowance for credit losses was recorded during the nine-month period ended September 30, 2013.

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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 nine-month periods ended September 30, 2014 and 2013 were as follows:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
(In thousands)								
Balance at beginning of the period	\$	59,515	\$	53,992	\$	52,729	\$	54,124
Provision for covered loan and lease losses, net		1,115		3,074		4,339		4,956
FDIC shared-loss portion of provision for (recapture of) covered loan and lease losses, net		1,597		(511)		5,159		(2,525)
Balance at end of the period	\$	62,227	\$	56,555	\$	62,227	\$	56,555

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.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the quarters and nine month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)							
FDIC indemnification asset:								
Balance at beginning of period	\$	143,660	\$	253,379	\$	189,240	\$	302,295
Shared-loss agreements reimbursements from the FDIC		(12,837)		(14,036)		(31,537)		(32,732)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net		1,597		(510)		5,159		(2,525)
FDIC indemnification asset expense		(16,059)		(15,198)		(51,180)		(46,623)
Incurring expenses to be reimbursed under shared-loss agreements		4,258		1,947		8,937		5,167
Balance at end of period	\$	120,619	\$	225,582	\$	120,619	\$	225,582

True-up payment obligation:										
Balance at beginning of period	\$	20,231	\$	16,907			\$	18,510	\$	15,496
Change in true-up payment obligation		875		767				2,596		2,178
Balance at end of period	\$	21,106	\$	17,674			\$	21,106	\$	17,674

The FDIC shared-loss expense bears an inverse relationship with a change in the yield of covered 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 indemnification asset expense of \$16.1 million and \$51.2 million for the quarter and nine-month period ended September 30, 2014 increased when compared to \$15.2 million and \$46.6 million for the same periods in 2013. These changes were caused by the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and the improved accretible yield on the covered loans. Forecasted losses show a decreasing trend during the nine-month period ended September 30, 2014 as compared to the projections in 2013. The reduction in claimable losses amortizes the FDIC indemnification asset through the shorter of the life of the shared loss agreement or the loan holding period. This amortization is net of the accretion of the discount recorded to reflect the expected claimable loss at its net present value. During the quarter and nine-month period ended September 30, 2014, the net amortization included \$2.6 million and \$7.7 million of additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction, commercial, and leasing loan pools. Additional amortization of the FDIC indemnification asset may be recorded, should the Company continue to experience reduced expected losses. The majority of the FDIC indemnification asset, \$84.3 million, is recorded for projected claimable losses on non-single family residential loans whose loss share period ends in the second quarter of 2015, although the period during which recoveries are shared extends for an additional three-years.

Also in connection with the FDIC assisted acquisition, the Bank agreed to make a true-up payment, also known as 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 discount (per bid) (or \$227.5 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 \$21.1 million and \$18.5 million, net of discount, as of September 30, 2014 and December 31, 2013, 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 quarter and nine-month period ended September 30, 2014, the fair value of the true-up payment obligation increased by \$875 thousand and \$2.6 million, respectively, compared to increases of \$767 thousand and \$2.2 million for the same periods in 2013. These changes in fair value are included as change in true-up payment obligation within FDIC shared-loss expense, net in the unaudited consolidated statements of operations.

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The following table provides the fair value and the undiscounted amount of the true-up payment obligation at September 30, 2014 and December 31, 2013:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Carrying amount (fair value)	\$	21,106	\$	18,510
Undiscounted amount	\$	40,638	\$	40,199

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7 — DERIVATIVES

The following table presents the Company's derivative assets and liabilities at September 30, 2014 and December 31, 2013:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Derivative assets:				
Options tied to S&P 500 Index	\$	5,762	\$	16,430
Interest rate swaps designated as cash flow hedges		-		850
Interest rate swaps not designated as hedges		2,451		2,861
Interest rate caps		224		319
Other		8		42
	\$	8,445	\$	20,502
Derivative liabilities:				
Interest rate swaps designated as cash flow hedges		8,717		11,757
Interest rate swaps not designated as hedges		2,451		2,861
Interest rate caps		224		319
Other		22		-
	\$	11,414	\$	14,937

Interest Rate Swaps

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these swaps and their terms at September 30, 2014:

Type	Notional Amount	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
(In thousands)						
Interest Rate Swaps	\$ 25,000	2.4365%	1-Month LIBOR	05/05/11	05/04/12	05/04/16
	25,000	2.6200%	1-Month LIBOR	05/05/11	07/24/12	07/24/16
	25,000	2.6350%	1-Month LIBOR	05/05/11	07/30/12	07/30/16
	50,000	2.6590%	1-Month LIBOR	05/05/11	08/10/12	08/10/16
	100,000	2.6750%	1-Month LIBOR	05/05/11	08/16/12	08/16/16
	39,641	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	\$ 264,641					

An unrealized loss of \$8.7 million was recognized in accumulated other comprehensive income related to the valuation of these swaps at September 30, 2014, and the related asset and liability are being reflected in the accompanying unaudited consolidated statements of financial condition.

At September 30, 2014 and December 31, 2013, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of \$2.5 million and \$2.9 million, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At September 30, 2014 and December 31, 2013, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of \$2.5 million and \$2.9 million, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition.

The following table shows a summary of these interest rate swaps not designated as hedging instruments and their terms at September 30, 2014:

Type	Notional Amount	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
(In thousands)					
Interest Rate Swaps - Derivatives Offered to Clients	\$ 4,003	5.1300%	1-Month LIBOR	07/03/06	07/03/16

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		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	\$	16,503				
Interest Rate Swaps - Mirror Image Derivatives	\$	4,003	5.1300%	1-Month LIBOR	07/03/06	07/03/16
		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	\$	16,503				

OFG BANCORP**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)*****Options Tied to Standard & Poor's 500 Stock Market Index***

The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. The Company uses option agreements with major broker-dealers to manage its exposure to changes in this index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the index in exchange for a fixed premium. The changes in fair value of the option agreements used to manage the exposure in the stock market in the certificates of deposit are recorded in earnings. At September 30, 2014 and December 31, 2013, the purchased options used to manage exposure to the S&P 500 Index on stock indexed deposits represented an asset of \$5.8 million (notional amount of \$12.0 million) and \$16.4 million (notional amount of \$28.0 million), respectively, and the options sold to customers embedded in the certificates of deposit and recorded as deposits in the unaudited consolidated statements of financial condition, represented a liability of \$5.6 million (notional amount of \$11.6 million) and \$15.7 million (notional amount of \$26.9 million), respectively.

Interest rate caps

The Company has entered into interest rate cap transactions with various clients with floating-rate debt who wish to protect their financial results against increases in interest rates. In these cases, the Company simultaneously enters into mirror-image interest rate cap transactions with financial counterparties. None of these cap transactions qualify for hedge accounting, and therefore, they are marked to market through earnings. The outstanding total notional amount of interest rate caps was \$110.0 million at September 30, 2014 and \$94.0 million at December 31, 2013. At September 30, 2014 and December 31, 2013, the interest rate caps sold to clients represented a liability of \$224 thousand and \$319 thousand, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition. At September 30, 2014 and December 31, 2013, the interest rate caps purchased as mirror-images represented an asset of \$224 thousand and \$319 thousand, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial condition.

NOTE 8 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at September 30, 2014 and December 31, 2013 consists of the following:

	September 30,		December 31,
	2014		2013
	(In thousands)		

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Non-covered loans	\$	15,260	\$	13,378
Investments		4,405		5,356
	\$	19,665	\$	18,734

Other assets at September 30, 2014 and December 31, 2013 consist of the following:

		September 30,		December 31,
		2014		2013
(In thousands)				
Prepaid expenses	\$	18,375	\$	15,439
Core deposit and customer relationship intangibles		10,285		11,912
Other repossessed assets		21,733		12,583
Mortgage tax credits		8,706		8,706
Investment in Statutory Trust		1,083		1,083
Accounts receivable and other assets		37,243		48,717
	\$	97,425	\$	98,440

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Prepaid expenses amounting to \$18.4 million and \$15.4 million at September 30, 2014 and December 31, 2013, respectively, include prepaid municipal, property and income taxes aggregating to \$12.8 million and \$8.6 million, respectively.

In connection with the FDIC-assisted acquisition and the BBVAPR Acquisition, the Company recorded a core deposit intangible representing the value of checking and savings deposits acquired. At September 30, 2014 and December 31, 2013, this core deposit intangible amounted to \$6.8 million and \$7.8 million, respectively. In addition, the Company recorded a customer relationship intangible amounting to \$5.0 million representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition as of December 31, 2012. At September 30, 2014 and December 31, 2013, this customer relationship intangible amounted to \$3.5 million and \$4.1 million, respectively.

Other repossessed assets totaled \$21.7 million and \$12.6 million at September 30, 2014 and December 31, 2013, respectively, include repossessed automobiles amounting to \$21.0 million and \$12.3 million, respectively, which are recorded at their net realizable value.

At both September 30, 2014 and December 31, 2013, tax credits for the Company totaled \$8.7 million. These tax credits do not have an expiration date.

NOTE 9— DEPOSITS AND RELATED INTEREST

Total deposits as of September 30, 2014 and December 31, 2013 consist of the following:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Non-interest bearing demand deposits	\$	734,449	\$	744,327
Interest-bearing savings and demand deposits		2,566,952		2,489,971
Individual retirement accounts		314,813		347,262
Retail certificates of deposit		455,286		568,367
Institutional certificates of deposit		328,031		405,224
Total core deposits		4,399,531		4,555,151
Brokered deposits		669,644		828,114

Total deposits	\$	5,069,175	\$	5,383,265
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Brokered deposits include \$575.8 million in certificates of deposits and \$93.7 million in money market accounts at September 30, 2014, and \$729.8 million in certificates of deposits and \$98.3 million in money market accounts at December 31, 2013.

The weighted average interest rate of the Company's deposits was 0.75% at September 30, 2014 and 0.73% at December 31, 2013, inclusive of non-interest bearing deposits of \$734.4 million and \$744.3 million, respectively. Interest expense for the quarters and nine-month periods ended September 30, 2014 and 2013 was as follows:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)							
Demand and savings deposits	\$	4,003	\$	5,596	\$	13,834	\$	16,994
Certificates of deposit		3,658		5,738		11,970		13,763
	\$	7,661	\$	11,334	\$	25,804	\$	30,757

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2014 and December 31, 2013, demand and interest-bearing deposits and certificates of deposit included deposits of Puerto Rico Cash & Money Market Fund, Inc., which amounted to \$108.9 million and \$93.1 million, respectively, with a weighted average rate of 0.78% in both years, and were collateralized with investment securities with a fair value of \$83.4 million and \$67.5 million, respectively.

At September 30, 2014 and December 31, 2013, time deposits in denominations of \$100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to \$681.6 million and \$845.8 million, including public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of \$20.8 million and \$26.7 million, respectively, at a weighted average rate of 0.53% at September 30, 2014 and 0.32% at December 31, 2013.

At September 30, 2014 and December 31, 2013, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to \$359.2 million and \$328.6 million, respectively. These public funds were collateralized with commercial loans amounting to \$416.0 million at September 30, 2014, and with investment securities with a fair value of \$97.8 million and commercial loans amounting to \$549.0 million at December 31, 2013.

Excluding equity indexed options in the amount of \$4.4 million, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interest of \$1.3 million and unamortized deposit discount in the amount of \$1.1 million, the scheduled maturities of certificates of deposit at September 30, 2014 are as follows:

	September 30, 2014	
	(In thousands)	
Within one year:		
Three (3) months or less	\$	342,429
Over 3 months through 1 year		590,965
		933,394
Over 1 through 2 years		454,186
Over 2 through 3 years		210,567
Over 3 through 4 years		50,067
Over 4 through 5 years		18,926
	\$	1,667,140

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

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans amounted to \$890 thousand and \$1.8 million as of September 30, 2014 and December 31, 2013, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 10 — BORROWINGS

Securities Sold under Agreements to Repurchase

At September 30, 2014, securities underlying agreements to repurchase were delivered to, and are being held by, the counterparties with whom the repurchase agreements were transacted. The counterparties have agreed to resell to the Company the same or similar securities at the maturity of these agreements.

At September 30, 2014 and December 31, 2013, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of \$2.2 million and \$2.6 million, respectively, were as follows:

	September 30,				December 31,			
	2014				2013			
			Fair Value of				Fair Value of	
	Borrowing		Underlying		Borrowing		Underlying	
	Balance		Collateral		Balance		Collateral	
(In thousands)								
JP Morgan Chase Bank NA	255,000		259,039		255,000		273,250	
Credit Suisse Securities (USA) LLC	755,000		842,183		755,000		864,232	
Deutsche Bank	-		-		255,000		272,053	
Total	\$ 1,010,000	\$	1,101,222	\$	1,265,000	\$	1,409,535	

The following table shows a summary of the Company's repurchase agreements and their terms, excluding accrued interest in the amount of \$2.2 million, at September 30, 2014:

		Weighted-		
	Borrowing	Average		Maturity
Year of Maturity	Balance	Coupon	Settlement Date	Date
	(In thousands)			

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2014	\$	85,000	0.675%	12/3/2012	12/3/2014
2015		255,000	0.840%	12/10/2012	6/13/2015
2016		170,000	1.500%	12/6/2012	12/8/2016
2017		500,000	4.780%	3/2/2007	3/2/2017
	\$	1,010,000	2.831%		

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the repurchase liability associated with the repurchase agreement transactions (excluding accrued interest) by maturity. Also, it includes the carrying value and approximate market value of collateral (excluding accrued interest) at September 30, 2014 and December 31, 2013. The information excludes repurchase agreement transactions which were collateralized with securities or cash, or securities purchased under agreements to resell.

September 30, 2014													
Market Value of Underlying Collateral													
CMOs Obligations													
issued by of US													
US of US													
Government Government													
Sponsored Sponsored													
Agencies Agencies													
Total													
(Dollars in thousands)													
Repurchase	Average	FNMA and	GNMA	Government	Government							Total	
Liability	Rate	Certificates	Certificates	Sponsored	Sponsored							Total	
				Agencies	Agencies								
Less than 90 days	85,000	0.68%	95,420	2,061	-	-							97,481
Over 90 days	925,000	2.83%	1,003,070	671	-	-							1,003,741
Total	\$ 1,010,000	2.89%	\$ 1,098,490	\$ 2,732	\$ -	\$ -							\$ 1,101,222

December 31, 2013													
Market Value of Underlying Collateral													
CMOs Obligations													
issued by of US													
US of US													
Government Government													
Sponsored Sponsored													
Agencies Agencies													
Total													
(Dollars in thousands)													
Repurchase	Average	FNMA and	GNMA	Government	Government							Total	
Liability	Rate	Certificates	Certificates	Sponsored	Sponsored							Total	
				Agencies	Agencies								
Within 30 days	\$ 255,000	0.50%	\$ 216,201	\$ -	\$ 48,923	\$ 6,929							\$ 272,053
Over 90 days	1,010,000	2.89%	1,018,632	3,000	45,100	3,720							1,070,452
Total	\$ 1,265,000	2.41%	\$ 1,234,833	\$ 3,000	\$ 94,023	\$ 10,649							\$ 1,342,505

Advances from the Federal Home Loan Bank of New York

Advances are received from the Federal Home Loan Bank of New York (the “FHLB-NY”) under an agreement whereby the Company is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At September 30, 2014 and December 31, 2013, these advances were secured by mortgage and commercial loans amounting to \$1.2 billion and \$1.3 billion, respectively. Also, at September 30, 2014 and December 31, 2013, the Company had an additional borrowing capacity with the FHLB-NY of \$653.5 million and \$674.2 million, respectively. At September 30, 2014 and December 31, 2013, the weighted average remaining maturity of FHLB’s advances was 9.4 months and 11.3 months, respectively. The original terms of these advances range between one day and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of September 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of \$330 thousand, at September 30, 2014:

			Weighted-		
		Borrowing	Average		Maturity
Year of Maturity		Balance	Coupon	Settlement Date	Date
		(In thousands)			
2014	\$	25,000	0.36%	9/4/2014	10/6/2014
		50,000	0.37%	9/10/2014	10/10/2014
		100,000	0.36%	9/16/2014	10/16/2014
		25,000	0.32%	9/24/2014	10/24/2014
		25,000	0.30%	9/30/2014	10/30/2014
		39,641	0.37%	9/2/2014	10/1/2014
		264,641			
2017		4,558	1.24%	4/3/2012	4/3/2017
2018		30,000	2.19%	1/16/2013	1/16/2018
		25,000	2.18%	1/16/2013	1/16/2018
		55,000			
2020		10,259	2.59%	7/19/2013	7/20/2020
	\$	334,458	0.74%		

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

Subordinated Capital Notes

Subordinated capital notes amounted to \$101.2 million at September 30, 2014 and \$100.0 million at December 31, 2013.

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

	Redemption fund	
	(In thousands)	
Redemption fund - September 30, 2014	\$	53,600
2014		1,675
2015		6,700
2016		5,025
	\$	67,000

Other borrowings

Other borrowings, presented in the unaudited consolidated statement of financial condition amounted to \$3.9 million and \$3.7 million at September 30, 2014 and December 31, 2013, respectively, which mainly consists of unsecured fixed-rate borrowings and term notes tied to the appreciation of the S&P index. For both periods, the unsecured fixed rate borrowings amounted to \$1.7 million at a fixed rate of 3.0%. The term notes tied to the S&P index amounted to \$1.0 million at both September 30, 2014 and December 31, 2013 with an index appreciation of \$1.1 million and \$957 thousand, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 11 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

The following table presents the potential effect of rights of set-off associated with the Company's recognized financial assets and liabilities at September 30, 2014 and December 31, 2013:

September 30, 2014																
											Gross Amounts Not Offset in the Statement of Financial Condition					
											Gross Amounts	Net Amount of				
											Offset in the	Assets Presented				
											Gross Amount	Statement of	Cash			
											of Recognized	Financial	of Financial	Financial	Collateral	Net
											Assets	Condition	Condition	Instruments	Received	Amount
(In thousands)																
Derivatives	\$	8,445	\$	-	\$	8,445	\$	2,003	\$	-	\$	6,442				
Total	\$	8,445	\$	-	\$	8,445	\$	2,003	\$	-	\$	6,442				
December 31, 2013																
											Gross Amounts Not Offset in the Statement of Financial Condition					
											Gross Amounts	Net amount of				

				Offset in the		Assets Presented							
		Gross Amount		Statement of		in Statement				Cash			
		of Recognized		Financial		of Financial		Financial		Collateral			Net
		Assets		Condition		Condition		Instruments		Received			Amount
(In thousands)													
Derivatives	\$	20,502	\$	-	\$	20,502	\$	2,450	\$	6,780	\$		11,272
Securities purchased under agreements to resell		60,000		-		60,000		64,587		-			(4,587)
Total	\$	80,502	\$	-	\$	80,502	\$	67,037	\$	6,780	\$		6,685

Securities sold under agreements to repurchase		1,265,000		-		1,265,000		1,277,919		67,029		(79,948)
Total	\$	1,295,672	\$	-	\$	1,295,672	\$	1,277,919	\$	69,378	\$	(51,625)

NOTE 12 — RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. As of September 30, 2014 and December 31, 2013, these loan balances amounted to \$25.6 million and \$19.0 million, respectively. The activity and balance of these loans for the quarters and nine-month periods ended September 30, 2014 and 2013 were as follows:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
(In thousands)								
Balance at the beginning of year	\$	24,151	\$	8,031	\$	18,963	\$	6,055
New loans		319		14,264		14,166		18,498
Repayments and sales		1,174		(3,289)		(7,485)		(5,315)
Credits of persons no longer considered related parties		-		-		-		(232)
Balance at the end of year	\$	25,644	\$	19,006	\$	25,644	\$	19,006

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 13 — INCOME TAXES

On July 1st, 2014 the Governor signed Act No. 77-2014, known as “Ley de Ajustes al Sistema Contributivo” (Act of Adjustments to the Tax System). The main purpose of the Act is to increase government collections in order to alleviate the structural deficit. The most relevant provisions of the Act, as applicable to the Company, and effective for transactions held after June 30, 2014 are as follows: (1) the capital tax rate was increased from 15% to 20% and (2) for an asset to be considered long term capital asset, the holding period must be over a year, which before was defined with a holding period of over six months.

Other provisions applicable to tax years commencing after December 31, 2013 is the additional tax on gross income (“patente nacional”) is defined as a separate tax, rather than a component of the Alternative Minimum Tax (AMT) for non-financial institutions and, therefore is not longer accounted for under the provisions of ASC 740. For financial institutions, the additional tax on gross income remained mostly unaltered at a tax rate of 1% of its gross income of a taxable year, of which fifty percent (50%) may be claimed as a credit against the financial institution’s applicable income tax of that year.

At September 30, 2014 and December 31, 2013, the Company’s net deferred tax asset amounted to \$121.2 million and \$137.6 million, respectively. In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax asset are deductible, management believes it is more likely than not that the Company will realize the entire deferred tax asset, net of the existing valuation allowances recorded at September 30, 2014 and December 31, 2013. The amount of the deferred tax asset that is considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

At September 30, 2014 and December 31, 2013, Oriental International Bank Inc. (“OIB”), the Bank’s international banking entity subsidiary, had \$198 thousand and \$356 thousand, respectively, in income tax effect of unrecognized gain on available-for-sale securities included in other comprehensive income. Following the change in OIB’s applicable tax rate from 5% to 0% as a result of a Puerto Rico law adopted in 2011, this remaining tax balance will flow through income as these securities are repaid or sold in future periods. During the quarters ended September 30, 2014 and 2013, \$11 thousand and \$36 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income into income tax provision. During the nine-month periods ended September 30, 2014 and 2013, \$158 thousand and \$126 thousand, respectively, related to the residual effect from OIB was reclassified from accumulated other comprehensive income to income tax provision.

The Company classifies unrecognized tax benefits in income taxes payable. These gross unrecognized tax benefits would affect the effective tax rate if realized. The balance of unrecognized tax benefits at September 30, 2014 was \$2.6 million (December 31, 2013 - \$4.0 million). The Company had accrued \$430 thousand at September 30, 2014 (December 31, 2013 - \$1.2 million) for the payment of interest and penalties relating to unrecognized tax benefits. Also, during this quarter the Company recorded a reversal of an income tax contingency of \$1.0 million as a result of reviewing the positions of certain unrecognized tax benefits at the Bank.

Income tax expense was \$8.0 million for the quarter ended September 30, 2014, compared to \$6.6 million for the same period in 2013. Effective July 1, 2014, capital gains tax rate was increased from 15% to 20% as explained above.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 — STOCKHOLDERS' EQUITY

Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and Puerto Rico banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Pursuant to the Dodd-Frank Act, federal banking regulators have adopted new capital rules that became effective January 1, 2014 for advanced approaches banking organizations and will become effective January 1, 2015 for all other covered organizations (subject to certain phase-in periods through January 1, 2019) and that will replace their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules. Quantitative measures established by regulation to ensure capital adequacy currently require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average total assets (as defined in the regulations). As of September 30, 2014 and December 31, 2013, the Company and the Bank met all capital adequacy requirements to which they are subject. As of September 30, 2014 and December 31, 2013, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the tables presented below.

The Company's and the Bank's actual capital amounts and ratios as of September 30, 2014 and December 31, 2013 are as follows:

	Actual			Minimum Capital Requirement			Minimum to be Well Capitalized		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
(Dollars in thousands)									
Company Ratios									
As of September 30, 2014									
Total capital to risk-weighted assets	\$ 858,356	17.50%		\$ 392,465	8.00%		\$ 490,581	10.00%	
	\$ 782,797	15.96%		\$ 196,233	4.00%		\$ 294,349	6.00%	

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Tier 1 capital to risk-weighted assets												
Tier 1 capital to average total assets	\$	782,797	10.51%	\$	297,984	4.00%	\$	372,480	5.00%			
<u>As of December 31, 2013</u>												
Total capital to risk-weighted assets	\$	827,459	16.16%	\$	409,514	8.00%	\$	511,893	10.00%			
Tier 1 capital to risk-weighted assets	\$	736,106	14.38%	\$	204,757	4.00%	\$	307,136	6.00%			
Tier 1 capital to average total assets	\$	736,106	9.06%	\$	324,910	4.00%	\$	406,138	5.00%			

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized				
	Amount	Ratio	Amount	Ratio	Amount	Ratio			
(Dollars in thousands)									
Bank Ratios									
<u>As of September 30, 2014</u>									
Total capital to risk-weighted assets	\$	813,760	16.66%	\$	390,644	8.00%	\$	488,305	10.00%
Tier 1 capital to risk-weighted assets	\$	738,482	15.12%	\$	195,322	4.00%	\$	292,983	6.00%
Tier 1 capital to average total assets	\$	738,482	9.99%	\$	295,673	4.00%	\$	369,592	5.00%
<u>As of December 31, 2013</u>									
Total capital to risk-weighted assets	\$	779,413	15.30%	\$	407,637	8.00%	\$	509,547	10.00%
Tier 1 capital to risk-weighted assets	\$	688,350	13.51%	\$	203,819	4.00%	\$	305,728	6.00%
Tier 1 capital to average total assets	\$	688,350	8.54%	\$	322,395	4.00%	\$	402,993	5.00%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Additional Paid-in Capital

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

Treasury Stock

Under the Company's current stock repurchase program it is authorized to purchase in the open market up to \$70 million of its outstanding shares of common stock, of which approximately \$23.2 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. During the nine-month period ended September 30, 2014, the Company purchased 707,500 shares under this program for a total of \$10.4 million, at an average price of \$14.66 per share. There were no repurchases during 2013.

The following table presents the shares repurchased for each month in the nine-month period ended September 30, 2014, excluding the months of March, April, May, June, July and September of 2014, during which no shares were purchased as part of the stock repurchase program:

	Total number of				Dollar amount of	
	shares purchased as			Average	shares repurchased	
	part of stock			price paid	(excluding	
	repurchase programs			per share	commissions paid)	
						(In thousands)
Period						
January 2014		57,700	\$	14.73	\$	850
February 2014		649,700		14.66		9,522
August 2014		100		15.50		2
Nine-Month Period Ended September 30, 2014		707,500	\$	14.66	\$	10,374

The number of shares that may yet be purchased under the \$70 million program is estimated at 1,548,481 and was calculated by dividing the remaining balance of \$23.2 million by \$14.98 (closing price of the Company common stock at September 30, 2014). The Company did not purchase any shares of its common stock other than through its publicly announced stock repurchase program during the nine-months ended September 30, 2014.

The activity in connection with common shares held in treasury by the Company for the nine-month periods ended September 30, 2014 and 2013 is set forth below:

	Nine-Month Period Ended September 30,								
	2014				2013				
			Dollar				Dollar		
	Shares		Amount		Shares		Amount		
(In thousands, except shares data)									
Beginning of period	7,030,101		\$	80,642		7,090,597		\$	81,275
Common shares used upon lapse of restricted stock units	(36,294)			(384)		(53,178)			(556)
Common shares repurchased as part of the stock repurchase program	707,500			10,394		-			-
Common shares used to match defined contribution plan, net	-			-		(7,318)			(77)
End of period	7,701,307		\$	90,652		7,030,101		\$	80,642

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income tax, as of September 30, 2014 and December 31, 2013 consisted of:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	\$	23,995	\$	13,267
Income tax effect of unrealized gain on securities available-for-sale		(3,677)		(1,834)
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired		20,318		11,433
Unrealized loss on cash flow hedges		(8,717)		(10,907)
Income tax effect of unrealized loss on cash flow hedges		1,810		2,665
Net unrealized loss on cash flow hedges		(6,907)		(8,242)
Accumulated other comprehensive income, net of taxes	\$	13,411	\$	3,191

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,							
	2014				2013			
	Net unrealized	Net unrealized	Accumulated		Net unrealized	Net unrealized	Accumulated	
	gains on	loss on	other		gains on	loss on	other	
	securities	cash flow	comprehensive		securities	cash flow	comprehensive	
	available-for-sale	hedges	income		available-for-sale	hedges	income	
	(In thousands)							
Beginning balance	\$ 29,759	\$ (8,004)	\$ 21,755		\$ 25,400	\$ (9,634)	\$ 15,766	
Other	(9,452)	(559)	(10,011)		(5,113)	(1,509)	(6,622)	

comprehensive income (loss) before reclassifications																				
Amounts reclassified out of accumulated other comprehensive income		11		1,656		1,667		37		1,651		1,688								
Other comprehensive income (loss)		(9,441)		1,097		(8,344)		(5,076)		142		(4,934)								
Ending balance	\$	20,318	\$	(6,907)	\$	13,411	\$	20,324	\$	(9,492)	\$	10,832								
Nine-Month Period Ended September 30,																				
2014											2013									
		Net unrealized		Net unrealized		Accumulated		Net unrealized		Net unrealized		Accumulated								
		gains on		loss on		other		gains on		loss on		other								
		securities		cash flow		comprehensive		securities		cash flow		comprehensive								
		available-for-sale		hedges		income		available-for-sale		hedges		income								
(In thousands)																				
Beginning balance	\$	11,433	\$	(8,242)	\$	3,191	\$	68,245	\$	(12,365)	\$	55,880								
Other comprehensive income before reclassifications		8,727		(3,584)		5,143		(48,047)		(1,530)		(49,577)								
Amounts reclassified out of accumulated other comprehensive income		158		4,919		5,077		126		4,403		4,529								
Other comprehensive income (loss)		8,885		1,335		10,220		(47,921)		2,873		(45,048)								
Ending balance	\$	20,318	\$	(6,907)	\$	13,411	\$	20,324	\$	(9,492)	\$	10,832								

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents reclassifications out of accumulated other comprehensive income for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Amount reclassified out of accumulated other comprehensive income				
		Quarter Ended		Nine-Month Period	Affected Line Item in
		September 30, 2014		Ended September 30, 2014	Consolidated Statement of Operations
	(In thousands)				
Cash flow hedges:					
Interest-rate contracts	\$	1,656	\$	4,919	Net interest expense
Available-for-sale securities:					
Residual tax effect from OIB's change in applicable tax rate		11		158	Income tax expense
	\$	1,667	\$	5,077	
	Amount reclassified out of accumulated other comprehensive income				
		Quarter Ended		Nine-Month Period	Affected Line Item in
		September 30, 2013		Ended September 30, 2013	Consolidated Statement of Operations
	(In thousands)				
Cash flow hedges:					
Interest-rate contracts	\$	1,651	\$	4,403	Net interest expense
Available-for-sale securities:					
Residual tax effect from OIB's change in applicable tax rate		37		126	Income tax expense
	\$	1,688	\$	4,529	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for the quarters and nine-month periods ended September 30, 2014 and 2013 is as follows:

	Quarter ended September 30 ,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
(In thousands, except per share data)								
Net income	\$	19,532	\$	19,621	\$	64,588	\$	78,352
Less: Dividends on preferred stock								
Non-convertible preferred stock (Series A, B, and D)		(1,627)		(1,628)		(4,882)		(4,884)
Convertible preferred stock (Series C)		(1,838)		(1,837)		(5,514)		(5,512)
Income available to common shareholders	\$	16,067	\$	16,156	\$	54,192	\$	67,956
Effect of assumed conversion of the convertible preferred stock		1,838		1,837		5,514		5,512
Income available to common shareholders assuming conversion	\$	17,905	\$	17,993	\$	59,706	\$	73,468
Weighted average common shares and share equivalents:								
Average common shares outstanding		45,055		45,927		45,131		45,717
Effect of dilutive securities:								
Average potential common shares-options		160		257		162		198
Average potential common shares-assuming conversion of convertible preferred stock		7,147		7,138		7,147		7,138
Total weighted average common shares		52,362		53,322		52,440		53,053

outstanding and equivalents									
Earnings per common share - basic	\$	0.36	\$	0.35	\$	1.20	\$	1.49	
Earnings per common share - diluted	\$	0.34	\$	0.34	\$	1.14	\$	1.39	

In computing diluted earnings per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at September 30, 2014, with a conversion rate, subject to certain conditions, of 85.2719 shares of common stock per share, were included as average potential common shares from the date they were issued and outstanding. Moreover, in computing diluted earnings per common share, the dividends declared during the quarters ended September 30, 2014 and 2013 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended September 30, 2014 and 2013, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 397,766 and 196,425, respectively. For the nine-month periods ended September 30, 2014 and 2013, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 325,994 and 233,775, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 17 – GUARANTEES

At September 30, 2014, the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of \$37.1 million (December 31, 2013 - \$38.6 million).

As a result of the BBVAPR Acquisition, the Company assumed a liability for residential mortgage loans sold subject to credit recourse, pursuant to FNMA's residential mortgage loan sales and securitization programs. At September 30, 2014 and December 31, 2013, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was \$98.4 million and \$122.3 million, respectively.

The following table shows the changes in the Company's liability for estimated losses from these credit recourse agreements, included in the unaudited consolidated statements of financial condition during the quarters and nine-month periods ended September 30, 2014 and 2013.

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)							
Balance at beginning of period	\$	1,310	\$	2,460	\$	1,955	\$	2,460
Net charge-offs/terminations		(232)		-		(877)		-
Balance at end of period	\$	1,078	\$	2,460	\$	1,078	\$	2,460

The estimated losses to be absorbed under the credit recourse arrangements were recorded as a liability when the credit recourse was assumed, and are updated on a quarterly basis. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 120 days delinquent, in which case the Company is obligated to repurchase the loan. At September 30, 2014, \$68.4 million or 70% of the recourse obligation will be extinguished during the next two years.

If a borrower defaults, pursuant to the credit recourse provided, the Company is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Company would be required to make under the recourse arrangements is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and nine-month period ended September 30, 2014, the Company repurchased approximately \$1.9 million and \$5.6 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions. If a borrower defaults, the Company has rights to the underlying collateral securing the mortgage loan. The Company suffers losses on these mortgage loans

when the proceeds from a foreclosure sale of the collateral property are less than the outstanding principal balance of the loan, any uncollected interest advanced, and the costs of holding and disposing the related property. At September 30, 2014 and December 31, 2013, the Company's liability for estimated credit losses related to loans sold with credit recourse amounted to \$1.1 million (December 31, 2013 – \$2.0 million).

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

When the Company sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Company's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under such mortgage backed securities programs, quality review procedures are performed by the Company to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Company may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. Repurchases during the quarter and nine-month period ended September 30, 2014 under the Company's representation and warranty arrangements, excluding mortgage loans subject to credit recourse provisions referred to above, approximated \$4.1 million and \$9.2 million, respectively, in unpaid principal balance. A substantial amount of these loans are reinstated to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter and nine-month period ended September 30, 2014, the Company recognized \$115 thousand and \$261 thousand in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and \$979 thousand and \$1.9 million in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties. During the quarter and nine-month period ended September 30, 2013, the Company did not recognize any losses from the repurchase of residential mortgage loans sold subject to credit recourse, but for the nine-month period ended September 30, 2013, recognized \$477 thousand in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including the Federal Home Loan Mortgage Corporation ("FHLMC"), require the Company to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At September 30, 2014, the Company serviced \$1.2 billion in mortgage loans for third-parties. The Company generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Company must absorb the cost of the funds it advances during the time the advance is outstanding. The Company must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Company would not receive any future servicing income with respect to that loan. At September 30, 2014, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately \$319 thousand (December 31, 2013 - \$243 thousand). To the extent the mortgage loans underlying the Company's servicing portfolio experience increased delinquencies, the Company would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 18 — COMMITMENTS AND CONTINGENCIES

Loan Commitments

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

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

Credit-related financial instruments at September 30, 2014 and December 31, 2013 were as follows:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Commitments to extend credit	\$	476,523	\$	520,269
Commercial letters of credit		1,193		1,096

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

At September 30, 2014 and December 31, 2013, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused commitments does not necessarily represent future cash requirements. These lines of credit had a reserve of

\$900 thousand at both September 30, 2014 and December 31, 2013.

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, at September 30, 2014 and December 31, 2013, is as follows:

	September 30,		December 31,	
	2014		2013	
	(In thousands)			
Standby letters of credit and financial guarantees	\$	37,145	\$	38,577
Loans sold with recourse		98,433		122,291
Commitments to sell or securitize mortgage loans		34,650		80,307

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

Lease Commitments

The Company has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the quarters ended September 30, 2014 and 2013 amounted to \$2.4 million and \$2.5 million, respectively, and is included in the "occupancy and equipment" caption in the unaudited consolidated statements of operations. For the nine-month periods ended September 30, 2014 and 2013, rent expense amounted to \$7.3 million and \$7.7 million, respectively. Future rental commitments under leases in effect at September 30, 2014, exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

Year Ending December 31,	Minimum Rent	
	(In thousands)	
2014 (October 1 to December 31)	\$	2,221
2015		8,026

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2016		7,435
2017		6,807
2018		5,928
Thereafter		22,239
	\$	52,656

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Contingencies

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

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

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

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value measurement framework under GAAP.

Fair Value Measurement

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

inputs when measuring fair value. The standard describes three levels of inputs previously described that may be used to measure fair value.

Money market investments

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

Investment securities

The fair value of investment securities is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. Such securities are classified as level 1 or level 2 depending on the basis for determining fair value. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument, and such securities are classified as level 3. At December 31, 2013, the Company held two securities categorized as other debt that are classified as Level 3. At September 30, 2014, the Company did not have securities classified as Level 3. The estimated fair value of the other debt securities was determined by using a third-party model to calculate the present value of projected future cash flows. The assumptions are highly uncertain and include primarily market discount rates, current spreads, and an indicative pricing.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Securities purchased under agreements to resell

The fair value of securities purchased under agreements to resell is based on the carrying amounts reflected in the consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

Derivative instruments

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

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

Servicing assets

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

Loans receivable considered impaired that are collateral dependent

The impairment is measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC 310-10-35. Currently, the associated loans considered impaired are classified as Level 3.

Foreclosed real estate

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

Other repossessed assets

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Assets and liabilities measured at fair value on a recurring and non-recurring basis, including financial liabilities for which the Company has elected the fair value option, are summarized below:

	September 30, 2014									
	Fair Value Measurements									
	Level 1		Level 2		Level 3		Total			
	(In thousands)									
Recurring fair value measurements:										
Investment securities available-for-sale	\$	-	\$	1,273,879	\$	-	\$	1,273,879		
Money market investments		7,777		-		-		7,777		
Derivative assets		-		2,683		5,762		8,445		
Servicing assets		-		-		13,986		13,986		
Derivative liabilities		-		(11,414)		(5,588)		(17,002)		
	\$	7,777	\$	1,265,148	\$	14,160	\$	1,287,085		
Non-recurring fair value measurements:										
Impaired commercial loans	\$	-	\$	-	\$	226,791	\$	226,791		
Foreclosed real estate		-		-		100,564		100,564		
Other repossessed assets		-		-		21,733		21,733		
	\$	-	\$	-	\$	349,088	\$	349,088		

	December 31, 2013									
	Fair Value Measurements									
	Level 1		Level 2		Level 3		Total			
	(In thousands)									
Recurring fair value measurements:										
Investment securities available-for-sale	\$	-	\$	1,568,745	\$	19,680	\$	1,588,425		
Securities purchased under agreements to resell		-		60,000		-		60,000		
Money market investments		6,967		-		-		6,967		
Derivative assets		-		4,072		16,430		20,502		
Servicing assets		-		-		13,801		13,801		
Derivative liabilities		-		(14,937)		(15,736)		(30,673)		
	\$	6,967	\$	1,617,880	\$	34,175	\$	1,659,022		

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Non-recurring fair value measurements:									
Impaired commercial loans	\$	-	\$	-	\$	28,353	\$	28,353	
Foreclosed real estate		-		-		90,024		90,024	
Other repossessed assets		-		-		12,583		12,583	
	\$	-	\$	-	\$	130,960	\$	130,960	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30, 2014									
	Other debt securities		Derivative asset (S&P Purchased Options)		Servicing assets		Derivative liability (S&P Embedded Options)		Total	
Level 3 Instruments Only	available-for-sale									
Balance at beginning of period	\$ -		\$ 6,580		\$ 13,970		\$ (6,368)		\$ 14,182	
Gains (losses) included in earnings	-		(818)		-		675		(143)	
New instruments acquired	-		-		554		-		554	
Principal repayments	-		-		(427)		-		(427)	
Amortization	-		-		-		105		105	
Changes in fair value of servicing assets	-		-		(111)		-		(111)	
Balance at end of period	\$ -		\$ 5,762		\$ 13,986		\$ (5,588)		\$ 14,160	
	Nine-Month Period Ended September 30, 2014									
	Other debt securities		Derivative asset (S&P Purchased Options)		Servicing assets		Derivative liability (S&P Embedded Options)		Total	
Level 3 Instruments Only	available-for-sale									
Balance at beginning of period	\$ 19,680		\$ 16,430		\$ 13,801		\$ (15,736)		\$ 34,175	
Gains (losses) included in earnings	-		(10,668)		-		9,639		(1,029)	
Changes in fair value of investment	320		-		-		-		320	

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securities available for sale included												
in other comprehensive income												
New instruments acquired			-		-		1,608			-		1,608
Principal repayments		(20,000)			-		(799)			-		(20,799)
Amortization			-		-		-			509		509
Changes in fair value of servicing assets			-		-		(624)			-		(624)
Balance at end of period	\$		-	\$	5,762	\$	13,986	\$		(5,588)	\$	14,160

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Quarter Ended September 30, 2013										
	Other	Derivative			Derivative					
	debt	asset			liability					
	securities	(S&P			(S&P					
	available-for-sale	Purchased		Servicing	Embedded					
Level 3 Instruments Only		Options)		assets	Options)				Total	
Balance at beginning of period	\$ 20,058	\$ 16,020		\$ 12,994	\$ (15,315)				\$ 33,757	
Gains (losses) included in earnings	-	1,921		-	(1,994)				(73)	
Changes in fair value of investment securities available for sale included in other comprehensive income	(552)	-		-	-				(552)	
New instruments acquired	-	-		704	-				704	
Principal repayments	-	-		(309)	-				(309)	
Amortization	-	-		-	110				110	
Changes in fair value of servicing assets	-	-		262	-				262	
Balance at end of period	\$ 19,506	\$ 17,941		\$ 13,651	\$ (17,199)				\$ 33,899	
Nine-Month Period Ended September 30, 2013										
	Other	Derivative			Derivative					
	debt	asset			liability					
	securities	(S&P		Servicing	(S&P				Embedded	
	available-for-sale	Purchased		assets	Options)				Total	

Level 3 Instruments Only	available-for-sale	Options)	assets	Options)	Total
Balance at beginning of period	\$ 20,012	\$ 13,233	\$ 10,795	\$ (12,707)	\$ 31,333
Gains (losses) included in earnings	-	4,708	-	(4,807)	(99)
Changes in fair value of investment securities available for sale included in other comprehensive income	(506)	-	-	-	(506)
New instruments acquired	-	-	2,659	-	2,659
Principal repayments	-	-	(855)	-	(855)
Amortization	-	-	-	315	315
Changes in fair value of servicing assets	-	-	1,052	-	1,052
Balance at end of period	\$ 19,506	\$ 17,941	\$ 13,651	\$ (17,199)	\$ 33,899

During the quarters and the nine-month periods ended September 30, 2014 and 2013, there were purchases and sales of assets and liabilities measured at fair value on a recurring basis. There were no transfers into and out of Level 1 and Level 2 fair value measurements during such periods.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents quantitative information for all assets and liabilities measured at fair value on a recurring and non-recurring basis using significant unobservable inputs (Level 3) at September 30, 2014:

		September 30, 2014					
	Fair Value		Valuation Technique		Unobservable Input		Range
	(In thousands)						
Derivative assets (S&P Purchased Options)	\$ 5,762		Option pricing model		Implied option volatility		25.75%-36.88%
					Counterparty credit risk (based on 5-year credit default swap ("CDS") spread)		66.90% - 69.11%
Servicing assets	\$ 13,986		Cash flow valuation		Constant prepayment rate		5.60% - 13.28%
					Discount rate		10.00% - 12.00%
Derivative liability (S&P Embedded Options)	\$ (5,588)		Option pricing model		Implied option volatility		25.75%-36.88%
					Counterparty credit risk (based on 5-year CDS spread)		66.90% - 69.11%
Collateral dependant impaired loans	\$ 26,809		Fair value of property or collateral		Appraised value less disposition costs		20.20% - 29.20%
Puerto Rico Electric Power	\$ 199,982		Cash flow valuation		Discount rate		7.25

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Authority line of credit							
Foreclosed real estate	\$	100,564	Fair value of property or collateral		Appraised value less disposition costs		20.20% - 29.20%
Other repossessed assets	\$	21,733	Fair value of property or collateral		Appraised value less disposition costs		20.20% - 29.20%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

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

Fair Value of Financial Instruments

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

The estimated fair value is subjective in nature, involves uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect these fair value estimates. The

fair value estimates do not take into consideration the value of future business and the value of assets and liabilities that are not financial instruments. Other significant tangible and intangible assets that are not considered financial instruments are the value of long-term customer relationships of retail deposits, and premises and equipment.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The estimated fair value and carrying value of the Company's financial instruments at September 30, 2014 and December 31, 2013 is as follows:

	September 30,				December 31,			
	2014				2013			
	Fair		Carrying		Fair		Carrying	
	Value		Value		Value		Value	
(In thousands)								
Level 1								
Financial Assets:								
Cash and cash equivalents	\$	671,239	\$	671,239	\$	621,269	\$	621,269
Restricted cash		32,907		32,907		82,199		82,199
Level 2								
Financial Assets:								
Securities purchased under agreements to resell		-		-		60,000		60,000
Trading securities		1,687		1,687		1,869		1,869
Investment securities available-for-sale		1,273,879		1,273,879		1,568,745		1,568,745
Investment securities held-to-maturity		144,217		144,305		-		-
Federal Home Loan Bank (FHLB) stock		21,189		21,189		24,450		24,450
Other investments		65		65		65		65
Derivative assets		2,683		2,683		4,072		4,072
Financial Liabilities:								
Securities purchased but not yet received		30,057		30,057		-		-
Derivative liabilities		11,414		11,414		14,937		14,937
Level 3								
Financial Assets:								
Investment securities available-for-sale		-		-		19,680		19,680
Total loans (including loans held-for-sale)								
Non-covered loans, net		4,486,738		4,545,209		4,857,505		4,662,458
Covered loans, net		365,503		311,693		459,444		356,961
Derivative assets		5,762		5,762		16,430		16,430
FDIC indemnification asset		83,995		120,619		152,965		189,240
Accrued interest receivable		19,665		19,665		18,734		18,734

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Servicing assets		13,986			13,986			13,801			13,801
Financial Liabilities:											
Deposits		5,053,119			5,069,175			5,409,540			5,383,265
Securities sold under agreements to repurchase		1,058,042			1,012,228			1,323,903			1,267,618
Advances from FHLB		340,043			334,787			335,324			336,143
Other borrowings		3,865			3,872			3,638			3,663
Subordinated capital notes		91,061			101,190			99,316			100,010
Accrued expenses and other liabilities		159,541			159,541			144,424			144,424
Derivative liabilities		5,588			5,588			15,736			15,736

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following methods and assumptions were used to estimate the fair values of significant financial instruments at September 30, 2014 and December 31, 2013:

- Cash and cash equivalents (including money market investments and time deposits with other banks), restricted cash, accrued interest receivable, securities purchased under agreements to resell, securities purchased but not yet received, and accrued expenses and other liabilities have been valued at the carrying amounts reflected in the consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.
- Investments in FHLB-NY stock are valued at their redemption value.
- The fair value of investment securities, including trading securities, is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument. The estimated fair value of the structured credit investments is determined by using a third-party cash flow valuation model to calculate the present value of projected future cash flows. The assumptions used which are highly uncertain and require a high degree of judgment, include primarily market discount rates, current spreads, duration, leverage, default, home price depreciation, and loss rates. The assumptions used are drawn from a wide array of data sources, including the performance of the collateral underlying each deal. The external-based valuation, which is obtained at least on a quarterly basis, is analyzed and its assumptions are evaluated and incorporated in either an internal-based valuation model when deemed necessary, or compared to counterparties' prices and agreed by management.
- The fair value of the FDIC indemnification asset represents the present value of the net estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit assumptions on estimated cash flows for each covered asset pool and the loss sharing percentages. The ultimate collectability of the FDIC indemnification asset is dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC which are impacted by the Bank's adherence to certain guidelines established by the FDIC.
- The fair value of servicing assets is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions.

- The fair values of the derivative instruments are provided by valuation experts and counterparties. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters. The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P Index, and uses equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value is obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which are uncertain and require a degree of judgment, include primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage.
- Fair value of derivative liabilities, which include interest rate swaps and forward-settlement swaps, are based on the net discounted value of the contractual projected cash flows of both the pay-fixed receive-variable legs of the contracts. The projected cash flows are based on the forward yield curve, and discounted using current estimated market rates.
- The fair value of the covered and non-covered loan portfolio (including loans held-for-sale) is estimated by segregating by type, such as mortgage, commercial, consumer, auto and leasing. Each loan segment is further segmented into fixed and adjustable interest rates and by performing and non-performing categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for prepayment estimates (voluntary and involuntary), if any, using estimated current market discount rates that reflect the credit and interest rate risk inherent in the loan. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is based on the discounted value of the contractual cash flows, using estimated current market discount rates for deposits of similar remaining maturities.
- The fair value of long-term borrowings, which include securities sold under agreements to repurchase, advances from FHLB-NY, term notes, and subordinated capital notes, is based on the discounted value of the contractual cash flows using current estimated market discount rates for borrowings with similar terms, remaining maturities and put dates.
- The fair value of commitments to extend credit and unused lines of credit is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

NOTE 20 – BUSINESS SEGMENTS

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

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

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

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

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Interest expense	(10,994)	-	(11,016)	(22,010)	-	(22,010)
Net interest income	98,317	95	679	99,091	-	99,091
Provision for non-covered loan and lease losses	(9,900)	-	-	(9,900)	-	(9,900)
Provision for covered loan and lease losses	(3,074)	-	-	(3,074)	-	(3,074)
Non-interest income (loss)	(3,960)	7,114	169	3,323	-	3,323
Non-interest expenses	(52,615)	(6,168)	(4,451)	(63,234)	-	(63,234)
Intersegment revenue	562	-	-	562	(562)	-
Intersegment expenses	-	(461)	(101)	(562)	562	-
Income before income taxes	\$ 29,330	\$ 580	\$ (3,704)	\$ 26,206	\$ -	\$ 26,206
Total assets	\$ 6,542,840	\$ 40,994	\$ 2,691,621	\$ 9,275,455	\$ (895,230)	\$ 8,380,225

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Nine-Month Period Ended September 30, 2014						
		Wealth		Total Major			Consolidated
	Banking	Management	Treasury	Segments	Eliminations		Total
	(In thousands)						
Interest income	\$ 330,148	\$ 132	\$ 38,995	\$ 369,275	\$ -		\$ 369,275
Interest expense	(26,235)	-	(31,693)	(57,928)	-		(57,928)
Net interest income	303,913	132	7,302	311,347	-		311,347
Provision for non-covered loan and lease losses	(39,424)	-	-	(39,424)	-		(39,424)
Provision for covered loan and lease losses, net	(4,339)	-	-	(4,339)	-		(4,339)
Non-interest income(loss)	(14,845)	20,232	2,840	8,227	-		8,227
Non-interest expenses	(156,867)	(15,629)	(8,331)	(180,827)	-		(180,827)
Intersegment revenue	1,410	-	290	1,700	(1,700)		-
Intersegment expenses	(290)	(1,089)	(321)	(1,700)	1,700		-
Income before income taxes	\$ 89,558	\$ 3,646	1,780	\$ 94,984	\$ -		\$ 94,984
	Nine-Month Period Ended September 30, 2013						
		Wealth		Total Major			Consolidated
	Banking	Management	Treasury	Segments	Eliminations		Total
	(In thousands)						
Interest income	\$ 325,432	\$ 277	\$ 35,865	\$ 361,574	\$ -		\$ 361,574
Interest expense	(31,490)	-	(31,084)	(62,574)	-		(62,574)
Net interest income	293,942	277	4,781	299,000	-		299,000
Provision for non-covered loan and lease losses	(55,343)	-	-	(55,343)	-		(55,343)
Provision for covered loan and lease losses, net	(4,957)	-	-	(4,957)	-		(4,957)
Non-interest income(loss)	(7,151)	22,915	4,199	19,963	-		19,963

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Non-interest expenses	(168,119)	(18,945)	(11,470)	(198,534)	-	(198,534)
Intersegment revenue	1,524	-	-	1,524	(1,524)	-
Intersegment expenses	-	(1,247)	(277)	(1,524)	1,524	-
Income (loss) before income taxes	\$ 59,896	\$ 3,000	\$ (2,767)	\$ 60,129	\$ -	\$ 60,129

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

INTRODUCTION

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the Company's unaudited consolidated financial statements and related notes. This discussion and analysis contains forward-looking statements. Please see "Forward-Looking Statements" and the risk factors set forth in our 2013 Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K"), for discussion of the uncertainties, risks and assumptions associated with these statements.

The Company is a publicly-owned financial holding company that provides a full range of banking and financial services through its subsidiaries, including commercial, consumer, auto and mortgage lending; checking and savings accounts; financial planning, insurance and securities brokerage services; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Wealth Management, and Treasury, and distinguishes itself based on quality service. The Company has 55 branches in Puerto Rico and a subsidiary in Boca Raton, Florida. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in “Note 1—Summary of Significant Accounting Policies” of our annual report on the 2013 Form 10-K.

In the “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” section of our 2013 Form 10-K, we identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition:

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

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed its judgments and assumptions with the Audit and Compliance Committee of our Board of Directors. As part of the Company’s continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. Same analysis was performed for the commercial portfolio during the quarter ended June 30, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months for auto and leasing and consumer. For the commercial portfolio, a look-back period of 12 months was maintained. In addition, during the quarter ended June 30, 2014, 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 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 for the consumer and auto and leasing portfolios, and 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. Apart from these changes, there have been no other material changes in the methods used to formulate these critical accounting estimates from those discussed in our 2013 Form 10-K.

OVERVIEW OF FINANCIAL PERFORMANCE

SELECTED FINANCIAL DATA								
	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
				Variance				Variance
	2014	2013	%		2014	2013	%	
EARNINGS DATA:	(In thousands, except per share data)							
Interest income	\$ 120,301	\$ 121,101	-0.7%		\$ 369,275	\$ 361,574	2.1%	
Interest expense	18,430	22,010	-16.3%		57,928	62,574	-7.4%	
Net interest income	101,871	99,091	2.8%		311,347	299,000	4.1%	
Provision for non-covered loan and lease losses	16,142	9,900	63.1%		39,424	55,343	-28.8%	
Provision for covered loan and lease losses, net	1,115	3,074	-63.7%		4,339	4,957	-12.5%	
Total provision for loan and lease losses, net	17,257	12,974	33.0%		43,763	60,300	-27.4%	
Net interest income after provision for loan and lease losses	84,614	86,117	-1.7%		267,584	238,700	12.1%	
Non-interest income	2,491	3,323	-25.0%		8,227	19,963	-58.8%	
Non-interest expenses	59,575	63,234	-5.8%		180,827	198,534	-8.9%	
Income before taxes	27,530	26,206	5.1%		94,984	60,129	58.0%	
Income tax expense (benefit)	7,998	6,585	21.5%		30,396	(18,223)	266.8%	
Net income	19,532	19,621	-0.5%		64,588	78,352	-17.6%	
Less: dividends on preferred stock	(3,465)	(3,465)	153.0%		(10,396)	(10,396)	153.0%	
Income available to common shareholders	\$ 16,067	\$ 16,156	-0.6%		\$ 54,192	\$ 67,956	-20.3%	
PER SHARE DATA:								
Basic	\$ 0.36	\$ 0.35	2.9%		\$ 1.20	\$ 1.49	-19.5%	
Diluted	\$ 0.34	\$ 0.34	0.0%		\$ 1.14	\$ 1.39	-18.0%	
Average common shares outstanding	45,054	45,927	-1.9%		45,170	45,613	-1.0%	
Average common shares outstanding and equivalents	52,362	53,322	-1.8%		52,440	53,053	-1.2%	
	\$ 0.08	\$ 0.06	33.3%		\$ 0.24	\$ 0.18	33.3%	

Cash dividends declared per common share													
Cash dividends declared on common shares	\$	3,605	\$	2,740	31.6%	\$	10,822	\$	8,219	31.7%			
PERFORMANCE RATIOS:													
Return on average assets (ROA)		1.02%		0.93%	9.7%		1.10%		1.22%	-9.8%			
Return on average tangible common equity		9.78%		10.71%	-8.7%		11.17%		15.12%	-26.1%			
Return on average common equity (ROE)		8.52%		9.20%	-7.4%		9.71%		12.96%	-25.1%			
Equity-to-assets ratio		12.12%		10.48%	15.6%		12.13%		10.48%	15.8%			
Efficiency ratio		49.30%		52.27%	-5.7%		49.10%		53.97%	-9.0%			
Interest rate spread		5.78%		5.28%	9.5%		5.85%		5.28%	10.8%			
Interest rate margin		5.84%		5.28%	10.6%		5.90%		5.28%	11.7%			

SELECTED FINANCIAL DATA - (Continued)						
	September 30,		December 31,		Variance	
	2014		2013		%	
PERIOD END BALANCES AND CAPITAL RATIOS:	(In thousands, except per share data)					
Investments and loans						
Investment securities	\$	1,441,125	\$	1,614,809		-10.8%
Loans and leases not covered under shared-loss agreements with the FDIC, net		4,545,209		4,662,458		-2.5%
Loans and leases covered under shared-loss agreements with the FDIC, net		311,693		356,961		-12.7%
Total investments and loans	\$	6,298,027	\$	6,634,228		-5.1%
Deposits and borrowings						
Deposits	\$	5,069,175	\$	5,383,265		-5.8%
Securities sold under agreements to repurchase		1,012,228		1,267,618		-20.1%
Other borrowings		439,849		439,816		0.0%
Total deposits and borrowings	\$	6,521,252	\$	7,090,699		-8.0%
Stockholders' equity						
Preferred stock	\$	176,000	\$	176,000		0.0%
Common stock		52,761		52,707		0.1%
Additional paid-in capital		539,522		538,071		0.3%
Legal surplus		68,437		61,957		10.5%
Retained earnings		170,519		133,629		27.6%
Treasury stock, at cost		(90,652)		(80,642)		-12.4%
Accumulated other comprehensive income		13,411		3,191		320.3%
Total stockholders' equity	\$	929,998	\$	884,913		5.1%
Per share data						
Book value per common share	\$	16.96	\$	15.74		7.8%
Tangible book value per common share	\$	14.82	\$	13.60		9.0%
Market price at end of period	\$	14.98	\$	17.34		-13.6%
Capital ratios						
Leverage capital		10.51%		9.06%		16.0%
Tier 1 risk-based capital		15.96%		14.38%		11.0%
Total risk-based capital		17.50%		16.16%		8.3%
Tier 1 common equity to risk-weighted assets		11.86%		10.46%		13.4%
Financial assets managed						
Trust assets managed	\$	2,851,815	\$	2,796,923		2.0%
Broker-dealer assets gathered	\$	2,483,611	\$	2,493,324		-0.4%

FINANCIAL HIGHLIGHTS OF THE THIRD QUARTER OF 2014

The Company achieved performance equal to the year ago quarter despite weaker economic conditions in Puerto Rico. As such, the increase in the Company's provision for loan and leases and its decreases in interest and non-interest income were substantially offset by decreases in the Company's interest and non-interest expenses. Income available to common shareholders for the quarter ended September 30, 2014 was \$16.1 million, or \$0.34 per diluted share, compared to \$16.2 million, or \$0.34 per diluted share, in the third quarter of 2013.

Net interest margin expanded to 5.84% from 5.28% primarily as a result of an increase in the yield of the Company's interest earning assets.

The Company's return on assets increased to 1.02% from 0.93%, and its return on equity decreased to 8.52% from 9.20%, from the third quarter of 2013. The Company improved its efficiency ratio, which decreased to 49.30% from 52.27% when compared with the same quarter in 2013, primarily as a result of a decrease in the Company's non-interest expenses.

Interest Income

Total interest income remained level at \$120.3 million, compared to \$121.1 million in the third quarter of 2013. The yield on interest-earning assets increased to 6.89% from 6.46%. This was offset by a decrease in earning asset volume.

Interest Expense

Total interest expense decreased 16.3% as compared to the same period in 2013. Such decrease reflects the lower cost of deposits before fair value premium amortization and core deposit intangible amortization (0.68% vs. 0.93%). Such lower cost reflects continuing progress in the repricing of the Company's core retail deposits and other reductions in its cost of funds.

Net Interest Income

Net interest income increased \$2.8 million for the third quarter of 2014. Such increase reflects an increase in net interest margin of 56 basis points to 5.84% when compared to the third quarter of 2013.

Provision for Loan and Lease Losses

Provision for non-covered loan losses increased \$6.2 million when compared to \$9.9 million for the third quarter of 2013, while provision for covered loan losses decreased \$2.0 million when compared to \$3.1 million for the same period in 2013.

Non-Interest Income

Core banking and financial services revenues decreased 13.3% to \$19.0 million as compared to the same period in 2013, primarily reflecting a decrease of \$2.4 million in banking services revenue to \$9.8 million. Decrease in banking services revenues is mostly due to the reclassification of loan late charges into interest income during the last quarter of 2013. For the quarter ended September 30, 2013 these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013.

The FDIC shared-loss expense of \$16.9 million, compared to \$16.0 million for the same period in 2013, resulted from the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and the improved accretable yield on the covered loans.

Non-Interest Expense

Non-interest expense of \$59.6 million, decreased \$3.7 million compared to the same period in 2013, mainly because during the third quarter of 2014, there were no merger and restructuring charges compared to \$2.3 million for the same period in 2013. As a result of such decrease, the Company's efficiency ratio improved to 49.30%, compared to 52.27% for the same period in 2013.

Income Tax Expense

Income tax expense was \$8.0 million, compared to an income tax expense of \$6.6 million for the same period in 2013.

Income Available to Common Shareholders

The Company's income available to common shareholders amounted to \$16.1 million, compared to \$16.2 million for the same period in 2013. Income per basic common share and fully diluted common share was \$0.36 and \$0.34, respectively, compared to income per basic common share and fully diluted common share of \$0.35 and \$0.34, respectively, for the third quarter of 2013.

Interest Earning Assets

The loan portfolio declined to \$4.857 billion at September 30, 2014, compared to \$4.936 billion at June 30, 2014, primarily due to repayments and maturities, including the strategic reduction of Puerto Rico government related debt. The investment portfolio of \$1.441 billion at September 30, 2014 decreased 2.2% compared to \$1.472 billion at June 30, 2014.

Interest Bearing Liabilities

Total deposits amounted to \$5.069 billion at September 30, 2014, a decrease of 1.4% compared to \$5.141 billion at June 30, 2014. Securities sold under agreements to repurchase remained at \$1.012 billion.

Stockholders' Equity

Stockholders' equity at September 30, 2014 was \$930.0 million compared to \$925.2 million at June 30, 2014, an increase of 0.52%. This increase reflects the net income for the quarter partially offset by a decrease in accumulated other comprehensive income. Book value per share was \$16.96 at September 30, 2014 compared to \$16.87 at June 30, 2014.

The Company maintains capital ratios in excess of regulatory requirements. At September 30, 2014, Tier 1 Leverage Capital Ratio was 10.51% (June 30, 2014 – 10.26%), Tier 1 Risk-Based Capital Ratio was 15.96% (June 30, 2014 – 15.49%), Tier 1 Common Equity to Risk- Based Assets was 11.86% (June 30, 2014-11.47%) and Total Risk-Based Capital Ratio was 17.50% (June 30, 2014 – 17.30%).

Return on Average Assets and Common Equity

Return on average common equity (“ROE”) was 8.52% compared to 9.20% for the quarter ended September 30, 2013. Return on average assets (“ROA”) was 1.02% compared to 0.93% for the same period in 2013. The decrease in ROE is mostly due to a 7.3% increase in average common stockholders’ equity to \$753.9 million, from \$702.4 million for the same period in 2013. The increase in ROA is mostly due to a 9.2% decrease in average assets to \$7.646 billion from \$8.424 billion in the same period in 2013.

Assets under Management

At September 30, 2014, total assets managed by the Company’s trust division and CPC remained level at \$2.852 billion compared to \$2.867 billion at June 30, 2014. At September 30, 2014, total assets gathered by the securities broker-dealer subsidiary from its customer investment accounts decreased 6.3% to \$2.484 billion, compared to \$2.651 billion at June 30, 2014. Changes in trust and broker-dealer related assets primarily reflect a slight increase in portfolio and differences in market values.

Lending

Total loan production of \$242.6 million decreased 55.9% for the third quarter of 2014. Total commercial loan production of \$90.1 million decreased 75.3% from \$365.3 million for the same period in 2013.

Mortgage loan production of \$55.3 million decreased 8.9% from the same period in 2013. The Company sells most of its conforming mortgage loans in the secondary market and retains the servicing rights.

In the aggregate, consumer loan and auto and leasing production totaled \$97.2 million, a decrease of 21.3% from the same period in 2013. Such decrease is mostly due to a decrease in auto and leasing production.

Total loan portfolio declined by \$79.1 million from \$4.936 billion at June 30, 2014 to \$4.857 billion at September 30, 2014, mostly as the result of scheduled pay downs and maturities in both the non-covered and covered loan portfolios.

Credit Quality on Non-Covered Loans

Net credit losses, excluding acquired loans, increased \$3.9 million to \$8.9 million, representing 1.34% of average non-acquired loans outstanding versus 1.02% in the same period in 2013. The allowance for loan and lease losses on non-covered loans at September 30, 2014, increased to \$64.9 million compared to \$60.4 million at June 30, 2014. The allowances for loan and lease losses, excluding acquired loans, increased to \$50.3 million (1.84% of total non-covered loans, excluding acquired loans) at September 30, 2014, compared to \$50.6 million (1.92% of total non-covered loans, excluding acquired loans) at June 30, 2014. The allowance for loan and lease losses on acquired loans accounted for under ASC 310-20 increased to \$4.5 million at September 30, 2014, compared to \$3.4 million at June 30, 2014.

Non-performing loans (“NPLs”), which exclude loans covered under shared-loss agreements with the FDIC and loans acquired in the BBVAPR Acquisition accounted under ASC 310-30, increased to \$103.7 million at September 30, 2014 compared to \$94.1 million at June 30, 2014. The increase is due mainly to an increase in non-performing mortgage and auto loans.

Non-GAAP Measures

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

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

During the quarter ended September 30, 2014, the Company's pre-tax pre-provision operating income increased 2.1% to \$61.3 million as compared to \$60.0 million for the same period in 2013. Pre-tax pre-provision operating income is calculated as follows:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)				(In thousands)			
<u>PRE-TAX PRE-PROVISION OPERATING INCOME</u>								
Net interest income	\$	101,871	\$	99,091	\$	311,347	\$	299,000
Core non-interest income:								
Banking service revenue		9,753		12,146		30,305		36,491
Financial service revenue		7,113		7,394		21,316		23,084
Mortgage banking activities		2,097		2,334		5,346		9,299
Total core non-interest income		18,963		21,874		56,967		68,874
Non-interest expenses		59,575		63,234		180,827		198,533
Less merger and restructuring charges		-		(2,252)		-		(13,060)
		59,575		60,982		180,827		185,473
Total pre-tax pre-provision operating income	\$	61,259	\$	59,983	\$	187,487	\$	182,401

Tangible common equity consists of common equity less goodwill, core deposit intangibles and customer relationship intangible. Tier 1 common equity consists of common equity less goodwill, core deposit intangibles, net unrealized gains on available for sale securities, net unrealized losses on cash flow hedges, and disallowed deferred tax asset and servicing assets. Tangible book value per common share consists of tangible common equity divided by common stock outstanding at the end of the period. Ratios of tangible common equity to total assets, tangible common equity to risk-weighted assets, total equity to risk-weighted assets, and Tier 1 common equity to risk-weighted assets and tangible book value per common share are non-GAAP measures.

At September 30, 2014, tangible common equity to total assets and tangible common equity to risk-weighted assets increased to 8.71% and 13.64%, respectively, from 8.59% and 13.26%, respectively, at June 30, 2014. Total equity to risk-weighted assets and Tier 1 common equity to risk-weighted assets at September 30, 2014 increased to 18.99% and 11.89%, respectively, from 18.52% and 11.47%, respectively, at June 30, 2014.

Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Company's capital

position. Furthermore, management and many stock analysts use tangible common equity in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither Tier 1 common equity nor tangible common equity or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP.

ANALYSIS OF RESULTS OF OPERATIONS

The following tables show major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the quarters and nine-month periods ended September 30, 2014 and 2013:

TABLE 1 - QUARTERLY ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE												
FOR THE QUARTERS ENDED SEPTEMBER 30, 2014 AND 2013												
	Interest				Average rate				Average balance			
	September		September		September		September		September		September	
	2014		2013		2014		2013		2014		2013	
(Dollars in thousands)												
A - TAX EQUIVALENT SPREAD												
Interest-earning assets	\$	120,301	\$	121,101	6.89%	6.46%	\$	6,923,413	\$	7,438,957		
Tax equivalent adjustment		20,435		6,092	1.17%	0.32%		-		-		
Interest-earning assets - tax equivalent		140,736		127,193	8.07%	6.78%		6,923,413		7,438,957		
Interest-bearing liabilities		18,430		22,011	1.11%	1.18%		6,571,666		7,389,043		
Tax equivalent net interest income / spread		122,306		105,182	6.96%	5.61%		351,747		49,914		
Tax equivalent interest rate margin					7.01%	5.61%						
B - NORMAL SPREAD												
Interest-earning assets:												
Investments:												
Investment securities		11,399		11,520	3.26%	2.59%		1,388,535		1,761,477		
Trading securities		38		28	9.49%	4.21%		1,589		2,641		
Interest bearing cash and money market investments		316		241	0.21%	0.18%		593,391		538,094		

Total investments	11,753		11,789	2.35%	2.03%	1,983,515		2,302,212
Loans not covered under shared-loss agreements with the FDIC:								
Originated								
Mortgage	10,287		11,007	5.17%	5.72%	789,204		763,929
Commercial	16,538		10,126	5.51%	4.71%	1,190,607		852,395
Consumer	4,142		2,331	10.20%	9.46%	161,147		97,738
Auto and leasing	13,739		7,216	10.25%	10.54%	531,914		271,727
Total originated non-covered loans	44,706		30,680	6.64%	6.13%	2,672,872		1,985,790
Acquired								
Mortgage	9,627		11,062	5.58%	5.75%	684,536		763,032
Commercial	18,643		26,438	11.83%	9.87%	625,472		1,063,226
Consumer	3,731		5,052	13.88%	12.38%	106,640		161,948
Auto	10,955		14,423	8.38%	7.19%	518,599		796,047
Total acquired non-covered loans	42,956		56,975	8.81%	8.12%	1,935,247		2,784,252
Total non-covered loans	87,662		87,655	7.55%	7.29%	4,608,119		4,770,042
Loans covered under shared loss agreements with the FDIC	20,886		21,657	24.98%	23.43%	331,779		366,703
Total loans	108,548		109,312	8.72%	8.44%	4,939,898		5,136,745
Total interest earning assets	120,301		121,101	6.89%	6.46%	6,923,413		7,438,957

	Interest				Average rate				Average balance				
	September		September		September		September		September		September		
	2014		2013		2014		2013		2014		2013		
	(Dollars in thousands)												
Interest-bearing liabilities:													
Deposits:													
Non-interest bearing deposits		-		-		0.00%		0.00%		716,681			855,094
Now Accounts		1,817		2,778		0.51%		0.80%		1,413,776			1,383,070
Savings and money market		1,780		2,313		0.61%		0.97%		1,154,712			941,892
Individual retirement accounts		906		1,161		1.12%		1.32%		320,756			350,207
Retail certificates of deposits		1,620		2,747		1.36%		1.67%		473,456			651,224
Total core deposits		6,123		8,999		0.60%		0.85%		4,079,381			4,181,487
Institutional deposits		1,244		2,622		1.48%		1.55%		334,121			673,064
Brokered deposits		1,400		1,679		0.79%		0.83%		700,256			799,723
Total wholesale deposits		2,644		4,301		1.01%		1.16%		1,034,377			1,472,787
Deposits fair value premium amortization		(1,441)		(2,382)		0.00%		0.00%		-			-
Core deposit intangible amortization		335		416		0.00%		0.00%		-			-
Total deposits		7,661		11,334		0.59%		0.80%		5,113,758			5,654,274
Borrowings:													
Securities sold under agreements to repurchase		7,453		7,211		2.93%		2.26%		1,010,000			1,268,544
Advances from FHLB and other borrowings		2,314		2,321		2.65%		2.51%		346,977			366,964
Subordinated capital notes		1,002		1,144		3.94%		4.57%		100,931			99,261
Total borrowings		10,769		10,676		2.93%		2.44%		1,457,908			1,734,769
Total interest bearing liabilities		18,430		22,010		1.11%		1.18%		6,571,666			7,389,043
Net interest income / spread	\$	101,871	\$	99,091		5.78%		5.28%					
Interest rate margin						5.84%		5.28%					
Excess of average interest-earning									\$	351,747	\$		49,913

TABLE 1/A - YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE												
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013												
	Interest				Average rate				Average balance			
	September		September		September		September		September		September	
	2014		2013		2014		2013		2014		2013	
(Dollars in thousands)												
A - TAX EQUIVALENT SPREAD												
Interest-earning assets	\$	369,275	\$	361,574	7.00%	6.39%	\$	7,051,561	\$	7,569,249		
Tax equivalent adjustment		38,290		18,132	0.73%	0.32%		-		-		
Interest-earning assets - tax equivalent		407,565		379,706	7.73%	6.71%		7,051,561		7,569,249		
Interest-bearing liabilities		57,929		62,572	1.15%	1.11%		6,741,332		7,551,043		
Tax equivalent net interest income / spread		349,636		317,134	6.58%	5.61%		310,229		18,206		
Tax equivalent interest rate margin					6.63%	5.60%						
B - NORMAL SPREAD												
Interest-earning assets:												
Investments:												
Investment securities		38,088		35,255	3.48%	2.44%		1,464,938		1,933,834		
Trading securities		114		78	8.56%	6.21%		1,780		1,679		
Interest bearing cash and money market investments		951		791	0.22%	0.19%		580,872		562,961		
Total investments		39,153		36,124	2.56%	1.93%		2,047,590		2,498,474		
Loans not covered under shared-loss agreements												
with the FDIC:												
Originated												

Mortgage	31,085		32,945	5.28%	5.62%	786,434		783,172
Commercial	47,335		21,063	5.39%	7.36%	1,174,220		382,654
Consumer	10,923		5,274	10.03%	10.30%	145,659		68,480
Auto and leasing	37,378		15,136	10.44%	13.96%	478,592		144,995
Total originated non-covered loans	126,721		74,418	6.55%	7.21%	2,584,905		1,379,302
Acquired								
Mortgage	28,359		33,370	5.43%	5.74%	698,762		777,229
Commercial	56,315		88,679	11.11%	8.29%	677,570		1,430,953
Consumer	11,939		16,354	13.60%	11.96%	117,379		182,806
Auto	37,635		46,745	8.65%	6.77%	581,888		923,135
Total acquired non-covered loans	134,248		185,148	8.65%	7.47%	2,075,599		3,314,122
Total non-covered loans	260,969		259,566	7.49%	7.39%	4,660,504		4,693,425
Loans covered under shared loss agreements with the FDIC	69,153		65,884	26.92%	23.34%	343,467		377,350
Total loans	330,122		325,450	8.82%	8.58%	5,003,971		5,070,775
Total interest earning assets	369,275		361,574	7.00%	6.39%	7,051,561		7,569,249

	Interest				Average rate		Average balance			
	September		September		September	September	September		September	
	2014		2013		2014	2013	2014		2013	
	(Dollars in thousands)									
Interest-bearing liabilities:										
Deposits:										
Non-interest bearing deposits	-	-	-	-	0.00%	0.00%	707,519	797,378		
Now Accounts	6,349	8,486			0.59%	0.81%	1,438,818	1,408,649		
Savings and money market	6,268	7,134			0.73%	1.06%	1,150,871	898,619		
Individual retirement accounts	2,904	3,696			1.17%	1.36%	331,283	362,032		
Retail certificates of deposits	5,301	8,788			1.40%	1.79%	506,653	658,080		
Total core deposits	20,822	28,104			0.67%	0.91%	4,135,144	4,124,758		
Institutional deposits	3,942	7,982			1.44%	1.62%	366,167	657,818		
Brokered deposits	4,384	5,458			0.81%	0.87%	720,208	837,916		
	8,326	13,440			1.02%	1.20%	1,086,375	1,495,734		
Deposits fair value premium amortization	(4,349)	(12,032)			0.00%	0.00%	-	-		
Core deposit intangible amortization	1,005	1,244			0.00%	0.00%	-	-		
Total deposits	25,804	30,756			0.66%	0.73%	5,221,519	5,620,492		
Borrowings:										
Securities sold under agreements to repurchase	22,237	21,570			2.81%	2.09%	1,058,378	1,382,670		
Advances from FHLB and other borrowings	6,897	5,366			2.56%	1.74%	360,884	412,313		
FDIC-guaranteed term notes	-	909			0.00%	5.56%	-	21,875		
Subordinated capital notes	2,990	3,973			3.98%	4.67%	100,551	113,693		
Total borrowings	32,124	31,818			2.83%	2.20%	1,519,813	1,930,551		
Total interest bearing liabilities	57,928	62,574			1.15%	1.11%	6,741,332	7,551,043		
Net interest income / spread	\$ 311,347	\$ 299,000			5.85%	5.28%				
Interest rate margin					5.90%	5.28%				

Net Interest Income

Comparison of quarters ended September 30, 2014 and 2013

Net interest income of \$101.9 million slightly increased 2.8% compared with \$99.1 million reported in the third quarter of 2013, reflecting a decrease of 16.3% in interest expense partially offset by a slight decrease of 0.7% in interest income from loans.

Interest rate spread increased to 50 basis points from 5.28% to 5.78%. This increase is mainly due to the net effect of a 43 basis point increase in the average yield of interest-earning assets from 6.46% to 6.89%, and a 7 basis point decrease in the average cost of funds from 1.18% to 1.11%.

Interest income decreased to \$120.3 million from \$121.1 million in the same quarter in 2013. Such decrease reflects a \$6.7 million decrease in the volume of interest-earning assets partially offset by an increase of \$5.9 million in interest rate. Interest income from loans decreased 0.7% to \$108.5 million, primarily reflecting a decrease in volume of \$5.0 million, partially offset by \$4.3 million in interest rate. Interest income from investments remained level at \$11.8 million in both periods.

Interest expense decreased 16.3% to \$18.4 million, primarily because of a \$2.7 million decrease in the volume of interest-bearing liabilities and a decrease of \$891 thousand in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease in repurchase agreements volume of \$1.5 million, and a decrease in deposits volume of \$1.1 million and interest rate of \$2.6 million. The cost of deposits before fair value amortization and core deposit intangible amortization decreased 25 basis points to 0.68% for the third quarter of 2014, compared to 0.93% for the third quarter of 2013. The decrease in the cost of deposits was partially offset by an increase in the cost of borrowings, which increased 49 basis points to 2.93% from 2.44%.

The average balance of total interest-earning assets was \$6.923 billion, a decrease of 6.9% from the same period in 2013. The decrease in average balance of interest-earning assets was mainly attributable to a decrease of 13.8% in average investments, resulting from redemptions and maturities during 2014. The average yield on interest-earning assets was 6.89% compared to 6.46% for the same quarter in 2013. This was mainly due to higher average yields in the loan portfolio, which increased to 8.72% from 8.44%, and in the investment portfolio, which increased to 2.35% from 2.03%.

Comparison of nine-month periods ended September 30, 2014 and 2013

Net interest income increased 4.1% to \$311.3 million as compared to \$299.0 million for the same period in 2013. The change reflects a decrease of 7.4% in interest expense and increases of 1.4% in interest income from loans and 8.4% in interest income from investment securities.

Interest rate spread increased 57 basis points to 5.85% from 5.28% in the same period for 2013. This increase is mainly due to the net effect of a 61 basis point increase in the average yield of interest-earning assets from 6.39% to 7.00% and a 4 basis point increase in the average cost of funds from 1.11% to 1.15%.

Interest income increased 2.1% to \$369.3 million when compared to \$361.6 million for the same period in 2013. Results reflect an increase of \$22.0 million in interest-earning asset interest rate partially offset by a \$14.3 million decrease in volume. Interest income from loans increased 1.4% to \$330.1 million, reflecting an increase in interest rate of \$12.4 million, partially offset by a \$7.7 million decrease in volume. Interest income from investments increased 8.4% to \$39.2 million, reflecting an increase in interest earning rate of \$9.6 million, partially offset by a \$6.5 million decrease in volume.

Interest expense decreased 7.4% to \$57.9 million, primarily the result of an \$8.9 million decrease in the volume of interest-bearing liabilities, partially offset by a \$4.2 million increase in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease in deposit volume of \$2.2 million and a \$2.8 million increase in interest rate. The cost of deposits before fair value amortization and core deposit intangible amortization decreased 24 basis points to 0.75%, compared to 0.99% for the same period in 2013. The decrease in the cost of deposits was partially offset by an increase in the cost of borrowings, which increased 63 basis points to 2.83% from 2.20%.

Average balance of total interest-earning assets was \$7.052 billion, a decrease of 6.8% from the same period in 2013. The decrease in average balance of interest-earning assets was mainly attributable to a decrease of 18.0% in average investments, resulting from redemptions and maturities, to the sale of available for sale securities during the current period amounting to \$184.9 million, and to a reduction of 1.3% in the average loan portfolio primarily due to maturities and repayments. The average yield on interest-earning assets was 7.00% compared to 6.39% for the same period in 2013. This was mainly due to higher average yields in the investment portfolio, which increased to 2.56% from 1.93%, and in the loan portfolio, which increased to 8.82% from 8.58%.

TABLE 2 - NON-INTEREST INCOME SUMMARY								
	Quarter Ended September 30,			Nine-Month Period Ended September 30,				
	2014	2013	Variance	2014	2013	Variance		
	(Dollars in thousands)							
Banking service revenue	\$ 9,753	\$ 12,146	-19.7%	\$ 30,305	\$ 36,491	-17.0%		
Wealth management revenue	7,113	7,394	-3.8%	21,316	23,084	-7.7%		
Mortgage banking activities	2,097	2,334	-10.2%	5,346	9,299	-42.5%		
Total banking and financial service revenue	18,963	21,874	-13.3%	56,967	68,874	-17.3%		
FDIC shared-loss expense, net:								
FDIC indemnification asset expense	(16,059)	(15,198)	-5.7%	(51,180)	(46,623)	-9.8%		
Change in true-up payment obligation	(875)	(767)	-14.0%	(2,596)	(2,178)	-19.2%		
	(16,934)	(15,965)	-6.1%	(53,776)	(48,801)	-10.2%		
Net gain (loss) on:								
Sale of securities available for sale	-	-	0.0%	4,366	-	100.0%		
Derivatives	7	(811)	100.9%	(463)	(1,746)	73.5%		
Early extinguishment of debt	-	-	0.0%	-	1,061	-100.0%		
Other non-interest income	455	(1,775)	125.6%	1,133	575	97.0%		
	(16,472)	(18,551)	11.2%	(48,740)	(48,911)	0.3%		

Total non-interest income, net	\$	2,491	\$	3,323	-25.0%	8,227	19,963	-58.8%
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Non-Interest Income

Non-interest income is affected by the level of trust assets under management, transactions generated by clients' financial assets serviced by the securities broker-dealer and insurance agency subsidiaries, the level of mortgage banking activities, and the fees generated from loans and deposit accounts. It is also affected by the FDIC shared-loss expense, which varies depending on the results of the on-going evaluation of expected cash flows of the loan portfolio acquired in the FDIC-assisted acquisition. In addition, it is affected by the amount of securities, derivatives and trading transactions.

Comparison of quarters ended September 30, 2014 and 2013

As shown in Table 2 above, the Company recorded non-interest income in the amount of \$2.5 million, compared to \$3.3 million for the same period in 2013, a decrease of \$832 thousands.

The FDIC shared-loss expense, net, increased to \$16.9 million as compared to \$16.0 million for the same period in 2013, which resulted from the ongoing evaluation of expected cash flows of the covered loan portfolio and from changes in the fair value of the true-up payment obligation, also known as a clawback liability.

During the quarters ended September 30, 2014 and 2013 the FDIC indemnification asset expense increased to \$16.1 million from \$15.2 million for the same period in 2013. The majority of the FDIC indemnification asset is recorded for projected claimable losses on non-single family residential loans whose loss share period ends by the third quarter of 2015, although the recovery share period extends for an additional three-year period.

During the quarters ended September 30, 2014 and 2013 the true-up payment obligation increased to \$875 thousand as compared to \$767 thousand for the same period in 2013. The true-up payment obligation may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, decreased 19.7% to \$9.8 million, from \$12.1 million for the same period in 2013. The decrease in banking services revenues is mostly due to the reclassification of auto loan late charges into interest income during the last quarter of 2013 amounting to \$2.7 million. For the quarter ended September 30, 2013, these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 3.8% to \$7.1 million, compared to \$7.4 million for the same period in 2013. This decrease is mainly due to local market conditions, which has resulted in lower investment activity.

Income generated from mortgage banking activities decreased 10.2% to \$2.1 million, compared to \$2.3 million for the same period in 2013. The decrease in mortgage banking activities is mainly due to higher losses in repurchased loans and a decrease in sales when compared to same period in 2013.

Comparison of nine-month periods ended September 30, 2014 and 2013

Non-interest income decreased \$11.7 million to \$8.2 million from \$20.0 million in the nine-month period ended September 30, 2013.

The FDIC shared-loss expense, net increased 10.2% to \$53.8 million, as compared to \$48.8 million for the same period in 2013, as a result of the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and improved the accretible yield on the covered loans, and from changes in the fair value of the true-up payment obligation.

During the nine-month period ended September 30, 2014, the FDIC indemnification asset expense increased 9.8% to \$51.2 million, as compared to \$46.6 million for the same period in 2013. The reduction in claimable losses amortizes the FDIC indemnification asset through the life of the shared loss agreements. This amortization is net of the accretion of the discount recorded to reflect the expected claimable loss at its net present value. During the nine-month period ended September 30, 2014, the net amortization included \$7.7 million of additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction and leasing loan pools. Additional amortization of the FDIC indemnification asset may be recorded, should the Company continue to experience reduced expected losses.

During the nine-period ended September 30, 2014, the true-up payment obligation increased 19.2% to \$2.6 million, as compared to \$2.2 million for the same period in 2013. The Company measures the true-up payment obligation at fair value.

The FDIC shared-loss expense bears an inverse relationship with a change in the yield of covered 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.

Banking service revenue decreased 17.0% to \$30.3 million from \$36.5 million for the same period in 2013. The decrease in banking services revenues is mostly due to the reclassification of auto loan late charges into interest income during the last quarter of 2013 amounting to \$2.7 million. For the nine-month period ended September 30, 2013, these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013. In addition, a non-recurring prepayment penalty was received during the first quarter of 2013 of approximately \$1 million. Lower overdrawn and non-sufficient fund fees of \$1.1 million and lower retail checking fees of \$987 thousand also contributed to the decrease.

Wealth management revenue decreased 7.7% to \$21.3 million, compared to \$23.1 million for the same period in 2013. This decrease is mainly due to local market conditions, which has resulted in lower investment activity.

Income generated from mortgage banking activities decreased 42.5% to \$5.3 million, compared to \$9.3 million for the same period in 2013. The decrease in mortgage banking activities is mainly due to higher losses in repurchased loans and a decrease in sales when compared to same period in 2013.

Gains from the sale of securities increased to \$4.4 million from the same period in 2013, in which no gain or loss from the sale of securities was recorded. Losses from derivative activities were \$463 thousand, as compared to \$1.7 million for the same period in 2013. During the nine-month period ended September 30, 2014, the Company did not have a gain or loss on extinguishment of debt, as compared to the same period in 2013 in which the Company had a gain of \$1.1 million.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY	Quarter Ended September 30,				Nine-Month Period Ended September 30,					
	2014		2013		2014		2013		Variance %	
(Dollars in thousands)										
Compensation and employee benefits	\$	18,592	\$	22,590	-17.7%	\$	61,086	\$	69,927	-12.6%
Professional and service fees		3,807		4,409	-13.7%		11,525		16,262	-29.1%
Occupancy and equipment		8,770		8,270	6.0%		25,684		25,552	0.5%
Insurance		2,099		1,828	14.8%		6,506		7,229	-10.0%
Electronic banking charges		4,637		3,694	25.5%		14,085		11,458	22.9%
Information technology expenses		1,289		2,729	-52.8%		4,589		7,708	-40.5%
Advertising, business promotion, and strategic initiatives		1,825		1,471	24.1%		5,274		4,550	15.9%
Merger and restructuring charges		-		2,252	-100.0%		-		13,060	-100.0%
Foreclosure, repossession and other real estate expenses		7,842		5,703	37.5%		20,783		12,603	64.9%
Loan servicing and clearing expenses		1,870		2,133	-12.3%		5,598		5,493	1.9%
Taxes, other than payroll and income taxes		3,494		4,024	-13.2%		11,005		11,778	-6.6%
Communication		820		782	4.9%		2,590		2,481	4.4%
Printing, postage, stationery and supplies		620		824	-24.8%		1,820		2,841	-35.9%

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Director and investor relations		250		230		8.7%		794		843		-5.8%
Other operating expenses		3,660		2,295		59.5%		9,488		6,748		40.6%
Total non-interest expenses	\$	59,575	\$	63,234		-5.8%	\$	180,827	\$	198,533		-8.9%
Relevant ratios and data:												
Efficiency ratio		49.30%		52.27%				49.10%		53.97%		
Compensation and benefits to non-interest expense		31.21%		35.72%				33.78%		35.22%		
Compensation to average total assets owned		0.97%		1.07%				1.04%		1.08%		
Average number of employees		1,574		1,562				1,564		1,569		
Average compensation per employee	\$	11.8	\$	14.5			\$	39.1	\$	44.6		
Average loans per average employee	\$	3,138	\$	3,289			\$	3,199	\$	3,232		

Non-Interest Expenses

Comparison of quarters ended September 30, 2014 and 2013

Non-interest expense reached \$59.6 million, representing a decrease of 5.8% compared to \$63.2 million for the same period in the previous year. The decrease is due mainly to the non-recurring merger and restructuring charges of \$2.3 million incurred during the quarter ended September 30, 2013 for the BBVAPR Acquisition and to the decrease of \$4.0 million in compensation and employee benefits.

Compensation and employee benefits decreased 17.7% to \$18.6 million from \$22.6 million for the same periods in 2013. The decrease is due mainly to the impact of the assessment of employee bonuses required pursuant to the BBVAPR Acquisition of \$2.1 million for the quarter ended September 30, 2013, a decrease in incentives of \$590 thousand, and a decrease of \$300 thousand in commissions paid by the securities broker-dealer.

Professional and service fees decreased 13.7% to \$3.8 million, as compared to \$4.4 million for the same period in 2013. Professional and service fees primarily comprise legal expenses and consulting and outsourcing expenses. For the quarter ended September 30, 2014, legal expenses amounted to \$1.4 million compared to \$872 thousand for the same period in 2013. The decrease in professional and service fees is mainly related consulting and outsourcing expenses which amounted to \$759 thousand, compared to \$1.3 million for the same period in 2013, and a decrease in audit fees which amounted to \$438 thousand compared to \$877 thousand for the same period in 2013.

Information technology expenses decreased 52.8% to \$1.3 million, as compared to \$2.7 million, mostly due to a decrease in data processing expenses.

The decreases in the foregoing non-interest expenses were partially offset by increases in foreclosure, repossession and other real estate expenses and in electronic banking charges.

Foreclosure, repossession and other real estate expenses increased 37.5% to \$7.8 million, as compared to \$5.7 million in the same period for the previous year, principally due to an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic conditions.

Electronic banking charges increased 25.5% to \$4.6 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business.

The decrease in non-interest expenses resulted in an improved efficiency ratio of 49.30%, from 52.27% for the same period in 2013. The efficiency ratio measures how much of the Company's revenue is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, credit-related other-than-temporary impairment losses, FDIC shared-loss expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation amounted to losses of \$16.5 million, compared to \$18.6 million for the same period in 2013. Revenue for purposes of the efficiency ratio amounted to \$120.8 million, compared to \$121.0 million for the same period in 2013.

Comparison of nine-month periods ended September 30, 2014 and 2013

Non-interest expense decreased 8.9% to \$180.8 million, compared to \$198.5 for the same period in 2013. The decrease is due mainly to the non-recurring merger and restructuring charges of \$13.1 million incurred during the nine-month period ended September 30, 2013 for the BBVAPR Acquisition and the implementation of expense reduction measures.

Compensation and employee benefits decreased 12.6% to \$61.1 million from \$69.9 million for the same period in 2013. The decrease is due mainly to the impact in 2013 of the assessment of employee bonuses required pursuant to the BBVAPR Acquisition of \$4.5 million, a decrease in average total employees during the nine-month period ended September 30, 2014, compared to the same period in 2013, and a decrease in commissions paid by the securities broker-dealer of \$1.4 million.

Professional and service fees decreased 29.1% to \$11.5 million, as compared to \$16.3 million for the same period in 2013. Legal expenses amounted to \$3.7 million, compared to \$3.4 million for the same period in 2013. Consulting and outsourcing expenses amounted to \$2.6 million, compared to \$4.1 million for the same period in 2013. Decrease in professional and service fees is mainly related to loan servicing fees amounting to \$3.0 million for a third party loan servicer whose contract was terminated during the quarter ended June 30, 2013.

Information technology expenses decreased 40.5% to \$4.6 million, as compared to \$7.7 million, mostly due to decrease in data processing expenses.

The decreases in the foregoing non-interest expenses were partially offset by increases in electronic banking charges and foreclosure, repossession and other real estate expenses.

Electronic banking charges increased 22.9% to \$14.1 million, as compared to \$11.5 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business.

Foreclosure, repossession and other real estate expenses increased 64.9% to \$20.8 million, as compared to \$12.6 million for the same period in 2013, principally due to an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic conditions.

The decrease in non-interest expenses resulted in an improved efficiency ratio of 49.1% from 54.0%. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation amounted to losses of \$48.7 million, compared to \$48.9 million for the same period in 2013. Revenue for purposes of the efficiency ratio amounted to \$368.3 million, compared to \$367.9 million for the same period in 2013.

Provision for Loan and Lease Losses

Comparison of quarters ended September 30, 2014 and 2013

Provision for non-covered loan and lease losses increased 63.1% to \$16.1 million from \$9.9 million when compared with the same period in 2013. Provision for covered loan and lease losses decreased 63.7% to \$1.1 million from \$3.1 million when compared to the same period in 2013. Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for the quarter ended September 30, 2014 was adequate in order to maintain the allowance for loan and lease losses at an adequate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for non-covered loans, excluding acquired loans, increased 23.7% to \$8.6 million from \$6.9 million when compared with the same period in 2013. This was the result of an increase in the provision for auto and leasing of 130.2% to \$7.2 million, partially offset by a decrease in the provision for mortgage loans of 10.1% to \$1.2 million, an increase in the recapture for commercial loans of 225.2% to \$2.3 million, a decrease in the provision for consumer loans of 19.7% to \$2.3 million, and a decrease in the unallocated provision of 78.6% to \$43 thousand. At September 30, 2014, the auto portfolio has been increasing as new originations are ramping up balances outstanding. After almost two years from the BBVAPR Acquisition, this portfolio is beginning to reflect normal delinquency and charge-off levels as a seasoned portfolio.

Total charge-offs on non-covered loans, excluding acquired loans, increased 101.7% to \$11.6 million, as compared to \$5.8 million for the same period in 2013. This was the result of a 466.5% increase in auto and leasing charge-offs to \$7.4 million and a 240.9% increase in consumer charge-offs to \$1.4 million, partially offset by a 11.1% decrease in mortgage charge-offs to \$1.6 million and a 51.6% decrease in commercial charge-offs to \$1.1 million.

Total recoveries increased from \$704 thousand to \$2.7 million. As a result, the recoveries to charge-offs ratio increased from 12.22% to 23.18%. Net credit losses, excluding acquired loans, increased \$3.9 million to \$8.9 million, representing 1.34% of average non-covered loans outstanding versus 1.02% for the same period in 2013, annualized.

The non-covered acquired loans accounted for under ASC 310-20 required a provision for loan and lease losses of \$3.7 million, as compared to \$3.0 million for the same period in 2013. Non-covered acquired loans accounted for under ASC 310-30 required a provision for loan and lease losses of \$3.8 million. This portfolio did not require a provision for loan and lease losses for the same period in 2013. The provision for the quarter ended September 30, 2014, reflects the Company's revision of the expected cash flows in the non-covered acquired loan portfolio considering actual experiences and changes in the Company's expectations for the remaining term of the loan pools. Provision for covered loan and lease losses was \$1.1 million, compared to \$3.1 million for the same period in 2013, reflecting the Company's revision of the expected cash flows in the covered loan portfolio considering actual experiences and changes in the Company's expectations for the remaining terms of the loan pools.

Comparison of nine-month periods ended September 30, 2014 and 2013

Provision for non-covered loan and lease losses decreased \$15.9 million to \$39.4 million when compared to \$55.3 million, which included the impact of a \$21.0 million additional provision due to the reclassification to held-for-sale of non-performing residential mortgage loans. Provision for covered loan and lease losses decreased \$618 thousand, when compared to the same period in 2013. Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for the nine-month period ended September 30, 2014, was adequate in order to maintain the allowance for loan and lease losses at an adequate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for non-covered loans, excluding acquired loans, decreased 55.8% to \$21.6 million from \$48.6 million when compared with the same period in 2013. This was the result of decrease in the provision for mortgage loans of 93.0% to \$2.3 million, an increase in the recapture for commercial loans of 232.4% to \$4.0 million, and an increase in the unallocated recapture of 134.9% to \$193 thousand, partially offset by an increase in the provision for auto and leasing of 155.1% to \$17.4 million and an increase in the provision for consumer loans of 24.7% to \$6.1 million. At September 30, 2014, the auto and consumer portfolios have been increasing as new originations are ramping up balances outstanding. After almost two years from the BBVAPR Acquisition, these portfolios are beginning to reflect

normal delinquency and charge-off levels as seasoned portfolios.

Total charge-offs on non-covered loans, excluding acquired loans, decreased 34.7% to \$27.6 million, as compared to \$42.3 million for the same period in 2013. This was the result of an 88.9% decrease in mortgage charge-offs to \$3.8 million and a 64.0% decrease in commercial charge-offs to \$2.0 million, partially offset by a 754.8% increase in auto and leasing charge-offs to \$18.0 million and a 269.4% increase in consumer charge-offs to \$3.8 million.

Total recoveries increased from \$1.3 million to \$7.2 million. As a result, the recoveries to charge-offs ratio increased from 3.05% to 26.05%. Net credit losses, excluding acquired loans, decreased \$20.6 million to \$20.4 million, representing 1.05% of average non-covered loans outstanding versus 3.96% in the same period in 2013, annualized. The credit losses for the nine-month period ended September 30, 2013 included a \$27 million charge-off from nonperforming mortgage loans transferred into the loan held-for-sale category. Isolating this credit charge-off, the net credit losses for the nine-month period ended September 30, 2013 would have been \$14.0 million, representing 1.35% of average non-covered loans outstanding, annualized.

The non-covered acquired loans accounted for under ASC 310-20 required a provision for loan and lease losses of \$10.5 million, as compared to \$6.7 million for the same period in 2013. Non-covered acquired loans accounted for under ASC 310-30 required a provision for loan and lease losses of \$7.3 million for the nine-month period ended September 30, 2014. This portfolio did not require provision for loan and leases losses for the same period in 2013. The provision for the nine-month period ended September 30, 2014 reflects the Company's revision of the expected cash flows in the non-covered acquired loan portfolio considering actual experiences and changes in the Company's expectations for the remaining term of the loan pools. Provision for covered loan and lease losses was \$4.3 million, compared to \$5.0 million for the same period in 2013, reflecting the Company's revision of the expected cash flows in

the covered loan portfolio considering actual experiences and changes in the Company's expectations for the remaining terms of the loan pools.

Please refer to the "Allowance for Loan and Lease Losses and Non-Performing Assets" section in this MD&A and Table 8 through Table 12 below for more detailed information concerning the allowances for the loan and lease losses, net credit losses and credit quality statistics.

Income Taxes

Comparison of quarters ended September 30, 2014 and 2013

Income tax expense increased \$1.4 million to \$8.0 million, compared to an income tax expense of \$6.6 million for the same period in 2013. The increase is caused by the change in enacted tax rates for capital gains during the quarter ended September 30, 2014 from 15% to 20%.

Comparison of nine-month periods ended September 30, 2014 and 2013

Income tax expense increased to \$30.4 million, compared to an income tax benefit of \$18.2 million for the same period in 2013. The income tax benefit for the nine-month period ended September 30, 2013 included a \$38.6 million benefit from the effect in deferred taxes due to the increase in tax rates from 30.0% to 39.0% due to enacted law in 2013. Effective July 1, 2014 the capital gains tax rate was increased from 15% to 20%, which results in a net increase of the income tax expense for 2014.

Business Segments

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

Comparison of quarters ended September 30, 2014 and 2013

Banking

Net interest income of the Company's Banking segment slightly increased \$2.3 million for the third quarter of 2014, or 2.4%, reflecting a decrease of 28.2% in interest expense, partially offset by a slight decrease of 0.7% in interest income from loans. The decrease of \$3.1 million in interest expenses mainly reflects the lower cost of deposits before fair value amortization and core deposit intangible amortization (0.68% vs. 0.93%) due to the continuing progress in the repricing of the Company's core retail deposits.

Provision for non-covered loans losses increased \$6.2 million when compared to \$9.9 million for the third quarter of 2013, while provision for covered loans losses decreased \$2.0 million when compared to the third quarter of 2013.

Banking service revenues decreased \$2.4 million to \$9.8 million. The decrease is mostly due to the reclassification of loan late charges into interest income during the last quarter of 2013. For the quarter ended September 30, 2013, these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013.

For the quarter ended September 30, 2013, the Company recognized a realized loss of \$1.5 million from the sale of performing and non-performing residential mortgage loans, which was not the case in the current quarter.

Non-interest expense of \$53.7 million increased 2.0% when compared to the same period in 2013. The increase in non-interest expense is mainly due to an increase in foreclosure, repossession and other real estate expenses of \$2.1 million to \$7.8 million, principally caused by an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic

conditions. Also, there was an increase in electronic banking charges of \$943 thousand to \$4.6 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business. This increase was partially offset by the \$2.3 million in merger and restructuring charges during the quarter ended September 30, 2013, compared to none in the current quarter.

Wealth Management

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 12.7% to \$6.2 million, compared to \$7.1 million for the same period in 2013. This decrease is mainly due to local market conditions, which has resulted in lower investment activity.

Non-interest expenses decreased 27.3% to \$4.5 million, mainly as commissions paid by the securities broker-dealer decreased when compared to the same quarter in 2013.

Treasury

Average investments decreased 13.8% resulting from redemptions and maturities during 2014. Nevertheless, interest income from investments remained level at \$11.7 million as the yield increased to 2.35% from 2.03%. Interest expenses remained constant at \$11 million when compared to the same period in 2013, reflecting lower borrowings at higher costs.

Non-interest expenses, mainly composed of indirect expenses allocated from support departments, decreased 68.0% to \$1.4 million as part of the Company's cost reduction strategy.

Comparison of nine-month periods ended September 30, 2014 and 2013

Banking

Net interest income increased \$10.0 million for the third quarter of 2014, or 3.4%, reflecting an increase of 1.4% in interest income from loans and a decrease of 16.7% in interest expense. The decrease of \$5.3 million in interest expenses when compared to the same period in 2013 mainly reflects the lower cost of deposits fair value amortization and core deposit intangible amortization (0.75% vs. 0.99%) due to the continuing progress in the repricing of the Company's core retail deposits and other reductions in its cost of funds.

Provision for non-covered loan losses decreased \$15.9 million when compared to \$55.3 million, which included the impact of a \$21.0 million additional provision due to the reclassification to held-for-sale of non-performing residential

mortgage loans. Provision for covered loan losses decreased \$618 thousand when compared to the same period in 2013.

Banking service revenues decreased 17.0% to \$30.3 million from \$36.5 million for the same period in 2013. The decrease in banking service revenues is mostly due to the reclassification of auto loan late charges into interest income during the last quarter of 2013 amounting to \$2.7 million. For the nine-month period ended September 30, 2013, these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013. In addition, a non-recurring prepayment penalty was received during the first quarter of 2013 of approximately \$1 million. Lower overdrawn and non-sufficient fund fees by approximately \$1.1 million and lower retail checking fees by approximately \$987 thousand also contributed to the decrease.

Net FDIC shared- loss expense increased \$5.0 million to \$53.8 million from \$48.8 million for the same period in 2013.

For the nine-month period ended September 30, 2013, the Company recognized a realized loss of \$1.5 million from the sale of performing and non-performing residential mortgage loans, which did not have an impact in 2014.

Non-interest expense of \$156.9 million decreased 6.7% when compared to the same period in 2013. The decrease is due mainly to the non-recurring merger and restructuring charges of \$13.1 million incurred during the nine-month period ended September 30, 2013 for the BBVAPR Acquisition.

Wealth Management

Wealth management revenue decreased 11.7% to \$20.2 million, compared to \$22.9 million for the same period in 2013. This decrease is mainly due to local market conditions, which has resulted on lower investment activity.

Non-interest expenses decreased 17.5% to \$15.6 million from \$18.9 million for the same period in 2013. Commissions paid by the securities broker-dealer decreased \$1.4 million when compared to the same period in 2013.

Treasury

Average investments decreased 18.0% resulting from redemptions and maturities and the sale of available for sale securities during the current period amounting to \$184.9 million. Nevertheless, interest income from investments increased 8.7% to \$39.0 million as yield increased to 2.56% from 1.93%. Interest expenses slightly increased to \$31.7 million from \$31.1 million for the same period in 2013, reflecting lower borrowings at higher costs.

Non-interest expenses, mainly composed of indirect expenses allocated from support departments, decreased 27.4% to \$8.3 million as part of the Company's cost reduction strategy.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At September 30, 2014, the Company's total assets amounted to \$7.673 billion representing a decrease of 5.9% when compared to \$8.158 billion at December 31, 2013. This reduction is mainly due to a decrease in investment securities available-for-sale of 19.8% from \$1.588 billion to \$1.274 billion, partially offset by a \$144.3 million increase in investment securities held-to-maturity.

At September 30, 2014, loans represented 77% of total interest-earning assets while investments represented 23%, compared to 75% and 25%, respectively, at December 31, 2013.

The Company's loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate located in Puerto Rico, other commercial and industrial loans, consumer loans, and auto loans. At September 30, 2014, the Company's loan portfolio decreased by 3.2% to \$4.857 billion compared to \$5.019 billion at December 31, 2013. At September 30, 2014, the covered loan portfolio decreased \$45.3 million, or 12.7% from December 31, 2013 as the loans continue to pay down. At September 30, 2014, the non-covered loan portfolio decreased \$117.2 million or 2.5%, primarily due to maturities and early pay downs of some commercial loans.

The FDIC indemnification asset amounted to \$120.6 million at September 30, 2014 and \$189.2 million as of December 31, 2013, representing a 36.3% reduction. The decrease in the FDIC indemnification asset is mainly related to the amortization of the FDIC indemnification asset by \$51.2 million during the nine-month period ended September 30, 2014.

Investments principally consist of U.S. government and agency bonds, mortgage-backed securities, and Puerto Rico government and agency bonds. At September 30, 2014, the investment portfolio decreased 10.8% to \$1.441 billion from \$1.615 billion at December 31, 2013. This decrease is mostly due to net effect of a reduction of \$98.7 million in Puerto Rico government obligations and a reduction of \$20.5 million in other debt securities due to redemptions and maturities. In addition, during the nine-month period ended September 30, 2014, the Company sold \$110.8 million of mortgage-backed available for sale securities taking advantage of market opportunities to realize gains and reduce some interest rate sensitivity. Recent purchases of investment securities were categorized as held-to-maturity. The Company's management will determine the category of following investment securities purchases based on the Company's approach at that time.

Financial Assets Managed

The Company's financial assets managed include those managed by the Company's trust division, retirement plan administration subsidiary, and assets gathered by its broker-dealer subsidiary. The Company's trust division offers various types of IRAs and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while the retirement plan administration subsidiary, CPC, manages private retirement plans. At September 30, 2014, total assets managed by the Company's trust division and CPC amounted to \$2.852 billion, compared to \$2.797 billion at December 31, 2013. Oriental Financial Services offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money

management wrap-fee programs. At September 30, 2014, total assets gathered by Oriental Financial Services from its customer investment accounts decreased to \$2.484 billion, compared to \$2.493 billion at December 31, 2013. Changes in trust and broker-dealer related assets primarily reflect an increase in portfolio and differences in market values.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION						
	September 30,		December 31,			
	2014		2013			Variance
	(Dollars in thousands)					
Investments:						
FNMA and FHLMC certificates	\$	1,200,940	\$	1,217,330		-1.3%
Obligations of US government-sponsored agencies		7,761		10,649		-27.1%
CMOs issued by US government-sponsored agencies		184,958		214,394		-13.7%
GNMA certificates		5,568		7,816		-28.8%
Puerto Rico government and political subdivisions		15,446		114,190		-86.5%
FHLB stock		21,189		24,450		-13.3%
Other debt securities		3,511		24,047		-85.4%
Other investments		1,752		1,933		-9.4%
Total investments		1,441,125		1,614,809		-10.8%
Loans:						
Non-covered loans		4,593,311		4,670,227		-1.6%
Allowance for loan and lease losses on non-covered loans		(64,859)		(54,298)		-19.5%
Non-covered loans receivable, net		4,528,452		4,615,929		-1.9%
Mortgage loans held for sale		16,757		46,529		-64.0%
Total non-covered loans, net		4,545,209		4,662,458		-2.5%
Covered loans		373,920		409,690		-8.7%
Allowance for loan and lease losses on covered loans		(62,227)		(52,729)		-18.0%
Total covered loans, net		311,693		356,961		-12.7%
Total loans, net		4,856,902		5,019,419		-3.2%
Securities purchased under agreements to resell		-		60,000		-100.0%
Total securities and loans		6,298,027		6,694,228		-5.9%
Other assets:						
Cash and due from banks		696,369		696,501		0.0%
Money market investments		7,777		6,967		11.6%
FDIC indemnification asset		120,619		189,240		-36.3%
Foreclosed real estate		100,564		90,024		11.7%
Accrued interest receivable		19,665		18,734		5.0%
Deferred tax asset, net		121,217		137,564		-11.9%

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Premises and equipment, net		82,099			82,903		-1.0%	
Servicing assets		13,986			13,801		1.3%	
Derivative assets		8,445			20,502		-58.8%	
Goodwill		86,069			86,069		0.0%	
Other assets		118,502			121,482		-2.5%	
Total other assets		1,375,312			1,463,787		-6.0%	
Total assets	\$	7,673,339		\$	8,158,015		-5.9%	
Investments portfolio composition:								
FNMA and FHLMC certificates		83.4%			75.4%			
Obligations of US government-sponsored agencies		0.5%			0.7%			
CMOs issued by US government-sponsored agencies		12.8%			13.3%			
GNMA certificates		0.4%			0.5%			
Puerto Rico government and political subdivisions		1.1%			7.1%			
FHLB stock		1.5%			1.5%			
Other debt securities and other investments		0.3%			1.5%			
		100.0%			100.0%			

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TABLE 5 — LOANS RECEIVABLE COMPOSITION						
	September 30,		December 31,		Variance	
	2014		2013		%	
(Dollars in thousands)						
Non-covered loans:						
Originated and other loans and leases held for investment:						
Mortgage	\$	791,106	\$	766,265		3.2%
Commercial		1,217,235		1,127,657		7.9%
Consumer		175,882		127,744		37.7%
Auto and leasing		542,892		379,874		42.9%
Total originated and other loans and leases held for investment		2,727,115		2,401,540		13.6%
Acquired loans:						
Accounted for under ASC 310-20						
Commercial		26,984		77,681		-65.3%
Consumer		47,284		56,174		-15.8%
Auto		210,808		301,584		-30.1%
		285,076		435,439		-34.5%
Accounted for under ASC 310-30						
Mortgage		670,188		717,904		-6.6%
Commercial		485,444		545,117		-10.9%
Construction		108,694		126,427		-14.0%
Consumer		36,470		63,620		-42.7%
Auto		276,749		379,145		-27.0%
		1,577,545		1,832,213		-13.9%
		1,862,621		2,267,652		-17.9%
		4,589,736		4,669,192		-1.7%
Deferred loans fees, net		3,575		1,035		245.4%
Loans receivable		4,593,311		4,670,227		-1.6%
Allowance for loan and lease losses on non-covered loans		(64,859)		(54,298)		-19.5%
Loans receivable, net		4,528,452		4,615,929		-1.9%
Mortgage loans held-for-sale		16,757		46,529		-64.0%
Total non-covered loans, net		4,545,209		4,662,458		-2.5%
Covered loans:						
Loans secured by 1-4 family residential properties		121,658		121,748		-0.1%
Construction and development secured by 1-4 family residential properties		18,947		17,304		9.5%

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Commercial and other construction		228,410			264,249		-13.6%
Consumer		4,905			6,119		-19.8%
Leasing		-			270		-100.0%
Total covered loans		373,920			409,690		-8.7%
Allowance for loan and lease losses on covered loans		(62,227)			(52,729)		-18.0%
Total covered loans, net		311,693			356,961		-12.7%
Total loans receivable, net	\$	4,856,902		\$	5,019,419		-3.2%

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As shown in Table 5 above, total loans, net, amounted to \$4.857 billion at September 30, 2014 and \$5.019 billion at December 31, 2013.

The Company's originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to \$791.1 million (29.0% of the gross originated loan portfolio) compared to \$766.3 million (31.9% of the gross originated loan portfolio) at December 31, 2013. Mortgage loan production totaled \$55.3 million and \$158.1 million for the quarter and nine-month period ended September 30, 2014, respectively, which represents a decrease of 8.9% and 48.4 % from \$60.7 million and \$306.6 million for the same periods in 2013. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to \$40.1 million and \$34.9 million for the periods ended September 30, 2014, and December 31, 2013, respectively. 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.
- Commercial loan portfolio amounted to \$1.217 billion (44.6% of the gross originated loan portfolio) compared to \$1.128 billion (47.0% of the gross originated loan portfolio) at December 31, 2013. Commercial loan production decreased 75.3% to \$90.1 million for the third quarter of 2014, and 75.0% to \$175.3 million for the nine-month period ended September 30, 2014, from \$365.3 million and \$700.8 million for the same periods in 2013, respectively.
- Consumer loan portfolio amounted to \$175.9 million (6.4% of the gross originated loan portfolio) compared to \$127.7 million (5.3% of the gross originated loan portfolio) at December 31, 2013. Consumer loan production increased 0.3% to \$28.7 million for the quarter ended September 30, 2014, and decreased 10.2% to \$91.0 million for the nine-month period ended September 30, 2014 from \$28.6 million and \$101.4 million for the same periods in 2013, respectively.
- Auto loans and leasing portfolio amounted to \$542.9 million (20.0% of the gross originated loan portfolio) compared to \$379.9 million (15.8% of the gross originated loan portfolio) at December 31, 2013. Auto production was \$68.5 million for the quarter ended September 30, 2014 and \$251.9 million for the nine-month period ended September 30, 2014, compared to \$95.0 million and \$375.3 million for the same periods in 2013, respectively.

At September 30, 2014 and December 31, 2013, the Company's non-covered acquired loan portfolio composition was as follows:

Portfolio Type	September 30, 2014			December 31, 2013		
	Carrying Amounts	% of Gross Non-Covered Acquired Loan Portfolio		Carrying Amounts	% of Gross Non-Covered Acquired Loan Portfolio	

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(Dollars in thousands)									
Mortgage	\$	670,188		36.0%		\$	717,904		31.7%
Commercial		621,122		33.3%			749,225		33.0%
Consumer		83,754		4.5%			119,794		5.3%
Auto		487,557		26.2%			680,729		30.0%
	\$	1,862,621		100.00%		\$	2,267,652		100.00%

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TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS										
September 30, 2014										
Higher-Risk Residential Mortgage Loans*										
									High Loan-to-Value Ratio Mortgages	
Junior Lien Mortgages			Interest Only Loans				LTV 90% and over			
Carrying			Carrying				Carrying			
Value	Allowance	Coverage	Value	Allowance	Coverage	Value	Allowance	Coverage		
(In thousands)										
Delinquency:										
0 - 89 days	\$ 14,074	\$ 233	1.66%	\$ 22,722	\$ 984	4.33%	\$ 91,438	\$ 1,975	2.16%	
90 - 119 days	99	4	4.04%	113	5	4.42%	1,002	38	3.79%	
120 - 179 days	14	0	0.00%	-	-	0.00%	491	16	3.26%	
180 - 364 days	80	1	1.25%	510	69	13.53%	495	21	4.24%	
365+ days	509	48	9.43%	563	272	48.31%	2,273	231	10.16%	
Total	\$ 14,776	\$ 286	1.94%	\$ 23,908	\$ 1,330	5.56%	\$ 95,699	\$ 2,281	2.38%	
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.49%			0.79%			3.16%			
Refinanced or Modified Loans:										
Amount	\$ 2,235	\$ 179	8.01%	\$ -	\$ -	0.00%	\$ 14,234	\$ 1,089	7.65%	
Percentage of Higher-Risk Loan										
Category	15.13%			0.00%			14.87%			
Loan-to-Value Ratio:										
Under 70%	\$ 9,043	\$ 191	2.11%	\$ 2,457	\$ 226	9.20%	\$ -	\$ -	-	
70% - 79%	2,776	49	1.77%	3,238	206	6.36%	-	-	-	
80% - 89%	766	20	2.61%	7,116	355	4.99%	-	-	-	
90% and over	2,191	26	1.19%	11,097	543	4.89%	95,699	2,281	2.38%	
	\$ 14,776	\$ 286	1.94%	\$ 23,908	\$ 1,330	5.56%	\$ 95,699	\$ 2,281	2.38%	

The following table includes the Company's lending and investment exposure to the Puerto Rico government, including its agencies, instrumentalities, municipalities and public corporations:												
TABLE 7 - PUERTO RICO GOVERNMENT RELATED LOANS AND SECURITIES												
September 30, 2014												
Maturity												
Loans and Securities:		Carrying Value		Less than 1 Year		1 to 3 Years		More than 3 Years		Comments		
(In thousands)												
Central government	\$	32,662	\$	7,733	\$	-	\$	24,929		Repayment sources include all available revenues of the Commonwealth		
Public corporations		382,069		299,982		1,296		80,791		\$80.8 million which mature in more than 3 years, with pledged securities (rating > A)		
Municipalities		212,100		-		1,174		210,926		Repayment from property taxes		
Investment securities		20,915		-		439		20,476				
Total	\$	647,746	\$	307,715	\$	2,909	\$	337,122				

Some highlights follow on the data included above:

- Loans to municipalities are backed by their unlimited taxing power or real and personal property taxes.
- 48% of loans and securities balances mature in 12-months or less.
- Deposits from municipalities, central government and other government entities totaled \$359.2 million at September 30, 2014. However, this amount may decline as a result of recently enacted legislation to improve the liquidity of the Government Development Bank for Puerto Rico ("GDB") by requiring the Commonwealth's agencies,

instrumentalities and public corporations to maintain certain deposits at GDB.

- The Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”) enacted in the second quarter of 2014 establishes procedures for the adjustment of debts of certain public corporations. Significantly all of the Company’s public corporation debtors are authorized to seek relief under the Recovery Act.
- Oriental Bank is part of a four bank syndicate providing a \$550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of the Puerto Rico Electric Power Authority (“PREPA”), a public corporation authorized to seek relief under the Recovery Act. The Bank’s participation in the line of credit has an unpaid principal balance of \$200.0 million as of September 30, 2014. As part of the bank syndicate, the Company agreed during the quarter to extend its credit facility with PREPA to March 31, 2015. In connection with such extension, 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. PREPA also committed to delivering a comprehensive business plan by December 15, 2014 and a full debt restructuring plan by March 2, 2015. After the 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 and concluded that the loan should be maintained in accrual status requiring no impairment.

Credit Risk Management

Allowance for Loan and Lease Losses

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. Tables 8 through 12 set forth an analysis of activity in the allowance for loan and lease losses and present selected loan loss statistics. In addition, Table 5 sets forth the composition of the loan portfolio. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months. In addition, during the quarter ended June 30, 2014, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration the current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others. These changes in the allowance for loan and lease losses' look back period for the consumer and auto and leasing portfolios, and 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.

At September 30, 2014, the Company's allowance for non-covered loan and lease losses amounted to \$64.9 million, an increase from \$54.3 million at December 31, 2013. At September 30, 2014, \$50.3 million of the allowance corresponded to originated and other loans held for investment, or 1.84% of total non-covered originated and other loans held for investment, compared to \$49.1 million or 2.04% of total non-covered originated and other loans held for investment at December 31, 2013. The allowance increased as a result of a \$21.6 million provision for loan and lease losses and \$7.2 million of recoveries, which were partially offset by charge-offs of \$27.6 million during the nine-month period ended September 30, 2014. The allowance for residential mortgage loans and commercial loans decreased by 5.3% (or \$1.1 million), and 38.8% (or \$5.8 million), respectively, when compared with the balances recorded at December 31, 2013. The allowance for consumer loans and auto and leases increased by 45.0% (or \$2.7 million) and 70.4% (or \$5.5 million), respectively, when compared with the balances recorded at December 31, 2013. The unallocated allowance at September 30, 2014 decreased by 51.4%, or \$193 thousand, when compared with the balance recorded at December 31, 2013. Changes are related to the evolution and the current trends of the portfolio. In the mortgage and commercial portfolios, losses have decreased, therefore less reserve was required. In the consumer and auto portfolios, losses had increased, therefore higher reserve was required.

Allowance for loan and lease losses recorded for acquired non-covered loans accounted for under the provisions of ASC 310-20 at September 30, 2014 was \$4.5 million compared to \$2.4 million at December 31, 2013, a 89.5% increase. The allowance increased as a result of a \$10.5 million provision for loan and lease losses and \$1.9 million of recoveries, which were partially offset by \$10.4 million in charge-offs during the nine-month period ended September

30, 2014. The allowance for commercial loans decreased by 70.8% (or \$656 thousand), when compared with the balance recorded at December 31, 2013. The allowance for consumer and auto loans increased by 100% (or \$1.0 million) and 121.2% (or \$1.7 million), respectively, when compared with the balances recorded at December 31, 2013, due to the normal amortization of credit discount of these acquired loans.

Allowance for loan and lease losses recorded for acquired non-covered loans accounted for under ASC-310-30 at September 30, 2014 was \$10.1 million as compared to \$2.9 million at December 31, 2013. The allowance increased as a result of a \$7.3 million provision for loan and lease losses during the nine-month period ended September 30, 2014. The allowance for commercial loans increased by 490.5% (or \$8.4 million), when compared with the balance recorded at December 31, 2013. The allowance for consumer and auto loans decreased by 98.8% (or \$413 thousand) and 100% (or \$732 thousand), respectively, when compared with the balances recorded at December 31, 2013.

Allowance for loan and lease losses recorded for covered loans at September 30, 2014 was \$62.2 million as compared to \$52.7 million at December 31, 2013. The allowance increased as a result of a \$4.3 million provision for loan and lease losses and \$5.2 million of FDIC shared-loss portion of provision for covered loan and lease losses during the nine-month period ended September 30, 2014. The allowance for loan and lease losses on covered loans is accounted under the provisions of ASC 310-30. Under this accounting guidance, the allowance for loan and lease losses on covered loans is evaluated at each financial reporting period, based on forecasted cash flows. Credit related decreases in expected cash flows, compared to those previously forecasted, are recognized by recording a provision for credit losses on covered loans when it is probable that all cash flows expected at acquisition will not be collected. The portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC indemnification asset.

Please refer to the “Provision for Loan and Lease Losses” section in this MD&A for a more detailed analysis of provisions for loan and lease losses.

Non-performing Assets

The Company’s non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At September 30, 2014 and December 31, 2013, the Company had \$103.7 million and \$86.2 million, respectively, of non-accrual loans, including acquired loans accounted under ASC 310-20 (loans with revolving feature and/or acquired at a premium). At September 30, 2014 and December 31 2013, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to \$273.6 million and \$66.5 million, respectively.

Covered loans and loans acquired in the BBVAPR Acquisition with credit deterioration are considered to be performing due to the application of the accretion method under ASC 310-30, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses. Credit related decreases in expected cash flows, compared to those previously forecasted are recognized by recording a provision for credit losses on non-covered loans when it is probable that all cash flows expected at acquisition will not be collected.

At September 30, 2014, the Company’s non-performing assets increased by 13.4% to \$176.1 million (3.07% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) from \$155.3 million (2.61% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) at December 31, 2013. The Company does not expect non-performing loans to result in significantly higher losses as most are well-collateralized with adequate loan-to-value ratios. At September 30, 2014, the allowance for non-covered originated loan and lease losses to non-performing loans coverage ratio was 50.50% (61.52% at December 31, 2013).

The Company follows a conservative residential mortgage lending policy, with more than 90% of its residential mortgage portfolio consisting of fixed-rate, fully amortizing, fully documented loans that do not have the level of risk associated with subprime loans offered by certain major U.S. mortgage loan originators. Furthermore, the Company has never been active in negative amortization loans or adjustable rate mortgage loans, including those with teaser rates.

The following items comprise non-performing assets:

- Originated and other loans held for investment:

Mortgage loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 18 months or more past due. At September 30, 2014, the Company's originated non-performing mortgage loans totaled \$67.0 million (64.6% of the Company's non-performing loans), a 31.3% increase from \$51.1 million (59.4% of the Company's non-performing loans) at December 31, 2013. Non-performing loans in this category are primarily residential mortgage loans.

Commercial loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At September 30, 2014, the Company's originated non-performing commercial loans amounted to \$22.3 million (21.5% of the Company's non-performing loans), a 2.4% decrease from \$22.8 million at December 31, 2013 (26.5% of the Company's non-performing loans). Most of this portfolio is collateralized by commercial real estate properties.

Consumer loans — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days in personal loans and 180 days in credit cards and personal lines of credit. At September 30, 2014, the Company's originated non-performing consumer loans amounted to \$1.2 million (1.2% of the Company's total non-performing loans), a 54.2% increase from \$805 thousand at December 31, 2013 (0.9% of the Company's total non-performing loans).

Auto loans and leases — are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At September 30, 2014, the Company's originated non-performing auto loans and leases amounted to \$9.0 million (8.7% of the Company's total non-performing loans), an increase of 77.0% from \$5.1 million at December 31, 2013 (5.9% of the Company's total non-performing loans).

- Acquired loans accounted for under ASC 310-20 (loans with revolving features and/or acquired at premium):

Commercial revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At September 30, 2014, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to \$1.0 million (1.0% of the Company's non-performing loans), a 59.9% decrease from \$2.5 million at December 31, 2013 (3.0% of the Company's non-performing loans).

Consumer revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 180 days. At September 30, 2014, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled \$1.4 million (1.4% of the Company's non-performing loans), a 36.8% decrease from \$2.2 million at December 31, 2013 (2.6% of the Company's non-performing loans).

Auto loans acquired at premium - are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At September 30, 2014, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled \$1.7 million (1.7% of the Company's non-performing loans), an 8.6% increase from \$1.6 million at December 31, 2013 (1.9% of the Company's non-performing loans).

- Foreclosed real estate is initially recorded at the lower of the related loan balance or fair value less the estimated cost to sell as of the date of foreclosure. Any excess of the loan balance over the fair value of the property is charged against the allowance for loan and lease losses. Subsequently, any excess of the carrying value over the estimated fair value less disposition cost is charged to operations. Net losses on foreclosed real estate and other repossessed assets for the quarter and nine month period ended September 30, 2014, amounted to \$5.3 million and \$13.7 million, respectively, compared to \$3.6 million and \$7.1 million for the same periods in 2013.

The Company has two mortgage loan modification programs. These are the Loss Mitigation Program and the Non-traditional Mortgage Loan Program. Both programs are intended to help responsible homeowners to remain in their homes and avoid foreclosure, while also reducing the Company's losses on non-performing mortgage loans.

The Loss Mitigation Program helps mortgage borrowers who are or will become financially unable to meet the current or scheduled mortgage payments. Loans that qualify under this program are those guaranteed by FHA, VA, RHS, "Banco de la Vivienda de Puerto Rico," conventional loans guaranteed by Mortgage Guaranty Insurance Corporation (MGIC), conventional loans sold to FNMA and FHLMC, and conventional loans retained by the Company. The program offers diversified alternatives such as regular or reduced payment plans, payment moratorium, mortgage loan modification, partial claims (only FHA), short sale, and payment in lieu of foreclosure.

The Non-traditional Mortgage Loan Program is for non-traditional mortgages, including balloon payment, interest only / interest first, variable interest rate, adjustable interest rate and other qualified loans. Non-traditional mortgage loan portfolios are segregated into the following categories: performing loans that meet secondary market requirement and are refinanced under the credit underwriting guidelines of FHA/VA/FNMA/ FHLMC, and performing loans not meeting secondary market guidelines processed by the Company's current credit and underwriting guidelines. The Company achieved an affordable and sustainable monthly payment by taking specific, sequential, and necessary steps such as reducing the interest rate, extending the loan term, capitalizing arrearages, deferring the payment of principal or, if the borrower qualifies, refinancing the loan.

There may not be a foreclosure sale scheduled within 60 days prior to a loan modification under any such programs. This requirement does not apply to loans where the foreclosure process has been stopped by the Company. In order to apply for any of the loan modification programs, the borrower may not be in active bankruptcy or have been discharged from Chapter 7 bankruptcy since the

loan was originated. Loans in these programs are to be evaluated by management for troubled-debt restructuring classification if the Company grants a concession for legal or economic reasons due to the debtor's financial difficulties.

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY										
	Quarter Ended September 30,				Variance	Nine-Month Period Ended September 30,				Variance
	2014		2013		%	2014		2013		%
	(Dollars in thousands)									
<u>Non-covered loans</u>										
<u>Originated and other loans:</u>										
Balance at beginning of period	\$ 50,638		\$ 45,701		10.8%	\$ 49,081		\$ 39,921		22.9%
Provision for non-covered loan and lease losses	8,569		6,930		23.7%	21,625		48,645		-55.5%
Charge-offs	(11,622)		(5,762)		101.7%	(27,621)		(42,282)		-34.7%
Recoveries	2,694		704		282.7%	7,194		1,289		458.1%
	50,279		47,573		5.7%	50,279		47,573		5.7%
<u>Acquired loans accounted for under ASC 310-20:</u>										
Balance at beginning of period	\$ 3,444		\$ 924		100.0%	\$ 2,354		\$ -		100.0%
Provision for non-covered loan and lease losses	3,731		2,970		25.6%	10,542		6,698		57.4%
Charge-offs	(3,408)		(2,831)		20.4%	(10,368)		(8,595)		20.6%
Recoveries	693		978		-29.1%	1,932		3,938		-50.9%
	4,460		2,041		118.5%	4,460		2,041		118.5%
<u>Acquired loans accounted for under ASC</u>										

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310-30:													
Balance at beginning of period	\$	6,278	\$	-	100.0%	\$	2,863	\$	-	100.0%			
Provision for non-covered loan and lease losses		3,842		-	100.0%		7,257		-	100.0%			
		10,120		-	100.0%		10,120		-	100.0%			
Total non-covered loans balance at end of period	\$	64,859	\$	49,614	30.7%	\$	64,859	\$	49,614	30.7%			
Allowance for loans and lease losses on originated and other loans to:													
Total originated loans		1.84%		2.03%	-9.2%		1.84%		2.03%	-9.2%			
Non-performing originated loans		50.50%		59.78%	-15.5%		50.50%		59.78%	-15.5%			
Allowance for loans and lease losses on acquired loans accounted for under ASC 310-20 to:													
Total acquired loans accounted for under ASC 310-20		1.56%		0.39%	100.0%		1.56%		0.39%	100.0%			
Non-performing acquired loans accounted for under ASC 310-20		107.03%		70.33%	52.2%		107.03%		70.33%	52.2%			
Covered loans													

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Balance at beginning of period	\$	59,515	\$	53,992	10.2%	\$	52,729	\$	54,124	-2.6%
Provision for covered loan and lease losses, net		1,115		3,074	-63.7%		4,339		4,956	-12.4%
FDIC shared-loss portion on (provision for) recapture of loan and lease losses		1,597		(511)	-412.5%		5,159		(2,525)	-304.3%
Balance at end of period	\$	62,227	\$	56,555	10.0%	\$	62,227	\$	56,555	10.0%

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TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN						
		September 30, 2014		December 31, 2013		Variance %
	(Dollars in thousands)					
Originated and other loans held for investment						
Allowance balance:						
Mortgage	\$	18,872		\$	19,937	-5.3%
Commercial		9,112			14,897	-38.8%
Consumer		8,709			6,006	45.0%
Auto and leasing		13,404			7,866	70.4%
Unallocated allowance		182			375	-51.5%
Total allowance balance	\$	50,279		\$	49,081	2.4%
Allowance composition:						
Mortgage		37.53%			40.62%	-7.6%
Commercial		18.12%			30.35%	-40.3%
Consumer		17.32%			12.24%	41.5%
Auto and leasing		26.66%			16.03%	66.3%
Unallocated allowance		0.37%			0.76%	-51.3%
		100.00%			100.00%	
Allowance coverage ratio at end of period applicable to:						
Mortgage		2.39%			2.60%	-8.3%
Commercial		0.75%			1.32%	-43.3%
Consumer		4.95%			4.70%	5.3%
Auto and leasing		2.47%			2.07%	19.2%
Unallocated allowance to total originated loans		0.01%			0.02%	-57.3%
Total allowance to total originated loans		1.84%			2.04%	-9.8%
Allowance coverage ratio to non-performing loans:						
Mortgage		28.16%			39.05%	-27.9%
Commercial		40.88%			65.25%	-37.4%
Consumer		701.77%			746.09%	-5.9%
Auto and leasing		148.80%			154.57%	-3.7%
Total		50.50%			61.52%	-17.9%
Acquired loans accounted for under ASC 310-20						
Allowance balance:						
Commercial	\$	270		\$	926	-70.8%
Consumer		1,031			-	100.0%

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Auto		3,159			1,428		121.2%
Total allowance balance	\$	4,460		\$	2,354		89.5%
Allowance composition:							
Commercial		6.05%			39.34%		-84.6%
Consumer		23.12%			0.00%		100.0%
Auto		70.83%			60.66%		16.8%
		100.00%			100.00%		
Allowance coverage ratio at end of period applicable to:							
Commercial		1.00%			1.19%		-16.1%
Consumer		2.18%			0.00%		100.0%
Auto		1.50%			0.47%		216.5%
Total allowance to total acquired loans		1.56%			0.54%		189.4%
Allowance coverage ratio to non-performing loans:							
Commercial		26.50%			36.41%		-27.2%
Consumer		73.54%			0.00%		100.0%
Auto		180.93%			88.81%		103.7%
Total		107.03%			36.95%		189.6%

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TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN (CONTINUED)							
		September 30, 2014		December 31, 2013		Variance %	
	(Dollars in thousands)						
Acquired loans accounted for under ASC 310-30							
Allowance balance:							
Commercial	\$	10,115		\$	1,713	490.5%	
Consumer		5			418	100.0%	
Auto		-			732	-100.0%	
Total allowance balance	\$	10,120		\$	2,863	253.5%	
Allowance composition:							
Commercial		99.95%			59.83%	67.1%	
Consumer		0.05%			14.60%	100.0%	
Auto		0.00%			25.57%	-100.0%	
		100.00%			100.00%		

TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30									
	Quarter Ended September 30,			Variance	Nine-Month Period Ended September 30,			Variance	
	2014	2013		%	2014	2013	%		
(Dollar in thousands)									
Originated and other loans and leases:									
Mortgage									
Charge-offs	\$ (1,563)	\$ (1,758)		-11.1%	\$ (3,764)	\$ (33,466)		-88.8%	
Recoveries	138	-		100.0%	374	-		100.0%	
Total	(1,425)	(1,758)		-18.9%	(3,390)	(33,466)		-89.9%	
Commercial									
Charge-offs	(1,081)	(2,234)		-51.6%	(2,043)	(5,678)		-64.0%	
Recoveries	56	28		100.0%	269	290		-7.2%	
Total	(1,025)	(2,206)		-53.5%	(1,774)	(5,388)		-67.1%	
Consumer									
Charge-offs	(1,585)	(465)		240.9%	(3,820)	(1,034)		269.4%	
Recoveries	66	37		78.4%	457	145		215.2%	
Total	(1,519)	(428)		254.9%	(3,363)	(889)		278.3%	
Auto									
Charge-offs	(7,393)	(1,305)		466.5%	(17,994)	(2,105)		754.8%	
Recoveries	2,434	639		280.9%	6,094	855		612.7%	
Total	(4,959)	(666)		644.6%	(11,900)	(1,250)		852.0%	
Net credit losses									
Total charge-offs	(11,622)	(5,762)		101.7%	(27,621)	(42,283)		-34.7%	
Total recoveries	2,694	704		282.7%	7,194	1,290		457.7%	
Total	\$ (8,928)	\$ (5,058)		76.5%	\$ (20,427)	\$ (40,993)		-50.2%	
Net credit losses to average loans outstanding:									
Mortgage	0.72%	0.92%		-21.7%	0.57%	5.70%		-90.0%	
Commercial	0.34%	1.04%		-67.3%	0.20%	1.88%		-89.4%	
Consumer	3.77%	1.75%		115.4%	3.08%	1.73%		78.0%	
Auto	3.73%	0.98%		280.6%	3.32%	1.15%		188.7%	
Total	1.34%	1.02%		31.4%	1.05%	3.96%		-73.5%	
Recoveries to charge-offs	23.18%	12.22%		89.7%	26.05%	3.05%		753.7%	

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Average originated loans:										
Mortgage	\$	789,204	\$	763,929	3.3%	\$	786,434	\$	783,172	0.4%
Commercial		1,190,607		852,395	39.7%		1,174,220		382,654	206.9%
Consumer		161,147		97,738	64.9%		145,659		68,480	112.7%
Auto		531,914		271,727	95.8%		478,592		144,995	230.1%
Total	\$	2,672,872	\$	1,985,789	34.6%	\$	2,584,905	\$	1,379,301	87.4%

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TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30 (CONTINUED)												
	Quarter Ended September 30,				Variance	Nine-Month Period Ended September 30,				Variance		
	2014		2013			2014		2013				
(Dollars in thousands)												
Acquired loans accounted for under ASC 310-20:												
Commercial												
Charge-offs	\$	(228)	\$	-	100.0%	\$	(512)	\$	(25)		1948.0%	
Recoveries		35		6	483.3%		65		6		983.3%	
Total		(193)		6	-3316.7%		(447)		(19)		2252.6%	
Consumer												
Charge-offs		(1,432)		(1,233)	16.1%		(5,442)		(3,847)		41.5%	
Recoveries		139		88	58.0%		363		932		-61.1%	
Total		(1,293)		(1,145)	12.9%		(5,079)		(2,915)		74.2%	
Auto												
Charge-offs		(1,747)		(1,598)	9.3%		(4,413)		(4,723)		-6.6%	
Recoveries		519		884	-41.3%		1,504		3,000		-49.9%	
Total		(1,228)		(714)	72.0%		(2,909)		(1,723)		68.8%	
Net credit losses												
Total charge-offs		(3,407)		(2,831)	20.3%		(10,367)		(8,595)		20.6%	
Total recoveries		693		978	-29.1%		1,932		3,938		-50.9%	
Total	\$	(2,714)	\$	(1,853)	46.5%	\$	(8,435)	\$	(4,657)		81.1%	
Net credit losses to average loans outstanding:												
Commercial		7.26%		-0.01%	-62125.6%		1.66%		0.01%		28946.2%	
Consumer		7.88%		6.30%	25.1%		10.05%		4.93%		103.7%	
Auto		2.21%		0.81%	171.6%		1.54%		0.53%		190.1%	
Total		3.64%		1.18%	208.6%		3.17%		0.65%		387.4%	
Recoveries to charge-offs		20.34%		34.55%	-41.1%		18.64%		45.82%		-59.3%	
Average loans accounted for under ASC 310-20:												

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Commercial	\$	10,634	\$	205,051		-94.8%	\$	35,983	\$	444,255		-91.9%
Consumer		65,639		72,726		-9.7%		67,399		78,803		-14.5%
Auto		221,989		350,587		-36.7%		251,808		432,673		-41.8%
Total	\$	298,262	\$	628,364		-52.5%	\$	355,190	\$	955,731		-62.8%

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TABLE 11 — NON-PERFORMING ASSETS						
	September 30,		December 31,		Variance	
	2014		2013		(%)	
(Dollars in thousands)						
Non-performing assets:						
Non-accruing loans						
Troubled-Debt Restructuring loans	\$	26,558	\$	26,847		-1.1%
Other loans		70,490		56,430		24.9%
Accruing loans						
Troubled-Debt Restructuring loans		3,844		1,898		102.5%
Other loans		2,842		977		190.9%
Total non-performing loans	\$	103,734	\$	86,152		20.4%
Foreclosed real estate not covered under the shared-loss agreements with the FDIC		50,750		56,815		-10.7%
Other repossessed assets		21,576		12,314		75.2%
	\$	176,060	\$	155,281		13.4%
Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)		3.07%		2.61%		17.6%
Non-performing assets to total capital		18.93%		17.55%		7.9%

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
(In thousands)								
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	\$	833	\$	560	\$	1,389	\$	1,371

TABLE 12 — NON-PERFORMING LOANS							
	September 30,		December 31,		Variance		
	2014		2013		%		
(Dollars in thousands)							
Non-performing loans:							
Originated and other loans held for investment							
Mortgage	\$	67,028	\$	51,058		31.3%	
Commercial		22,290		22,830		-2.4%	
Consumer		1,241		805		54.2%	
Auto and leasing		9,008		5,089		77.0%	
		99,567		79,782		24.8%	
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)							
Commercial		1,019		2,543		-59.9%	
Consumer		1,402		2,219		-36.8%	
Auto		1,746		1,608		8.6%	
		4,167		6,370		-34.6%	
Total	\$	103,734	\$	86,152		20.4%	
Non-performing loans composition percentages:							
Originated loans							
Mortgage		64.6%		59.4%			
Commercial		21.5%		26.5%			
Consumer		1.2%		0.9%			
Auto and leasing		8.7%		5.9%			
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)							
Commercial		1.0%		3.0%			
Consumer		1.4%		2.6%			
Auto		1.7%		1.9%			
Total		100.0%		100.0%			
Non-performing loans to:							
Total loans, excluding covered loans and loans accounted for		3.44%		3.04%		13.1%	

under ASC 310-30 (including those by analogy)							
Total assets, excluding covered assets and loans accounted for							
under ASC 310-30 (including those by analogy)		1.81%			1.45%		24.8%
Total capital		11.15%			9.74%		14.6%
Non-performing loans with partial charge-offs to:							
Total loans, excluding covered loans and loans accounted for							
under ASC 310-30 (including those by analogy)		1.02%			0.83%		22.9%
Non-performing loans		29.51%			27.35%		7.9%
Other non-performing loans ratios:							
Charge-off rate on non-performing loans to non-performing loans							
on which charge-offs have been taken		54.35%			56.05%		-3.0%
Allowance for loan and lease losses to non-performing							
loans on which no charge-offs have been taken		74.86%			82.18%		-8.9%

TABLE 13 - LIABILITIES SUMMARY AND COMPOSITION						
		September 30,		December 31,		
		2014		2013		Variance %
(Dollars in thousands)						
Deposits:						
Non-interest bearing deposits	\$	734,449		\$ 744,328		-1.3%
NOW accounts		1,397,600		1,393,645		0.3%
Savings and money market accounts		1,263,114		1,194,566		5.7%
Certificates of deposit		1,672,708		2,048,040		-18.3%
Total deposits		5,067,871		5,380,579		-5.8%
Accrued interest payable		1,304		2,686		-51.5%
Total deposits and accrued interest payable		5,069,175		5,383,265		-5.8%
Borrowings:						
Securities sold under agreements to repurchase		1,012,228		1,267,618		-20.1%
Advances from FHLB		334,787		336,143		-0.4%
Other term notes		3,872		3,663		5.7%
Subordinated capital notes		101,190		100,010		1.2%
Total borrowings		1,452,077		1,707,434		-15.0%
Total deposits and borrowings		6,521,252		7,090,699		-8.0%
Other Liabilities:						
Securities purchased but not yet received		30,057		-		100.0%
Derivative liabilities		11,414		14,937		-23.6%
Acceptances outstanding		21,077		23,042		-8.5%
Other liabilities		159,541		144,424		10.5%
Total liabilities	\$	6,743,341		7,273,102	\$	-7.3%
Deposits portfolio composition percentages:						
Non-interest bearing deposits		14.5%		13.8%		
NOW accounts		27.6%		25.9%		
Savings and money market accounts		24.9%		22.2%		
Certificates of deposit		33.0%		38.1%		
		100.0%		100.0%		
Borrowings portfolio composition percentages:						
Securities sold under agreements to repurchase		69.7%		74.2%		

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Advances from FHLB		23.1%			19.7%		
Other term notes		0.3%			0.2%		
Subordinated capital notes		6.9%			5.9%		
		100.0%			100.0%		
Securities sold under agreements to repurchase (excluding accrued interest)							
Amount outstanding at period-end	\$	1,010,000		\$	1,265,000		
Daily average outstanding balance	\$	1,058,378		\$	1,353,011		
Maximum outstanding balance at any month-end	\$	1,149,167		\$	1,552,269		

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Liabilities and Funding Sources

As shown in Table 13 above, at September 30, 2014, the Company's total liabilities were \$6.743 billion, 7.3% less than the \$7.273 billion reported at December 31, 2013. Deposits and borrowings, the Company's funding sources, amounted to \$6.521 billion at September 30, 2014 versus \$7.091 billion at December 31, 2013, an 8.0% decrease.

At September 30, 2014, deposits represented 78% and borrowings represented 22% of interest-bearing liabilities, compared to 76% and 24%, respectively, at December 31, 2013. At September 30, 2014, deposits, the largest category of the Company's interest-bearing liabilities, were \$5.069 billion, down 5.8% from \$5.383 billion at December 31, 2013. Non-maturing deposit balances increased 1.09%, to \$3.395 billion, while higher-priced time deposits declined 18.3% as part of efforts to reduce the cost of deposits, which averaged 0.66% as of September 30, 2014 compared to 0.73% at December 31, 2013.

Borrowings consist mainly of repurchase agreements, FHLB-NY advances, subordinated capital notes, and short-term borrowings. At September 30, 2014, borrowings amounted to \$1.452 billion, 15.0% lower than the \$1.707 billion reported at December 31, 2013. Repurchase agreements as of September 30, 2014 decreased \$255.4 million to \$1.012 billion from \$1.268 billion at December 31, 2013, as the Company used available cash to pay off repurchase agreements at maturity.

As a member of the FHLB-NY, the Bank can obtain advances from the FHLB-NY secured by the FHLB-NY stock owned by the Bank as well as by certain of the Bank's mortgage loans and investment securities. Advances from the FHLB-NY amounted to \$334.8 million as of September 30, 2014 and \$336.1 million as of December 31, 2013. These advances mature from October 2014 through July 2020.

Stockholders' Equity

At September 30, 2014, the Company's total stockholders' equity was \$930.0 million, a 5.1% increase when compared to \$884.9 million at December 31, 2013. Increase in stockholders' equity was mainly driven by the income for the nine-month period ended September 30, 2014, partially offset by an increase in treasury stock, as a result of the 707,500 repurchased shares of outstanding common stock during the first and third quarter of 2014.

From December 31, 2013 to September 30, 2014, tangible common equity to total assets increased to 8.70% from 7.61%, Tier 1 Leverage Capital Ratio increased to 10.51% from 9.11%, Tier 1 Risk-Based Capital Ratio increased to 15.96% from 14.35%, and Total Risk-Based Capital Ratio increased to 17.50% from 16.14%.

Taking into consideration the strong capital position, in the fourth quarter of 2013, the Company increased the cash dividend per common share to \$0.08 from the dividend of \$0.06 paid in previous quarters in 2013.

The following are the consolidated capital ratios of the Company at September 30, 2014 and December 31, 2013:

TABLE 14 — CAPITAL, DIVIDENDS AND STOCK DATA						
		September 30,		December 31,		Variance
		2014		2013		%
(Dollars in thousands, except per share data)						
Capital data:						
Stockholders' equity	\$	929,998		\$	884,913	5.1%
Regulatory Capital Ratios data:						
Leverage capital ratio		10.51%			9.06%	16.0%
Minimum leverage capital ratio required		4.00%			4.00%	
Actual tier 1 capital	\$	782,797		\$	736,106	6.3%
Minimum tier 1 capital required	\$	297,984		\$	324,910	-8.3%
Excess over regulatory requirement	\$	484,814		\$	411,197	17.9%
Tier 1 risk-based capital ratio		15.96%			14.38%	11.0%
Minimum tier 1 risk-based capital ratio required		4.00%			4.00%	
Actual tier 1 risk-based capital	\$	782,797		\$	736,106	6.3%
Minimum tier 1 risk-based capital required	\$	196,233		\$	204,757	-4.2%
Excess over regulatory requirement	\$	586,565		\$	531,350	10.4%
Risk-weighted assets	\$	4,905,814		\$	5,118,927	-4.2%
Total risk-based capital ratio		17.50%			16.16%	8.3%
Minimum total risk-based capital ratio required		8.00%			8.00%	
Actual total risk-based capital	\$	858,356		\$	827,459	3.7%
Minimum total risk-based capital required	\$	392,465		\$	409,514	-4.2%
Excess over regulatory requirement	\$	465,891		\$	417,946	11.5%
Risk-weighted assets	\$	4,905,814		\$	5,118,927	-4.2%
Tangible common equity to total assets		8.70%			7.61%	14.3%
Tangible common equity to risk-weighted assets		13.61%			12.13%	12.2%
Total equity to total assets		12.12%			10.85%	11.7%
Total equity to risk-weighted assets		18.96%			17.29%	9.7%
Tier 1 common equity to risk-weighted assets		11.86%			10.46%	13.4%
Tier 1 common equity capital	\$	581,927		\$	535,237	8.7%
Stock data:						

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Outstanding common shares		45,059,988			45,676,922		-1.4%
Book value per common share	\$	16.96		\$	15.74		7.8%
Tangible book value per common share	\$	14.82		\$	13.60		9.0%
Market price at end of period	\$	14.98		\$	17.34		-13.6%
Market capitalization at end of period	\$	674,999		\$	792,038		-14.8%

	Nine-Month Period Ended September 30,				Variance
	2014		2013		%
Common dividend data:					
Cash dividends declared	\$	10,822	\$	8,219	31.7%
Cash dividends declared per share	\$	0.24	\$	0.18	33.3%
Payout ratio		21.05%		12.95%	62.6%
Dividend yield		2.14%		1.48%	44.1%

The following table presents a reconciliation of the Company's total stockholders' equity to tangible common equity and total assets to tangible assets at September 30, 2014 and December 31, 2013:

	September 30,		December 31,	
	2014		2013	
	(In thousands, except share or per share information)			
Total stockholders' equity	\$	929,998	\$	884,913
Preferred stock		(176,000)		(176,000)
Preferred stock issuance costs		10,130		10,130
Goodwill		(86,069)		(86,069)
Core deposit intangible		(6,798)		(7,804)
Customer relationship intangible		(3,487)		(4,108)
Total tangible common equity	\$	667,774	\$	621,062
Total assets		7,673,339		8,158,015
Goodwill		(86,069)		(86,069)
Core deposit intangible		(6,798)		(7,804)
Customer relationship intangible		(3,487)		(4,108)
Total tangible assets	\$	7,576,985	\$	8,060,034
Tangible common equity to tangible assets		8.81%		7.71%
Common shares outstanding at end of period		45,059,988		45,676,922
Tangible book value per common share	\$	14.82	\$	13.60

The tangible common equity ratio and tangible book value per common share are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Company calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

The Tier 1 common equity to risk-weighted assets ratio is another non-GAAP measure. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Company's capital position. In connection with the 2009 Supervisory Capital Assessment Program, the Federal Reserve Board supplemented its assessment of the capital adequacy of certain large bank holding companies based on a variation of Tier 1 capital, known as Tier 1 common equity.

Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Company has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

The table below presents a reconciliation of the Company's total common equity (GAAP) at September 30, 2014 and December 31, 2013 to Tier 1 common equity (non-GAAP):

	September 30,		December 31,	
	2014		2013	
	(Dollars in thousands)			
Common stockholders' equity	\$	764,128	\$	719,043
Unrealized gains on available-for-sale securities, net of income tax		(20,318)		(11,434)
Unrealized losses on cash flow hedges, net of income tax		6,907		8,243
Disallowed deferred tax assets		(71,037)		(81,254)
Disallowed servicing assets		(1,399)		(1,380)
Intangible assets:				
Goodwill		(86,069)		(86,069)
Other intangible assets		(10,285)		(11,912)
Total Tier 1 common equity	\$	581,927	\$	535,238
Tier 1 common equity to risk-weighted assets		11.86%		10.46%

The following table presents the Company's capital adequacy information at September 30, 2014 and December 31, 2013:

	September 30,		December 31,	
	2014		2013	
	(Dollars in thousands)			
Risk-based capital:				
Tier 1 capital	\$	782,797	\$	736,106
Supplementary (Tier 2) capital		75,559		91,353
Total risk-based capital	\$	858,356	\$	827,459
Risk-weighted assets:				
Balance sheet items	\$	4,738,053	\$	4,953,911
Off-balance sheet items		167,761		165,016
Total risk-weighted assets	\$	4,905,814	\$	5,118,927
Ratios:				
Tier 1 capital (minimum required - 4%)		15.96%		14.38%
Total capital (minimum required - 8%)		17.50%		16.16%
Leverage ratio		10.51%		9.06%
Equity to assets		12.12%		10.85%
Tangible common equity to assets		8.70%		7.61%

The Federal Reserve Board has risk-based capital guidelines for bank holding companies. Under the guidelines, the minimum ratio of qualifying total capital to risk-weighted assets is 8%. At least half of the total capital is to be comprised of qualifying common stockholders' equity, qualifying noncumulative perpetual preferred stock (including related surplus), minority interests related to qualifying common or noncumulative perpetual preferred stock directly issued by a consolidated U.S. depository institution or foreign bank subsidiary, and restricted core capital elements (collectively, "Tier 1 Capital"). Banking organizations are expected to maintain at least 50% of their Tier 1 Capital as common equity. Except for certain debt or equity instruments issued on or after May 19, 2010, which are excluded from Tier 1 Capital, not more than 25% of qualifying Tier 1 Capital may consist of qualifying cumulative perpetual preferred stock, trust preferred securities or other so-called restricted core capital elements. "Tier 2 Capital" may consist, subject to certain limitations, of allowance for loan and lease losses; perpetual preferred stock and related surplus; hybrid capital instruments, perpetual debt, and mandatory convertible debt securities; term subordinated debt and intermediate-term preferred stock, including related surplus; and unrealized holding gains on equity securities. "Tier 3 Capital" consists of qualifying unsecured subordinated debt. The sum of Tier 2 and Tier 3 Capital may not exceed the amount of Tier 1 Capital.

Pursuant to the Dodd-Frank Act, federal banking agencies have adopted new capital rules that became effective January 1, 2014 for advanced approaches banking organizations (i.e., those with consolidated assets greater than \$250 billion or consolidated on-balance sheet foreign exposures of at least \$10 billion) and will become effective on January 1, 2015 for all other covered organizations (subject to certain phase-in periods through January 1, 2019) and that will replace their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules.

The new capital rules provide certain changes to the prompt corrective action regulations adopted by the agencies under Section 38 of the FDIA, as amended by FDICIA. These regulations are designed to place restrictions on U.S. insured depository institutions if their capital levels begin to show signs of weakness. The five capital categories established by the agencies under their prompt corrective action framework are: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” As of September 30, 2014 and December 31, 2013, the Company is “well capitalized” for regulatory purposes.

The new capital rules expand such categories by introducing a common equity tier 1 capital requirement for all depository institutions, revising the minimum risk-based capital ratios and, beginning in 2018, the proposed supplementary leverage requirement for advanced approaches banking organizations. The common equity tier 1 capital ratio is a new minimum requirement designed to ensure that banking organizations hold sufficient high-quality regulatory capital that is available to absorb losses on a going-concern basis. The Company believes that it will continue to meet the “well capitalized” category after the implementation of new capital rules on January 1, 2015.

The Bank is considered “well capitalized” under the regulatory framework for prompt corrective action. The table below shows the Bank’s regulatory capital ratios at September 30, 2014, and December 31, 2013:

	September 30 ,		December 31,		Variance
	2014		2013		%
(Dollars in thousands)					
Oriental Bank Regulatory Capital Ratios:					
Total Tier 1 Capital to Total Assets		9.99%		8.54%	17.0%
Actual tier 1 capital	\$	738,482	\$	688,350	7.3%
Minimum capital requirement (4%)	\$	295,673	\$	322,395	-8.3%
Minimum to be well capitalized (5%)	\$	369,592	\$	402,993	-8.3%
Tier 1 Capital to Risk-Weighted Assets		15.12%		13.51%	11.9%
Actual tier 1 risk-based capital	\$	738,482	\$	688,350	7.3%
Minimum capital requirement (4%)	\$	195,322	\$	203,819	-4.2%
Minimum to be well capitalized (6%)	\$	292,983	\$	305,728	-4.2%

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Total Capital to Risk-Weighted Assets		16.66%			15.30%		8.9%
Actual total risk-based capital	\$	813,760		\$	779,413		4.4%
Minimum capital requirement (8%)	\$	390,644		\$	407,637		-4.2%
Minimum to be well capitalized (10%)	\$	488,305		\$	509,547		-4.2%

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The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At September 30, 2014 and December 31, 2013, the Company's market capitalization for its outstanding common stock was \$675.0 million (\$14.98 per share) and \$792.0 million (\$17.34 per share), respectively.

The following table provides the high and low prices and dividends per share of the Company's common stock for each quarter of the last two calendar years:

							Cash
	Price				Dividend		
	High		Low		Per share		
2014							
September 30, 2014	\$	18.89	\$	14.92	\$		0.08
June 30, 2014	\$	18.88	\$	16.38	\$		0.08
March 31, 2014	\$	17.54	\$	14.30	\$		0.08
2013							
December 31, 2013	\$	17.34	\$	14.74	\$		0.08
September 30, 2013	\$	18.97	\$	16.13	\$		0.06
June 30, 2013	\$	18.11	\$	14.26	\$		0.06
March 31, 2013	\$	15.83	\$	13.85	\$		0.06
2012							
December 31, 2012	\$	13.35	\$	9.98	\$		0.06
September 30, 2012	\$	11.49	\$	10.02	\$		0.06
June 30, 2012	\$	12.37	\$	9.87	\$		0.06
March 31, 2012	\$	12.69	\$	11.25	\$		0.06

Under the Company's current stock repurchase program it is authorized to purchase in the open market up to \$70 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by the Company as treasury shares. During the nine-month period ended September 30, 2014, the Company purchased 707,500 shares under this program for a total of \$10.4 million, at an average price of \$14.66 per share. There were no repurchases during 2013. The number of shares that may yet be purchased under the \$70 million program is estimated at 1,548,481 and was calculated by dividing the remaining balance of \$23.2 million the closing price of the Company's common stock at September 30, 2014 (\$14.98).

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Background

The Company's risk management policies are established by its Board of Directors (the "Board") with the assistance of the Board Risk and Compliance Committee formed during the second quarter of 2014. Such policies are implemented by management through the adoption of a risk management program, which is overseen and monitored by the Chief Risk Officer and the Executive Risk and Compliance Committee and the Board Risk and Compliance Committee. The Company has continued to refine and enhance its risk management program by strengthening policies, processes and procedures necessary to maintain effective risk management.

All aspects of the Company's business activities are susceptible to risk. Consequently, risk identification and monitoring are essential to risk management. As more fully discussed below, the Company's primary risk exposures include, market, interest rate, credit, liquidity, operational and concentration risks.

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in market rates or prices, such as interest rates or prices. The Company evaluates market risk together with interest rate risk. The Company's financial results and capital levels are constantly exposed to market risk. The Board and management are primarily responsible for ensuring that the market risk assumed by the Company complies with the guidelines established by policies approved by the Board. The Board has delegated the management of this risk to the Asset/Liability Management Committee ("ALCO") which is composed of certain executive officers from the business, treasury and finance areas. One of ALCO's primary goals is to ensure that the market risk assumed by the Company is within the parameters established in such policies.

Interest Rate Risk

Interest rate risk is the exposure of the Company's earnings or capital to adverse movements in interest rates. It is a predominant market risk in terms of its potential impact on earnings. The Company manages its asset/liability position in order to limit the effects of changes in interest rates on net interest income. ALCO oversees interest rate risk, liquidity management and other related matters.

In discharging its responsibilities, ALCO examines current and expected conditions in global financial markets, competition and prevailing rates in the local deposit market, liquidity, unrealized gains and losses in securities, recent

or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps, and any tax or regulatory issues which may be pertinent to these areas.

On a monthly basis, the Company performs a net interest income simulation analysis on a consolidated basis to estimate the potential change in future earnings from projected changes in interest rates. These simulations are carried out over a one-year time horizon, assuming certain gradual upward and downward interest rate movements, achieved during a twelve-month period. Simulations are carried out in two ways:

- (i) using a static balance sheet as the Company had on the simulation date, and

- (ii) using a dynamic balance sheet based on recent growth patterns and business strategies.

The balance sheet is divided into groups of assets and liabilities detailed by maturity or re-pricing and their corresponding interest yields and costs. As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and costs, the possible exercise of options, changes in prepayment rates, deposits decay and other factors which may be important in projecting the future growth of net interest income.

The Company uses a software application to project future movements in the Company's balance sheet and income statement. The starting point of the projections generally corresponds to the actual values of the balance sheet on the date of the simulations.

These simulations are complex, and use many assumptions that are intended to reflect the general behavior of the Company over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates. The following table presents the results of the simulations at September 30, 2014 for the most likely scenario, assuming a one-year time horizon:

	Net Interest Income Risk (one year projection)							
	Static Balance Sheet				Growing Simulation			
	Amount		Percent		Amount		Percent	
	Change		Change		Change		Change	
Change in interest rate	(Dollars in thousands)							
+ 200 Basis points	\$	7,640		2.13%	\$	7,045		1.96%
+ 100 Basis points	\$	4,150		1.16%	\$	3,883		1.08%
- 50 Basis points	\$	(437)		-0.12%	\$	(339)		-0.09%

The impact of -100 and -200 basis point reductions in interest rates is not presented in view of current level of the federal funds rate and other short-term interest rates.

Future net interest income could be affected by the Company's investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed securities, and any structured repurchase agreements and advances from the FHLB-NY in which it may enter into from time to time. As part of the strategy to limit the interest rate risk and reduce the re-pricing gaps of the Company's assets and liabilities, the Company has executed certain transactions which include extending the maturity and the re-pricing frequency of the liabilities to longer terms reducing the amounts of its structured repurchase agreements and entering into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings that only consist of advances from the FHLB-NY as of September 30, 2014.

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. Also, for some fixed-rate assets or liabilities, the effect of this variability in earnings is expected to be substantially offset by the Company's gains and losses on the derivative instruments that are linked to the forecasted cash flows of these hedged assets and liabilities. The Company considers its strategic use of derivatives to be a prudent method of managing interest-rate sensitivity as it reduces the exposure of earnings and the market value of its equity to undue risk posed by changes in interest rates. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Company's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the contractual interest income and interest expense of hedged variable-rate assets and liabilities, respectively, will increase or

decrease.

Derivative instruments that are used as part of the Company's interest risk management strategy include interest rate swaps, forward-settlement swaps, futures contracts, and option contracts that have indices related to the pricing of specific balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties based on a common notional principal amount and maturity date. Interest rate futures generally involve exchanged-traded contracts to buy or sell U.S. Treasury bonds and notes in the future at specified prices. Interest rate options represent contracts that allow the holder of the option to (i) receive cash or (ii) purchase, sell, or enter into a financial instrument at a specified price within a specified period. Some purchased option contracts give the Company the right to enter into interest rate swaps and cap and floor agreements with the writer of the option. In addition, the Company enters into certain transactions that contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value. Please refer to Note 7 to the accompanying unaudited consolidated financial statements for further information concerning the Company's derivative activities.

Following is a summary of certain strategies, including derivative activities, currently used by the Company to manage interest rate risk:

Interest rate swaps — The Company entered into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in the one-month LIBOR rate. Once the forecasted wholesale borrowings transactions occurred, the interest rate swap effectively fixes the Company's interest payments on an amount of forecasted interest expense attributable to the one-month LIBOR rate corresponding to the swap notional stated rate. A derivative liability of \$8.7 million (notional amount of \$265.0 million) was recognized at September 30, 2014 related to the valuation of these swaps.

In addition, the Company has certain derivative contracts, including interest rate swaps not designated as hedging instruments, which are utilized to convert certain variable rate loans to fixed-rate loans, and the mirror-images of these interest rate swaps in which the Company enters into to minimize its interest rate risk exposure that results from offering the derivatives to clients. These interest rate swaps are marked to market through earnings. At September 30, 2014, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of \$2.5 million (notional amounts of \$16.5 million), and the mirror-image interest rate swaps in which BBVAPR entered into represented a derivative liability of \$2.5 million (notional amounts of \$16.5 million).

S&P options — The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. At the end of five years, the depositor receives a minimum return or a specified percentage of the average increase of the month-end value of the S&P 500 Index. The Company uses option agreements with major money center banks and major broker-dealer companies to manage its exposure to changes in that index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the S&P 500 Index in exchange for a fixed premium. The changes in fair value of the options purchased and the options embedded in the certificates of deposit are recorded in earnings.

At September 30, 2014, the fair value of the purchased options used to manage the exposure to the S&P 500 Index on stock-indexed certificates of deposit represented an asset of \$5.8 million (notional amounts of \$12.0 million) and the options sold to customers embedded in the certificates of deposit represented a liability of \$5.6 million (notional amount of \$11.6 million).

Wholesale borrowings — The Company uses interest rate swaps to hedge the variability of interest cash flows of certain advances from the FHLB-NY that are tied to a variable rate index. The interest rate swaps effectively fix the Company's interest payments on these borrowings. As of September 30, 2014, the Company had \$265 million in interest rate swaps at an average rate of 2.6% designated as cash flow hedges for \$265 million in advances from the FHLB-NY that reprice or are being rolled over on a monthly basis.

Credit Risk

Credit risk is the possibility of loss arising from a borrower or counterparty in a credit-related contract failing to perform in accordance with its terms. The principal source of credit risk for the Company is its lending activities. In Puerto Rico, the Company's principal market, economic conditions are challenging, as they have been for the last eight years, due to a shrinking population, a protracted economic recession, a housing sector that remains under pressure, the Puerto Rico government's large indebtedness and structural budget deficit, and the recent rating downgrades of Puerto Rico general obligations and other government bonds to levels that are below investment grade.

The Company manages its credit risk through a comprehensive credit policy which establishes sound underwriting standards by monitoring and evaluating loan portfolio quality, and by the constant assessment of reserves and loan concentrations. The Company also employs proactive collection and loss mitigation practices.

The Company may also encounter risk of default in relation to its securities portfolio. The securities held by the Company are principally agency mortgage-backed securities. Thus, a substantial portion of these instruments are guaranteed by mortgages, a U.S. government-sponsored entity, or the full faith and credit of the U.S. government.

The Company's Executive Credit Committee, composed of its Chief Executive Officer, Chief Credit Risk Officer and other senior executives, has primary responsibility for setting strategies to achieve the Company's credit risk goals and objectives. Those goals and objectives are set forth in the Company's Credit Policy as approved by the Board.

Liquidity Risk

Liquidity risk is the risk of the Company not being able to generate sufficient cash from either assets or liabilities to meet obligations as they become due without incurring substantial losses. The Board has established a policy to manage this risk. The Company's cash requirements principally consist of deposit withdrawals, contractual loan funding, repayment of borrowings as these mature, and funding of new and existing investments as required.

The Company's business requires continuous access to various funding sources. While the Company is able to fund its operations through deposits as well as through advances from the FHLB-NY and other alternative sources, the Company's business is dependent upon other wholesale funding sources. Although the Company has selectively reduced its use of wholesale funding sources, such as repurchase agreements and brokered deposits, it is still dependent on wholesale funding sources. As of September 30, 2014, the Company had \$1.010 billion in repurchase agreements and \$669.6 million in brokered deposits.

Brokered deposits are typically offered through an intermediary to small retail investors. The Company's ability to continue to attract brokered deposits is subject to variability based upon a number of factors, including volume and volatility in the global securities markets, the Company's credit rating, and the relative interest rates that it is prepared to pay for these liabilities. Brokered deposits are generally considered a less stable source of funding than core deposits obtained through retail bank branches. Investors in brokered deposits are generally more sensitive to interest rates and will generally move funds from one depository institution to another based on small differences in interest rates offered on deposits.

The Company participates in the Federal Reserve Bank's Borrower-In Custody Program which allows it to pledge certain type of loans while keeping physical control of the collateral.

Although the Company expects to have continued access to credit from the foregoing sources of funds, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In a period of financial disruption or if negative developments occur with respect to the Company, the availability and cost of the Company's funding sources could be adversely affected. In that event, the Company's cost of funds may increase, thereby reducing its net interest income, or the Company may need to dispose of a portion of its investment portfolio, which depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon any such dispositions. The Company's efforts to monitor and manage liquidity risk may not be successful to deal with dramatic or unanticipated changes in the global securities markets or other reductions in liquidity driven by the Company or market-related events. In the event that such sources of funds are reduced or eliminated and the Company is not able to replace these on a cost-effective basis, the Company may be forced to curtail or cease its loan origination business and treasury activities, which would have a material adverse effect on its

operations and financial condition.

As of September 30, 2014, the Company had approximately \$663.5 million in unrestricted cash and cash equivalents, \$196.0 million in investment securities that are not pledged as collateral, \$653.5 million in borrowing capacity at the FHLB-NY and \$748.9 million in borrowing capacity at the Federal Reserve's discount window available to cover liquidity needs.

Operational Risk

Operational risk is the risk of loss from inadequate or failed internal processes, personnel and systems or from external events. All functions, products and services of the Company are susceptible to operational risk.

The Company faces ongoing and emerging risk and regulatory pressure related to the activities that surround the delivery of banking and financial products and services. Coupled with external influences such as market conditions, security risks, and legal risk, the potential for operational and reputational loss has increased. In order to mitigate and control operational risk, the Company has developed, and continues to enhance, specific internal controls, policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization. The purpose of these policies and procedures is to provide reasonable assurance that the Company's business operations are functioning within established limits.

The Company classifies operational risk into two major categories: business specific and corporate-wide affecting all business lines. For business specific risks, a risk assessment group works with the various business units to ensure consistency in policies, processes and assessments. With respect to corporate-wide risks, such as information security, business recovery, legal and compliance, the Company has specialized groups, such as Information Security, Enterprise Risk Management, Corporate Compliance, Information Technology, Legal and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups. All these matters are reviewed and discussed in the Information Technology Steering Committee, and the Executive Risk and Compliance Committee.

The Company is subject to extensive United States federal and Puerto Rico regulations, and this regulatory scrutiny has been significantly increasing over the last several years. The Company has established and continues to enhance procedures based on legal and regulatory requirements that are reasonably designed to ensure compliance with all applicable statutory and regulatory requirements. The Company has a corporate compliance function headed by a Compliance Director who reports to the Chief Risk Officer and is responsible for the oversight of regulatory compliance and implementation of a company-wide compliance program.

Concentration Risk

Substantially all of the Company's business activities and a significant portion of its credit exposure are concentrated in Puerto Rico. As a consequence, the Company's profitability and financial condition may be adversely affected by an extended economic slowdown, adverse political or economic developments in Puerto Rico or the effects of a natural disaster, all of which could result in a reduction in loan originations, an increase in non-performing assets, an increase in foreclosure losses on mortgage loans, and a reduction in the value of its loans and loan servicing portfolio.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon such evaluation, the CEO and the CFO have concluded that, as of the end of such period, the Company's disclosure controls and procedures provided reasonable assurance of effectiveness in recording, processing,

summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART - II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their business. The Company is vigorously contesting such claims. Based upon a review by legal counsel and the development of these matters to date, management is of the opinion that the ultimate aggregate liability, if any, resulting from these claims will not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2013. In addition to other information set forth in this report, you should carefully consider the risk factors included in the Company's annual report on Form 10-K, as updated by this report or other filings the Company makes with the SEC under the Exchange Act. Additional risks and uncertainties not presently known to the Company at this time or that the Company currently deems immaterial may also adversely affect the Company's business, financial condition or results of operations.

We rely on the services of third parties for our banking, information technology, telecommunications, and mortgage loan servicing infrastructure, and any failure, interruption or termination of such services or systems could have a material adverse affect on our financial condition and results of operations.

Our business relies on the secure, successful and uninterrupted functioning of our banking, information technology, telecommunications, and mortgage loan servicing infrastructure. We outsource some of our major systems, such as customer data and deposit processing, mortgage loan servicing, Internet and mobile banking, and electronic fund transfer systems. The failure or interruption of such systems, or the termination of a third-party software license or mortgage servicing, or any service agreement on which any of these systems or services is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such systems fail or experience interruptions.

We periodically sell or securitize our mortgage loans while retaining the obligation to perform the servicing of such loans. Although we are the master servicer of our mortgage loan portfolios, we outsource our servicing functions pursuant to a subservicing arrangement with a third party in Puerto Rico. The termination or interruption of such

subservicing arrangement, without a feasible substitute or successor, could adversely affect our financial condition and results of operations. In addition, because the FDIC has the right to refuse or delay payment for loan and lease losses if the shared-loss agreements are not performed by us in accordance with their terms, any such termination or interruption of the subservicing of the covered loans that we acquired in the FDIC-assisted acquisition could adversely affect our ability to comply with such terms.

If sustained or repeated, a failure, denial or termination of such systems or services could result in a deterioration of our ability to process new loans, service existing loans, gather deposits and/or provide customer service. It could also compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability. Any of the foregoing could have a material adverse effect on our financial condition and results of operations.

A credit default or ratings downgrade on the Puerto Rico government's debt obligations could adversely affect the value of our loans to the government of Puerto Rico and our investment portfolio of Puerto Rico government bonds.

Even though the economy of Puerto Rico is closely related to the economy of the rest of the United States, prevailing economic conditions, the fiscal situation of the Puerto Rico government and legislation it has recently enacted have led Standard & Poor's, Moody's and Fitch to further downgrade all obligations of the Puerto Rico government to levels below investment grade.

In the third quarter of 2014, the government enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"), which establishes procedures for the adjustment of certain public corporations' debts. The Recovery Act states in its preamble that it further promotes the central government's public policy objectives of no longer providing financial support to public corporations and promoting their economic independence. The Recovery Act, which is without precedent and is being challenged in federal court on constitutional grounds, has increased the level of uncertainty as to the rights of the affected public corporation's creditors.

Despite the Commonwealth's progress in addressing its persistent budget deficits and underfunded government retirement plans, Puerto Rico continues to face significant economic and fiscal challenges, including a protracted economic recession, sizable debt-service obligations, high unemployment and a shrinking population. The recent Commonwealth credit downgrades by three leading rating agencies reflect only the views of such agencies, an explanation of which may be obtained from each such rating agency. Generally, below-investment-grade securities present greater risks and can be less liquid than investment-grade securities.

The reduction in the credit ratings of Puerto Rico government debt obligations could severely weaken the demand for such securities and the Commonwealth's access to capital markets, which may affect its ability to obtain the financing that it needs. This may in turn increase the Commonwealth's risk of default.

It is uncertain how capital markets may react to any future ratings downgrade in Puerto Rico government debt obligations. However, a further deterioration of economic or fiscal conditions in Puerto Rico, with possible negative ratings implications, could adversely affect the value of our loans to the government of Puerto Rico and the value of our investment portfolio of Puerto Rico government bonds.

At September 30, 2014, we had approximately \$647.9 million of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which \$626.8 million was outstanding as of such date. A substantial portion of our credit exposure to the government of Puerto Rico consists of collateralized loans or obligations that have a specific source of income or revenues identified for its repayment. 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 Puerto Rico Aqueducts and Sewer Authority. Public corporations have varying degrees of independence from the central government and many have received appropriations or are due other payments from it. At September 30, 2014, we had approximately \$382.1 million of credit facilities granted to public corporations, and significantly all such debtors are authorized to seek relief under the Recovery Act. The Company’s banking subsidiary is part of a four bank syndicate providing a \$550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of PREPA. The Bank’s participation in the line of credit has an unpaid principal balance of \$200.0 million as of September 30, 2014. The Company, as part of the bank syndicate, agreed during the quarter to extend its credit facilities with PREPA to March 31, 2015. In connection with such extension, 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. PREPA also committed to delivering a comprehensive business plan by December 15, 2014 and a full debt restructuring plan by March 2, 2015. After the 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 and concluded that the loan should be maintained in accrual status requiring no impairment.

We also have loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as required for the payment of all of its general obligation bonds and notes. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

Furthermore, as of September 30, 2014, we had approximately \$20.9 million in obligations issued and guaranteed by the Puerto Rico government, including certain instrumentalities or public corporations, as part of our investment securities portfolio. We continue to closely monitor the economic and fiscal situation of Puerto Rico and evaluate the portfolio for any declines in value that management may consider being other-than-temporary.

Approximately 48% of our Puerto Rico government loans and obligations mature in the next 12 months or less. At September 30, 2014, we also had deposits of approximately \$359.2 million from the government of Puerto Rico.

If the Company's public corporation debtors seek relief under the Recovery Act or are otherwise unable to pay their obligations as they become due, or under certain other circumstances, the Company and its banking subsidiary may be required to adversely classify such loans and provision for losses in connection therewith. Such provision may significantly impact the Company's financial condition and its regulatory capital ratios.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On June 29, 2011, the Company announced the approval by the Board of Directors of a stock repurchase program to purchase an additional \$70 million of the Company's common stock in the open market.

Any shares of common stock repurchased are held by the Company as treasury shares. The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. During the quarter ended September 30, 2014, the Company purchased 100 additional shares under this program for a total of \$2 thousand, at an average price of \$15.50 per share.

The following table presents the shares repurchased for each month during the quarter ended September 30, 2014, excluding the month ended July 31, 2014 and September 30, 2014, during which no shares were purchased as part of the stock repurchase program:

				Total number of	Maximum approximate
				shares	dollar value of
				purchased	shares
	Total number of	Average price paid		as part of	that may yet be
				publicly	purchased

Period	shares purchased		per share		announced programs		under the programs
							(In thousands)
August 1-31, 2014	100	\$	15.50		100	\$	23,196
Quarter ended September 30, 2014	100	\$	15.50		100	\$	23,196

The number of shares that may yet be purchased under the current \$70 million program is estimated at 1,548,481 and was calculated by dividing the remaining balance of \$23.2 million by \$14.98 (closing price of the Company's common stock at September 30, 2014). The Company did not purchase any shares of its common stock other than through its publicly announced stock repurchase program during the quarter ended September 30, 2014.

ITEM 3. *DEFAULTS UPON SENIOR SECURITIES*

None.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

ITEM 5. *OTHER INFORMATION*

None.

ITEM 6. *EXHIBITS*

Exhibit No.

Description of Document:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from OFG Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Statements of Financial Condition, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Changes in Stockholders' Equity, (v) Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OFG Bancorp

(Registrant)

By: /s/ José Rafael Fernández

Date: November 7, 2014

José Rafael Fernández
President and Chief Executive Officer

By: /s/ Ganesh Kumar

Date: November 7, 2014

Ganesh Kumar
Executive Vice President and Chief Financial
Officer

By: /s/ Maritza Arizmendi

Date: November 7, 2014

Maritza Arizmendi
Senior Vice President and Chief Accounting
Officer

