OFG BANCORP
Form 10-Q
May 06, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended March 31, 2016**

**or**

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

**For the transition period from ______________ to ______________**

**Commission File Number 001-12647**

**OFG Bancorp**

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

43,913,719 common shares ($1.00 par value per share) outstanding as of April 29, 2016

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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 expr and future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may,” or similar expressions are generally intended to identify forward-looking statements.

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

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

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

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

## ITEM 1. *FINANCIAL STATEMENTS*

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**AS OF MARCH 31, 2016 AND DECEMBER 31, 2015**

| | M |
|---|---|
| **ASSETS** | |
| **Cash and cash equivalents:** | |
| Cash and due from banks | $ |
| Money market investments | |
| **Total cash and cash equivalents** | |
| **Restricted cash** | |
| **Investments:** | |
| Trading securities, at fair value, with amortized cost of $667 (December 31, 2015 - $667) | |
| Investment securities available-for-sale, at fair value, with amortized cost of $653,673 (December 31, 2015 - $955,646) | |
| Investment securities held-to-maturity, at amortized cost, with fair value of $641,346 (December 31, 2015 - $614,679) | |
| Federal Home Loan Bank (FHLB) stock, at cost | |
| Other investments | |
| **Total investments** | |
| **Loans:** | |
| Mortgage loans held-for-sale, at lower of cost or fair value | |
| Loans held for investment, net of allowance for loan and lease losses of $238,271 (December 31, 2015 - $234,131) | |
| **Total loans** | |
| **Other assets:** | |
| FDIC indemnification asset | |
| Foreclosed real estate | |
| Accrued interest receivable | |
| Deferred tax asset, net | |
| Premises and equipment, net | |
| Customers' liability on acceptances | |
| Servicing assets | |
| Derivative assets | |
| Goodwill | |
| Other assets | |
| **Total assets** | $ |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | |
| **Deposits:** | |
| Demand deposits | $ |
| Savings accounts | |
| Time deposits | |
| **Total deposits** | |
| **Borrowings:** | |
| Securities sold under agreements to repurchase | |
| Advances from FHLB | |
| Subordinated capital notes | |
| Other borrowings | |
| **Total borrowings** | |

**Other liabilities:**

Derivative liabilities

Acceptances executed and outstanding

Accrued expenses and other liabilities

**Total liabilities**

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

**Stockholders' equity:**

Preferred stock; 10,000,000 shares authorized;

1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D issued and outstanding, (December 31, 2015 - 1,340,000 shares; 1,380,000 shares; and 960,000 shares) $25 liquidation value

84,000 shares of Series C issued and outstanding (December 31, 2015 - 84,000 shares); $1,000 liquidation value

Common stock, $1 par value; 100,000,000 shares authorized; 52,625,869 shares issued: 43,913,719 shares outstanding (December 31, 2015 - 52,625,869; 43,867,909)

Additional paid-in capital

Legal surplus

Retained earnings

Treasury stock, at cost, 8,712,150 shares (December 31, 2015 - 8,757,960 shares)

Accumulated other comprehensive income, net of tax of $177 (December 31, 2015 - $1,182)

**Total stockholders' equity**

**Total liabilities and stockholders' equity** $

**See notes to unaudited consolidated financial statements**

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE QUARTERS ENDED MARCH 31, 2016 AND 2015**

| | Quarter Ended March 31 2016 | 2015 |
|---|---|---|
| | (In thousands, except per share data) | |
| **Interest income:** | | |
| Loans | $ 81,152 | $ 97,483 |
| Mortgage-backed securities | 8,997 | 8,590 |
| Investment securities and other | 1,157 | 928 |
| **Total interest income** | **91,306** | **107,001** |
| **Interest expense:** | | |
| Deposits | 7,124 | 7,104 |
| Securities sold under agreements to repurchase | 6,099 | 7,164 |
| Advances from FHLB and other borrowings | 2,240 | 2,235 |
| Subordinated capital notes | 868 | 863 |
| **Total interest expense** | **16,331** | **17,366** |
| **Net interest income** | **74,975** | **89,635** |
| Provision for loan and lease losses, net | 13,789 | 42,193 |
| **Net interest income after provision for loan and lease losses** | **61,186** | **47,442** |
| **Non-interest income:** | | |
| Banking service revenue | 10,118 | 10,205 |
| Wealth management revenue | 6,152 | 7,155 |
| Mortgage banking activities | 855 | 1,863 |
| **Total banking and financial service revenues** | **17,125** | **19,223** |
| FDIC shared-loss expense, net | (4,029) | (13,084) |
| Net gain (loss) on: | | |
| Sale of securities | 11,996 | 2,572 |
| Derivatives | (3) | (90) |
| Early extinguishment of debt | (12,000) | - |
| Other non-interest income (loss) | 414 | (1,740) |
| **Total non-interest income, net** | **13,503** | **6,881** |
| **Non-interest expense:** | | |
| Compensation and employee benefits | 20,284 | 20,180 |
| Professional and service fees | 3,626 | 4,181 |
| Occupancy and equipment | 7,822 | 8,636 |
| Insurance | 3,150 | 1,953 |
| Electronic banking charges | 5,589 | 5,367 |
| Information technology expenses | 1,657 | 1,454 |
| Advertising, business promotion, and strategic initiatives | 1,443 | 1,629 |
| Foreclosure, repossession and other real estate expenses | 2,806 | 5,447 |
| Loan servicing and clearing expenses | 2,081 | 2,353 |
| Taxes, other than payroll and income taxes | 2,671 | 1,479 |
| Communication | 819 | 691 |

| | | | | |
|---|---|---|---|---|
| Printing, postage, stationary and supplies | | 725 | | 637 |
| Director and investor relations | | 278 | | 294 |
| Other | | 1,906 | | 2,031 |
| **Total non-interest expense** | | **54,857** | | **56,332** |
| **Income (loss) before income taxes** | | **19,832** | | **(2,009)** |
| Income tax expense | | 5,661 | | 979 |
| **Net income (loss)** | | **14,171** | | **(2,988)** |
| Less: dividends on preferred stock | | (3,465) | | (3,465) |
| **Net income (loss) available to common shareholders** | **$** | **10,706** | **$** | **(6,453)** |
| **Earnings (loss) per common share:** | | | | |
| Basic | **$** | **0.24** | **$** | **(0.14)** |
| Diluted | **$** | **0.24** | **$** | **(0.14)** |
| **Average common shares outstanding and equivalents** | | **51,064** | | **51,977** |
| **Cash dividends per share of common stock** | **$** | **0.06** | **$** | **0.10** |

**See notes to unaudited consolidated financial statements**

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**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**FOR THE QUARTERS ENDED MARCH 31, 2016 AND 2015**

| | Quarter Ended March 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | (In thousands) | | | |
| **Net income (loss)** | **$** | **14,171** | **$** | **(2,988)** |
| **Other comprehensive (loss) income before tax:** | | | | |
| Unrealized gain on securities available-for-sale | | 8,643 | | 7,375 |
| Realized gain on investment securities included in net income (loss) | | (11,996) | | (2,572) |
| Unrealized (loss) gain on cash flow hedges | | (11) | | 55 |
| **Other comprehensive (loss) income before taxes** | | **(3,364)** | | **4,858** |
| Income tax effect | | 1,651 | | (245) |
| **Other comprehensive (loss) income after taxes** | | **(1,713)** | | **4,613** |
| **Comprehensive income** | **$** | **12,458** | **$** | **1,625** |

**See notes to unaudited consolidated financial statements**

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**OFG BANCORP**

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

**FOR THE QUARTERS ENDED MARCH 31, 2016 AND 2015**

| | Quarter Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| **Preferred stock:** | | |
| Balance at beginning of period | $ 176,000 | $ 176,000 |
| **Balance at end of period** | **176,000** | **176,000** |
| **Common stock:** | | |
| Balance at beginning of period | 52,626 | 52,626 |
| **Balance at end of period** | **52,626** | **52,626** |
| **Additional paid-in capital:** | | |
| Balance at beginning of period | 540,512 | 539,311 |
| Stock-based compensation expense | 364 | 347 |
| Lapsed restricted stock units | (505) | (436) |
| **Balance at end of period** | **540,371** | **539,222** |
| **Legal surplus:** | | |
| Balance at beginning of period | 70,435 | 70,467 |
| Transfer from (to) retained earnings | 1,430 | (370) |
| **Balance at end of period** | **71,865** | **70,097** |
| **Retained earnings:** | | |
| Balance at beginning of period | 148,886 | 181,152 |
| Net (loss) income | 14,171 | (2,988) |
| Cash dividends declared on common stock | (2,633) | (4,464) |
| Cash dividends declared on preferred stock | (3,465) | (3,465) |
| Transfer to (from) legal surplus | (1,430) | 370 |
| **Balance at end of period** | **155,529** | **170,605** |
| **Treasury stock:** | | |
| Balance at beginning of period | (105,379) | (97,070) |
| Lapsed restricted stock units | 505 | 575 |
| **Balance at end of period** | **(104,874)** | **(96,495)** |
| **Accumulated other comprehensive income, net of tax:** | | |
| Balance at beginning of period | 13,997 | 19,711 |
| Other comprehensive (loss) income, net of tax | (1,713) | 4,613 |
| **Balance at end of period** | **12,284** | **24,324** |
| **Total stockholders' equity** | **$ 903,801** | **$ 936,379** |

**See notes to unaudited consolidated financial statements**

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE QUARTERS ENDED MARCH 31, 2016 AND 2015**

| | Quarter Ended March 31, 2016 | Quarter Ended March 31, 2015 |
|---|---|---|
| | (In thousands) | |
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ **14,171** | $ **(2,988)** |
| **Adjustments to reconcile net income (loss) to net cash provided by operating activities:** | | |
| Amortization of deferred loan origination fees, net of costs | 888 | 860 |
| Amortization of fair value premiums, net of discounts, on acquired loans | 39 | 2,295 |
| Amortization of investment securities premiums, net of accretion of discounts | 2,129 | 2,500 |
| Amortization of core deposit and customer relationship intangibles | 419 | 476 |
| Amortization of fair value premiums on acquired deposits | 97 | 346 |
| FDIC shared-loss expense, net | 4,029 | 13,084 |
| Depreciation and amortization of premises and equipment | 2,487 | 2,714 |
| Deferred income tax expense (benefit), net | 2,033 | (613) |
| Provision for loan and lease losses, net | 13,789 | 42,193 |
| Stock-based compensation | 364 | 347 |
| (Gain) loss on: | | |
| Sale of securities | (11,996) | (2,572) |
| Sale of mortgage loans held-for-sale | (344) | (1,258) |
| Derivatives | 61 | (18) |
| Early extinguishment of debt | 12,000 | - |
| Foreclosed real estate | 2,483 | (567) |
| Sale of other repossessed assets | (723) | 2,148 |
| Sale of premises and equipment | 14 | 4 |
| Originations of loans held-for-sale | (39,513) | (54,615) |
| Proceeds from sale of loans held-for-sale | 13,303 | 22,613 |
| Net (increase) decrease in: | | |
| Trading securities | (26) | 630 |
| Accrued interest receivable | 2,245 | 1,751 |
| Servicing assets | (364) | 1,828 |
| Other assets | (949) | (801) |
| Net increase (decrease) in: | | |
| Accrued interest on deposits and borrowings | (397) | (765) |
| Accrued expenses and other liabilities | 7,239 | 4,573 |
| **Net cash provided by operating activities** | **23,478** | **34,165** |
| **Cash flows from investing activities:** | | |
| Purchases of: | | |
| Investment securities available-for-sale | (107) | (948) |
| Investment securities held-to-maturity | (32,552) | (14,221) |
| Maturities and redemptions of: | | |
| Investment securities available-for-sale | 40,778 | 55,605 |

| | | |
|---|---|---|
| Investment securities held-to-maturity | 14,704 | 3,925 |
| FHLB stock | 22 | 21 |
| Proceeds from sales of: | | |
| Investment securities available-for-sale | 295,172 | 67,075 |
| Foreclosed real estate and other repossessed assets, including write-offs | 12,248 | 15,635 |
| Proceeds from sale of loans held-for-sale | 478 | - |
| Premises and equipment | 36 | - |
| Origination and purchase of loans, excluding loans held-for-sale | (186,640) | (184,834) |
| Principal repayment of loans, including covered loans | 236,787 | 228,993 |
| Reimbursements from the FDIC on shared-loss agreements | 406 | 15,462 |
| Additions to premises and equipment | (1,922) | (864) |
| Net change in restricted cash | - | (6,999) |
| **Net cash provided by investing activities** | **379,410** | **178,850** |

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE QUARTERS ENDED MARCH 31, 2016 AND 2015 – (CONTINUED)**

| | Quarter Ended March 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | (In thousands) | | | |
| **Cash flows from financing activities:** | | | | |
| Net increase (decrease) in: | | | | |
| Deposits | | 54,635 | | (44,468) |
| Securities sold under agreements to repurchase | | (310,000) | | (52,816) |
| FHLB advances, federal funds purchased, and other borrowings | | (460) | | (2,728) |
| Subordinated capital notes | | 175 | | 262 |
| Exercise of stock options and restricted units lapsed, net | | - | | 139 |
| Dividends paid on preferred stock | | (3,465) | | (3,465) |
| Dividends paid on common stock | | (2,633) | | (4,464) |
| **Net cash used in financing activities** | **$** | **(261,748)** | **$** | **(107,540)** |
| **Net change in cash and cash equivalents** | | **141,140** | | **105,475** |
| Cash and cash equivalents at beginning of year | | 536,709 | | 573,427 |
| **Cash and cash equivalents at end of year** | **$** | **677,849** | **$** | **678,902** |
| **Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:** | | | | |
| Interest paid | $ | 16,310 | $ | 17,893 |
| Income taxes paid | $ | 3,642 | $ | - |
| Mortgage loans securitized into mortgage-backed securities | $ | 23,003 | $ | 25,820 |
| Transfer from loans to foreclosed real estate and other repossessed assets | $ | 11,629 | $ | 13,618 |
| Reclassification of loans held-for-investment portfolio to held-for-sale portfolio | $ | - | $ | 1,485 |

**See notes to unaudited consolidated financial statements**

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

***Nature of Operations***

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

On April 30, 2010, the Bank acquired certain assets and assumed certain deposits and other liabilities of Eurobank, a Puerto Rico commercial bank, in an FDIC-assisted acquisition. On 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***

***Adoption of New Accounting Standards***

In December 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") that required a company that issues or invests in a hybrid financial instrument (e.g., a preferred share with a redemption feature, a conversion feature, or both) to determine the nature of the host contract by considering the economic characteristics of the entire instrument, including the embedded derivative feature that is being evaluated for separate accounting. Concluding the host contract is debt-like (versus equity-like) may result in substantially different answers about whether certain features must be accounted for separately. The guidance provides a modified retrospective transition for all existing hybrid financial instruments in the form of a share, with the option for full retrospective application. For public business entities, the amendments of this update are effective for interim and annual periods beginning after December 15, 2015. This update did not have a material impact on the Company's financial position, results of operations or cash flows.

***Recently Issued but not yet Effective Accounting Standards***

**ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting -** In March 2016, the FASB issued ASU 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* ASU 2016-09 simplifies and improves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The effective date of ASU 2016-09 is for interim and annual reporting periods beginning after December 15, 2016. The ASU has not yet been adopted; however, it is not expected to have a material impact on the Company's consolidated financial position, cash flows or results of operations.

**ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting -** In March 2016, the FASB issued ASU 2016-07, *Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* ASU 2016-07 eliminates the requirement to retroactively adjust an investment, results of operations, and retained earnings once an investment qualifies for use of the equity method. It requires the equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting without retroactive adjustment. The effective date of ASU 2016-07 is for interim and annual reporting periods beginning after December 15, 2016. The ASU has not yet been adopted; however, it is not expected to have a material impact on the Company's consolidated financial position, cash flows or results of operations.

**ASU 2016-02, Leases (Topic 842) -** In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The main provision of ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous Generally Accepted Accounting Principles ("GAAP"). The effective date of ASU 2016-02 is for interim and annual reporting periods beginning after December 15, 2018. The ASU has not yet been adopted. The Company is currently evaluating the impact on our Company's consolidated financial position, cash flows and results of operations.

**ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities -** In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01 revises the accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The effective date of ASU 2016-01 is for interim and annual reporting periods beginning after December 15, 2017. The ASU has not yet been adopted; however, it is not expected to have a material impact on the Company's consolidated financial position, cash flows or results of operations.

**ASU 2014-09, Revenue from Contracts with Customers** - In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers. The main provisions of the update require the identification of performance obligations within a contract and require the recognition of revenue based on a stand-alone allocation of contract revenue to each performance obligation. Performance obligations may be satisfied and revenue recognized over a period of time if: (i) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, or (ii) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (iii) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. After a recent one-year deferral of the effective date, the amendments of the update are to be effective for public entities beginning with interim and annual reporting periods beginning after December 15, 2017. Management does not expect the requirements of this update to have a material impact on the Company's financial position, results of operations or cash flows.

Other than the accounting pronouncement disclosed above, there are no other new accounting pronouncements issued during the first quarter of 2016 that could have a material impact on the Company's financial position, operating results or financials statement disclosures.

**OFG BANCORP**

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

## NOTE 2 – RESTRICTED CASH

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

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| | (In thousands) | |
| Cash pledged as collateral to other financial institutions to secure: | | |
| Derivatives | $ 1,980 | $ 1,980 |
| Obligations under agreement of loans sold with recourse | 1,369 | 1,369 |
| | **$ 3,349** | **$ 3,349** |

At March 31, 2016 and December 31, 2015, the Bank's international banking entities, Oriental International Bank Inc. ("OIB") and Oriental Overseas, a division of the Bank, each held unencumbered certificates of deposit in the amount of $300 thousand as the legal reserve required for international banking entities under Puerto Rico law. Each certificate of deposit cannot be withdrawn by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions of Puerto Rico.

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties.  At March 31, 2016 and December 31, 2015, the Company had delivered $2.0 million of cash as collateral for such derivatives activities.

As part of the BBVA Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At March 31, 2016 and December 31, 2015, the Company delivered as collateral cash amounting to $1.4 million for both periods.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover demand deposits. The amount of those minimum average reserve balances for the week that covered March 31, 2016 was $152.8 million (December 31, 2015 - $148.9 million). At March 31, 2016 and December 31, 2015, the Bank complied with such requirement. Cash and due from bank as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

## NOTE 3 – INVESTMENT SECURITIES

***Money Market Investments***

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At March 31, 2016 and December 31, 2015, money market instruments included as part of cash and cash equivalents amounted to $5.9 million and $4.7 million, respectively.

**OFG BANCORP**

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

*Investment Securities*

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at March 31, 2016 and December 31, 2015 were as follows:

| | March 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
| | (In thousands) | | | | |
| **Available-for-sale** | | | | | |
| **Mortgage-backed securities** | | | | | |
| FNMA and FHLMC certificates | $ 431,411 | $ 13,445 | $ - | $ 444,856 | 2.63% |
| GNMA certificates | 79,477 | 3,220 | - | 82,697 | 3.15% |
| CMOs issued by US government-sponsored agencies | 128,957 | 353 | 728 | 128,583 | 1.86% |
| **Total mortgage-backed securities** | **639,845** | **17,018** | **728** | **656,136** | **2.54%** |
| **Investment securities** | | | | | |
| Obligations of US government-sponsored agencies | 4,785 | 51 | - | 4,837 | 1.36% |
| Obligations of Puerto Rico government and public instrumentalities | 6,720 | - | 873 | 5,847 | 5.55% |
| Other debt securities | 2,323 | 142 | - | 2,465 | 2.99% |
| **Total investment securities** | **13,828** | **193** | **873** | **13,149** | **3.67%** |
| **Total securities available for sale** | **$ 653,673** | **$ 17,211** | **$ 1,601** | **$ 669,285** | **2.56%** |
| **Held-to-maturity** | | | | | |
| **Mortgage-backed securities** | | | | | |
| FNMA and FHLMC certificates | $ 612,012 | 4,402 | 81 | 616,333 | 2.23% |
| **Investment securities** | | | | | |
| US Treasury securities | 25,024 | - | 11 | 25,013 | 0.49% |
| **Total securities held to maturity** | **637,036** | **4,402** | **92** | **641,346** | **2.17%** |
| **Total** | **$ 1,290,709** | **$ 21,613** | **$ 1,693** | **$ 1,310,631** | **2.37%** |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
| | (In thousands) | | | | |
| **Available-for-sale** | | | | | |
| **Mortgage-backed securities** | | | | | |
| FNMA and FHLMC certificates | $ 735,363 | $ 25,791 | $ 1,509 | $ 759,645 | 2.97% |
| GNMA certificates | 57,129 | 1,366 | - | 58,495 | 3.19% |
| CMOs issued by US government-sponsored agencies | 137,787 | 27 | 2,741 | 135,073 | 1.85% |
| **Total mortgage-backed securities** | **930,279** | **27,184** | **4,250** | **953,213** | **2.82%** |
| **Investment securities** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Obligations of US government-sponsored agencies | 5,122 | - | 29 | 5,093 | 1.36% |
| Obligations of Puerto Rico government and public instrumentalities | 17,801 | - | 4,070 | 13,731 | 6.24% |
| Other debt securities | 2,444 | 128 | - | 2,572 | 2.98% |
| **Total investment securities** | **25,367** | **128** | **4,099** | **21,396** | **4.94%** |
| **Total securities available-for-sale** | **$ 955,646** | **$ 27,312** | **$ 8,349** | **$ 974,609** | **2.87%** |
| **Held-to-maturity** | | | | | |
| **Mortgage-backed securities** | | | | | |
| FNMA and FHLMC certificates | 595,157 | 426 | 5,865 | 589,718 | 2.24% |
| **Investment securities** | | | | | |
| US Treasury securities | 25,032 | - | 71 | 24,961 | 0.49% |
| **Total securities held to maturity** | **620,189** | **426** | **5,936** | **614,679** | **2.17%** |
| **Total** | **$ 1,575,835** | **$ 27,738** | **$ 14,285** | **$ 1,589,288** | **2.60%** |

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

The amortized cost and fair value of the Company's investment securities at March 31, 2016, 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.

| | March 31, 2016 | | | |
|---|---|---|---|---|
| | Available-for-sale | | Held-to-maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In thousands) | | (In thousands) | |
| **Mortgage-backed securities** | | | | |
| Due from 5 to 10 years | | | | |
| FNMA and FHLMC certificates | $ 13,936 | $ 14,250 | $ - | $ - |
| **Total due from 5 to 10 years** | **13,936** | **14,250** | **-** | **-** |
| Due after 10 years | | | | |
| FNMA and FHLMC certificates | 417,475 | 430,606 | 612,012 | 616,333 |
| GNMA certificates | 79,477 | 82,697 | - | - |
| CMOs issued by US government-sponsored agencies | 128,957 | 128,583 | - | - |
| **Total due after 10 years** | **625,909** | **641,886** | **612,012** | **616,333** |
| **Total mortgage-backed securities** | **639,845** | **656,136** | **612,012** | **616,333** |
| **Investment securities** | | | | |
| Due from 1 to 5 years | | | | |
| US Treasury securities | - | - | 25,024 | 25,013 |
| Obligations of Puerto Rico government and public instrumentalities | 6,720 | 5,847 | - | - |
| **Total due from 1 to 5 years** | **6,720** | **5,847** | **25,024** | **25,013** |
| Due from 5 to 10 years | | | | |
| Obligations of US government and sponsored agencies | 4,785 | 4,837 | - | - |
| Other debt securities | 2,323 | 2,465 | - | - |
| **Total due from 5 to 10 years** | **7,108** | **7,302** | **-** | **-** |
| **Total investment securities** | **13,828** | **13,149** | **25,024** | **25,013** |
| **Total securities available-for-sale and held-to-maturity** | **$ 653,673** | **$ 669,285** | **$ 637,036** | **$ 641,346** |

**OFG BANCORP**

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

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the first quarter ended March 31, 2016, the Company retained securitized Government National Mortgage Association ("GNMA") pools totaling $23.0 million amortized cost, at a yield of 3.06% from its own originations. Previously, the Company was selling all securitized GNMA pools. The GNMA pools were sold until June 2015. During the first quarter of 2015, the Company sold $26.8 million of available-for-sale GNMA certificates as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period.

During the first quarter of 2016, the Company sold $272.1 million of mortgage-backed securities and $11.1 million of Puerto Rico government bonds, and recorded a net gain on sale of securities of $12.0 million. Among the 2016 sales, the Company sold all but one of the Puerto Rico government bonds it held. The Company had book other-than-temporary impairment charges on such securities sold totaling $1.5 million during the previous two quarters. During the first quarter of 2015, the Company sold $37.7 million of mortgage-backed securities and recorded a net gain on sale of securities of $2.6 million. The table below presents the gross realized gains and gross realized losses by category for such periods.

| | Quarter Ended March 31, 2016 | | | |
|---|---|---|---|---|
| **Description** | **Sale Price** | **Book Value at Sale** | **Gross Gains** | **Gross Losses** |
| | (In thousands) | | | |
| **Sale of securities available-for-sale** | | | | |
| **Mortgage-backed securities** | | | | |
| FNMA and FHLMC certificates | $ 288,194 | $ 272,081 | $ 16,113 | $ - |
| **Investment securities** | | | | |
| Obligations of Puerto Rico government and public instrumentalities | 6,978 | 11,095 | - | 4,117 |
| **Total** | **$ 295,172** | **$ 283,176** | **$ 16,113** | **$ 4,117** |

| | Quarter Ended March 31, 2015 | | | |
|---|---|---|---|---|
| **Description** | **Sale Price** | **Book Value at Sale** | **Gross Gains** | **Gross Losses** |
| | (In thousands) | | | |
| **Sale of securities available-for-sale** | | | | |
| **Mortgage-backed securities** | | | | |
| FNMA and FHLMC certificates | $ 40,307 | $ 37,735 | $ 2,572 | $ - |
| GNMA certificates | 26,768 | 26,768 | - | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Total** | **$** | **67,075** | **$** | **64,503** | **$** | **2,572** | **$** | **-** |

**OFG BANCORP**

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

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at March 31, 2016 and December 31, 2015:

| | March 31, 2016 | | |
|---|---|---|---|
| | 12 months or more | | |
| | Amortized Cost | Unrealized Loss | Fair Value |
| | (In thousands) | | |
| **Securities available-for-sale** | | | |
| CMOs issued by US government-sponsored agencies | $ 83,400 | $ 728 | $ 82,672 |
| Obligations of Puerto Rico government and public instrumentalities | 6,720 | 873 | 5,847 |
| | 90,120 | 1,601 | 88,519 |
| **Securities held to maturity** | | | |
| FNMA and FHLMC certificates | 30,309 | $ 46 | $ 30,263 |
| | **$ 120,429** | **$ 1,647** | **$ 118,782** |

| | Less than 12 months | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | (In thousands) | | |
| **Securities held-to-maturity** | | | |
| FNMA and FHLMC certificates | 58,589 | 35 | 58,554 |
| US Treausury Securities | 25,024 | 11 | 25,013 |
| | **$ 83,613** | **$ 46** | **$ 83,567** |

| | Total | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | (In thousands) | | |
| **Securities available-for-sale** | | | |
| CMOs issued by US government-sponsored agencies | $ 83,400 | $ 728 | $ 82,672 |
| Obligations of Puerto Rico government and public instrumentalities | 6,720 | 873 | 5,847 |
| | **90,120** | **1,601** | **88,519** |
| **Securities held-to-maturity** | | | |
| FNMA and FHLMC certificates | 88,898 | 81 | **88,817** |
| US Treasury Securities | 25,024 | 11 | **25,013** |
| | **$ 204,042** | **$ 1,693** | **$ 202,349** |

**OFG BANCORP**

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

| | December 31, 2015 12 months or more | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| Obligations of Puerto Rico Government and public instrumentalities | $ 17,801 | $ 4,070 | $ 13,731 |
| CMOs issued by US government-sponsored agencies | 103,340 | 2,410 | 100,930 |
| | **$ 121,141** | **$ 6,480** | **$ 114,661** |

| | Less than 12 months | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| CMOs issued by US government-sponsored agencies | 25,736 | 331 | 25,405 |
| FNMA and FHLMC certificates | 149,480 | 1,509 | 147,971 |
| Obligations of US government and sponsored agencies | 5,122 | 29 | 5,093 |
| **Securities held to maturity** | | | |
| FNMA and FHLMC certificates | 468,487 | 5,865 | 462,622 |
| US Treausury Securities | 25,032 | 71 | 24,961 |
| | **$ 673,857** | **$ 7,805** | **$ 666,052** |

| | Total | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities available-for-sale** | | | |
| CMOs issued by US government-sponsored agencies | 129,076 | 2,741 | 126,335 |
| FNMA and FHLMC certificates | 149,480 | 1,509 | 147,971 |
| Obligations of Puerto Rico Government and public instrumentalities | 17,801 | 4,070 | 13,731 |
| Obligations of US government and sponsored agencies | 5,122 | 29 | 5,093 |
| | **$ 301,479** | **$ 8,349** | **$ 293,130** |
| **Securities held to maturity** | | | |
| FNMA and FHLMC certificates | 468,487 | 5,865 | 462,622 |
| US Treasury Securities | 25,032 | 71 | 24,961 |
| | **$ 794,998** | **$ 14,285** | **$ 780,713** |

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

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

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

Most of the investments ($197.3 million, amortized cost, or 97%) with an unrealized loss position at March 31, 2016 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 ($6.7 million, amortized cost, or 3%) with an unrealized loss position at March 31, 2016 consist of obligations issued or guaranteed by the government of Puerto Rico and its instrumentalities. The decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including the government's credit default, a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population.

As of March 31, 2016, the Company applied a discounted cash flow analysis to the Puerto Rico government bonds to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of these investments was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investments, and included the following components:

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

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

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

The only obligation issued or guaranteed by the government of Puerto Rico and its instrumentalities held at the end of the first quarter of 2016 by the Company was the Puerto Rico Highways and Transportation Authority (“PRHTA”) – Teodoro Moscoso Bridge revenue bond. The pledge income sources of this bond comes from gross revenues from Teodoro Moscoso Bridge operations. Although PRHTA is included in the Puerto Rico Governor's executive order of November 30, 2015 ordering the '"clawback" of certain government revenues  the toll bridge revenues for the repayment of such bonds were not subject to the “clawback”. All other securities were sold during the first quarter of 2016. The PRHTA bond in the principal amount of  $6.7 million had an aggregate fair value of $5.8 million at March 31, 2016 (0.45% of the portfolio's total fair value). The discounted cash flow analysis for the investments showed a cumulative default probability at maturity of 8.81%, thus reflecting that it is more likely than not that the bond will not default during its remaining term. Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in this Puerto Rico government bond and is, therefore, not required to recognize a credit loss as of March 31, 2016. Also, the Company's conclusion is based on the assessment of the specific source of repayment of the outstanding bond, which continues to perform. PRHTA started principal repayments on July 1, 2014. All scheduled principal and interest payments to date have been collected. As a result of the aforementioned analysis, no other-than-temporary losses were recorded during the quarter ended March 31, 2016 and 2015.

The following table presents a rollforward of credit-related impairment losses recognized in earnings for the quarters ended March 31, 2016 and 2015 on available-for-sale securities:.

| | **Quarter Ended March 31,** | | | |
|---|---|---|---|---|
| | | **2016** | | **2015** |
| Balance at beginning of period | $ | 1,490 | $ | - |
| Reductions for securities sold during the period (realized) | | (1,490) | | - |
| Balance at end of period | $ | - | $ | - |

**OFG BANCORP**

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

**NOTE 4 - LOANS**

The Company's loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred to as "originated and other" loans) and loans acquired (referred to as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans. Acquired Eurobank loans were purchased subject to loss-sharing agreements with the FDIC. The FDIC loss-share coverage related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. Notwithstanding the expiration of loss share coverage of commercial loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a potential sale of a pool of loss-share assets covered under the commercial loss-sharing agreement. Pursuant to such agreement, and as further discussed below, the FDIC agreed to and paid $20 million in loss share coverage with respect to the aggregate loss resulting from any portfolio sale within 120 days of the agreement. This sale was completed on September 28, 2015. Covered loans are no longer a material amount. Therefore, the Company changed its loan disclosures during 2015.

The coverage for the single family residential loans will expire on June 30, 2020. At March 31, 2016, the remaining covered loans amounting to $69.7 million, net carrying amount ($91.1 million gross amount), are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties". At December 31, 2015, covered loans amounted to $67.2 million, net carrying amount ($92.3 million gross amount). Interest income recognized for covered loans during March 31, 2016 and 2015 was $2.2 million and $15.5 million, respectively. The decrease in interest income recognized for covered loans is due to the expiration of the FDIC loss-share coverage related to commercial and other-non single family acquired Eurobank on June 30, 2015.

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

The composition of the Company's loan portfolio at March 31, 2016 and December 31, 2015 was as follows:

| | March 31, 2016 | Dece 3 201 |
|---|---|---|
| | (In thousands | |
| **Originated and other loans and leases held for investment:** | | |
| Mortgage | $ 751,819 | $ 75 |
| Commercial | 1,425,385 | 1,44 |
| Consumer | 252,327 | 24 |
| Auto and leasing | 687,159 | 66 |
| | **3,116,690** | **3,11** |
| Allowance for loan and lease losses on originated and other loans and leases | (113,238) | (112 |
| | **3,003,452** | **2,99** |
| Deferred loan costs, net | 4,350 | |
| **Total originated and other loans loans held for investment, net** | **3,007,802** | **3,00** |
| | | |
| **Acquired loans:** | | |
| **Acquired BBVAPR loans:** | | |
| **Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)** | | |
| Commercial | 6,558 | |
| Consumer | 36,346 | 3 |
| Auto | 91,406 | 10 |
| | **134,310** | **15** |
| Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20 | (4,993) | (5 |
| | **129,317** | **14** |
| | | |
| **Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)** | | |
| Mortgage | 600,901 | 60 |
| Commercial | 267,931 | 28 |
| Construction | 77,858 | 8 |
| Consumer | 9,345 | 1 |
| Auto | 134,669 | 15 |
| | **1,090,704** | **1,14** |
| Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30 | (27,747) | (25 |
| | **1,062,957** | **1,12** |
| **Total acquired BBVAPR loans, net** | **1,192,274** | **1,27** |
| **Acquired Eurobank loans:** | | |
| Loans secured by 1-4 family residential properties | 91,113 | 9 |
| Commercial and construction | 142,298 | 14 |
| Consumer | 1,770 | |
| Total acquired Eurobank loans | **235,181** | **23** |
| Allowance for loan and lease losses on Eurobank loans | (92,293) | (90 |
| **Total acquired Eurobank loans, net** | **142,888** | **14** |
| **Total acquired loans, net** | **1,335,162** | **1,41** |

| | | |
|---|---|---|
| **Total held for investment, net** | **4,342,964** | **4,42** |
| Mortgage loans held-for-sale | 17,165 | 1 |
| **Total loans, net** | **$ 4,360,129** | **$ 4,43** |

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

***Originated and Other Loans and Leases Held for Investment***

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

The following tables present the aging of the recorded investment in gross originated and other loans held for investment as of March 31, 2016 and December 31, 2015 by class of loans. Mortgage loans past due include delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

| | March 31, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | Total Past Due | Current in Non-Accrual | Current Accruing | Total Loans | Loans 90+ Days Past Due and Still Accruing |
| | (In thousands) | | | | | | | |
| **Mortgage** | | | | | | | | |
| Traditional (by origination year): | | | | | | | | |
| Up to the year 2002 | $ 82 | $ 1,218 | $ 3,208 | $ 4,508 | $ 40 | $ 51,085 | $ 55,633 | $ 268 |
| Years 2003 and 2004 | 388 | 3,579 | 5,844 | 9,811 | 20 | 87,458 | 97,289 | - |
| Year 2005 | 313 | 1,893 | 3,864 | 6,070 | - | 47,421 | 53,491 | - |
| Year 2006 | 634 | 1,238 | 7,212 | 9,084 | 233 | 66,753 | 76,070 | - |
| Years 2007, 2008 and 2009 | 282 | 1,417 | 14,128 | 15,827 | - | 72,650 | 88,477 | 705 |
| Years 2010, 2011, 2012, 2013 | 511 | 2,015 | 9,017 | 11,543 | - | 136,702 | 148,245 | 271 |
| Years 2014, 2015 and 2016 | - | 444 | 1,099 | 1,543 | 63 | 91,213 | 92,819 | - |
| | 2,210 | 11,804 | 44,372 | 58,386 | 356 | 553,282 | 612,024 | 1,244 |
| Non-traditional | - | 395 | 5,014 | 5,409 | 12 | 22,286 | 27,707 | - |
| Loss mitigation program | 10,679 | 6,537 | 16,411 | 33,627 | 4,580 | 65,804 | 104,011 | 3,422 |
| | 12,889 | 18,736 | 65,797 | 97,422 | 4,948 | 641,372 | 743,742 | 4,666 |
| Home equity secured personal loans | - | - | - | - | - | 393 | 393 | - |
| GNMA's buy-back option program | - | - | 7,684 | 7,684 | - | - | 7,684 | - |
| **Total mortgage** | **12,889** | **18,736** | **73,481** | **105,106** | **4,948** | **641,765** | **751,819** | **4,666** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Commercial** | | | | | | | | |
| Commercial secured by real estate: | | | | | | | | |
| Corporate | - | - | - | - | - | 228,782 | 228,782 | - |
| Institutional | - | - | - | - | - | 27,584 | 27,584 | - |
| Middle market | - | - | 9,498 | 9,498 | 2,515 | 196,890 | 208,903 | - |
| Retail | 644 | 455 | 7,088 | 8,187 | 2,659 | 233,174 | 244,020 | - |
| Floor plan | - | - | - | - | - | 2,859 | 2,859 | - |
| Real estate | - | - | - | - | - | 16,372 | 16,372 | - |
| | 644 | 455 | 16,586 | 17,685 | 5,174 | 705,661 | 728,520 | - |
| Other commercial and industrial: | | | | | | | | |
| Corporate | - | - | - | - | - | 120,881 | 120,881 | - |
| Institutional | - | - | - | - | 186,675 | 176,580 | 363,255 | - |
| Middle market | - | - | - | - | 1,493 | 102,295 | 103,788 | - |
| Retail | 260 | 948 | 706 | 1,914 | 21 | 72,689 | 74,624 | - |
| Floor plan | 28 | 18 | 41 | 87 | - | 34,230 | 34,317 | - |
| | 288 | 966 | 747 | 2,001 | 188,189 | 506,675 | 696,865 | - |
| **Total commercial** | **932** | **1,421** | **17,333** | **19,686** | **193,363** | **1,212,336** | **1,425,385** | **-** |

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**OFG BANCORP**

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

| | March 31, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | Total Past Due | Current in Non-Accrual | Current Accruing | Total Loans | Loans 90+ Days Past Due and Still Accruing |
| | (In thousands) | | | | | | | |
| **Consumer** | | | | | | | | |
| Credit cards | 387 | 159 | 422 | 968 | - | 22,397 | 23,365 | - |
| Overdrafts | 17 | - | - | 17 | - | 203 | 220 | - |
| Personal lines of credit | 51 | 49 | 53 | 153 | 3 | 2,194 | 2,350 | - |
| Personal loans | 2,518 | 927 | 1,104 | 4,549 | 434 | 205,240 | 210,223 | - |
| Cash collateral personal loans | 214 | 19 | 14 | 247 | - | 15,922 | 16,169 | - |
| **Total consumer** | **3,187** | **1,154** | **1,593** | **5,934** | | | | |