

OFG BANCORP
Form 10-K
March 15, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2015

or

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

For the Transition Period from to .

Commission File No. 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

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock (\$1.00 par value per share)

7.125% Noncumulative Monthly Income Preferred Stock, Series A (\$25.00 liquidation preference per share)

7.0% Noncumulative Monthly Income Preferred Stock, Series B (\$25.00 liquidation preference per share)

8.75% Noncumulative Convertible Perpetual Preferred Stock, Series C (\$1,000.00 liquidation preference per share)

7.125% Noncumulative Perpetual Preferred Stock, Series D (\$25.00 liquidation preference per share)

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filings pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

The aggregate market value of the common stock held by non-affiliates of OFG Bancorp (the "Company") was approximately \$473.4 million as of June 30, 2015 based upon 44,367,909 shares outstanding and the reported closing price of \$10.67 on the New York Stock Exchange on that date.

As of January 31, 2016, the Company had 43,867,909 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Company's definitive proxy statement relating to the 2016 annual meeting of shareholders are incorporated herein by reference in response to Items 10 through 14 of Part III, except for certain information set forth herein under Item 12.

OFG Bancorp

FORM 10-K

For the Year Ended December 31, 2015

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FORWARD-LOOKING STATEMENTS

The information included in this annual report on Form 10-K 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:

- 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 annual report on Form 10-K 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. *BUSINESS*

General

The Company is a publicly-owned financial holding company incorporated on June 14, 1996 under the laws of the Commonwealth of Puerto Rico, providing a full range of banking and financial services through its subsidiaries. The Company is subject to the provisions of the U.S. Bank Holding Company Act of 1956, as amended, (the “BHC Act”) and accordingly, subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”).

The Company provides comprehensive banking and financial services to its clients through a complete range of banking and financial solutions, including commercial, consumer, auto, and mortgage lending; checking and savings accounts; financial planning, insurance, financial services, and investment brokerage; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Wealth Management, and Treasury, differentiating the Oriental brand through customer segmentation and innovative solutions, primarily in Puerto Rico. The Company provides these services through various subsidiaries including, a commercial bank, Oriental Bank, a securities broker-dealer, Oriental Financial Services Corp. (“Oriental Financial Services”), an insurance agency, Oriental Insurance, LLC (“Oriental Insurance”), previously known as Oriental Insurance Inc., and a retirement plan administrator, Oriental Pension Consultants, Inc. (“OPC”), previously known as Caribbean Pension Consultants, Inc. All of our subsidiaries are based in San Juan, Puerto Rico, except for OPC which is based in Boca Raton, Florida. The Company has 48 branches in Puerto Rico. 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 strategy involves:

- Strengthening its banking and financial services franchise by expanding its ability to attract deposits and build relationships with customers by refining the service delivery and providing innovative banking technologies for day-to-day customer transactions, and achieving sustainable levels of differentiation in the market;
- Focusing on greater growth in commercial, consumer and mortgage lending, trust and financial services and insurance products;
- Improving operating efficiencies, and continuing to maintain effective asset-liability management;
- Implementing a broad ranging effort to instill in employees and make customers aware of the Company’s determination to effectively serve and advise its customer base in a responsive and professional manner; and
- Matching its portfolio of investment securities with the related funding to achieve favorable spreads, and primarily investing in U.S. government-sponsored agency obligations.

Together with a highly experienced group of senior and mid-level executives and the benefits from the acquisitions of Eurobank Puerto Rico and the Puerto Rico operations of Banco Bilbao Vizcaya Argentaria, S.A. (“BBVA”), this strategy has resulted in sustained growth in the Company’s deposit-taking activities, commercial, consumer and mortgage lending and financial service activities, allowing the Company to distinguish itself in a highly competitive industry. The Company is not immune from general and local financial and economic conditions. Past experience is

not necessarily indicative of future performance, but given market uncertainties and on a reasonable time horizon of three to five years, this strategy is expected to maintain its steady progress towards the Company's long-term goal.

On December 18, 2012, the Company purchased from BBVA, all of the outstanding common stock of each of (i) BBVAPR Holding Corporation ("BBVAPR Holding"), the sole shareholder of Banco Bilbao Vizcaya Argentaria Puerto Rico ("BBVAPR Bank"), a Puerto Rico chartered commercial bank, and BBVA Seguros, Inc. ("BBVA Seguros"), a subsidiary offering insurance services, and (ii) BBVA Securities of Puerto Rico, Inc. ("BBVA Securities"), a registered broker-dealer. This transaction is referred to as the "BBVAPR Acquisition" and BBVAPR Holding, BBVAPR Bank, BBVA Seguros and BBVA Securities are collectively referred to as the "BBVAPR Companies" or "BBVAPR."

The Company's principal funding sources are branch deposits, securities sold under agreements to repurchase, Federal Home Loan Bank ("FHLB") advances, Federal Reserve Bank ("FRB") advances, wholesale deposits, and subordinated capital notes. Through its branch network, Oriental Bank offers personal non-interest and interest-bearing checking accounts, savings accounts, certificates of deposit, individual retirement accounts ("IRAs") and commercial non-interest bearing checking accounts. The FDIC insures Oriental Bank's deposit accounts up to applicable limits. Management makes retail deposit pricing decisions periodically, adjusting the rates paid on retail deposits in response to general market conditions and local competition. Pricing decisions take into account the rates being offered by other local banks, the London Interbank Offered Rate ("LIBOR"), and mainland U.S. market interest rates.

Segment Disclosure

The Company has three 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 organizational structure, nature of 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 annual goals involving different financial parameters such as net income, interest rate spread, loan production, and fees generated.

For detailed information regarding the performance of the Company's operating segments, please refer to Note 26 in the Company's accompanying consolidated financial statements.

Banking Activities

Oriental Bank (the "Bank"), the Company's main subsidiary, is a full-service Puerto Rico commercial bank with its main office located in San Juan, Puerto Rico. The Bank has 48 branches throughout Puerto Rico and was incorporated in October 1964 as a federal mutual savings and loan association. It became a federal mutual savings bank in July 1983 and converted to a federal stock savings bank in April 1987. Its conversion from a federally-chartered savings bank to a commercial bank chartered under the banking law of the Commonwealth of Puerto Rico, on June 30, 1994, allowed the Bank to more effectively pursue opportunities in its market and obtain more flexibility in its businesses. As a Puerto Rico-chartered commercial bank, it is subject to examination by the FDIC and the Office of the Commissioner of Financial Institutions of Puerto Rico (the "OCFI"). The Bank offers banking services such as commercial, consumer, and mortgage lending, savings and time deposit products, financial planning, and corporate and individual trust services, and capitalizes on its retail banking network to provide commercial and mortgage lending products to its clients. The Bank operates two international banking entities ("IBE") pursuant to the International Banking Center Regulatory Act of Puerto Rico, as amended (the "IBE Act"), one is a unit operating within the Bank, named Oriental Overseas (the "IBE Unit"), and the other is a wholly-owned subsidiary of the Bank, named Oriental International Bank, Inc. (the "IBE Subsidiary"). The IBE Unit and IBE Subsidiary offer the Bank certain Puerto Rico tax advantages, and their services are limited under Puerto Rico law to persons and assets/liabilities located outside of Puerto Rico.

Banking activities include the Bank's branches and mortgage banking activities with traditional retail banking products such as deposits, commercial loans, consumer loans and mortgage loans. The Bank's significant lending activities are with consumers located in Puerto Rico. The Bank's lending transactions include a diversified number of industries and activities, all of which are encompassed within four main categories: commercial, consumer, mortgage and auto.

The Company's mortgage banking activities are conducted through a division of the Bank. The mortgage banking activities include the origination of mortgage loans for the Bank's own portfolio, and the sale of loans directly into the secondary market or the securitization of conforming loans into mortgage-backed securities. The Bank originates

Federal Housing Administration (“FHA”) insured mortgages, Veterans Administration (“VA”) guaranteed mortgages, and Rural Housing Service (“RHS”) guaranteed loans that are primarily securitized for issuance of Government National Mortgage Association (“GNMA”) mortgage-backed securities which can be resold to individual or institutional investors in the secondary market. Conventional loans that meet the underwriting requirements for sale or exchange under standard Federal National Mortgage Association (the “FNMA”) or the Federal Home Loan Mortgage Corporation (the “FHLMC”) programs are referred to as conforming mortgage loans and are also securitized for issuance of FNMA or FHLMC mortgage-backed securities. The Bank is an approved seller of FNMA, as well as FHLMC, mortgage loans for issuance of FNMA and FHLMC mortgage-backed securities. The Bank is also an approved issuer of GNMA mortgage-backed securities. The Company outsources the servicing of the GNMA, FNMA and FHLMC pools that it issues, and its residential mortgage loan portfolio.

Loan Underwriting

Auto loans: The Company provides financing for the purchase of new or used motor vehicles. These loans are granted mainly through dealers authorized and approved by the auto credit department committee of the Company. The auto credit department has the specialized structure and resources to provide the service required for this product according to market demands and trends. The auto loan credit policy establishes specific guidance and parameters for the underwriting and origination processes. Underwriting procedures, lending limits, interest rate approval, insurance coverage, and automobile brand restrictions are some parameters and internal controls implemented to ensure the quality and profitability of the auto loan portfolio. The credit scoring system is a fundamental part of the decision process.

Consumer loans: Consumer loans include personal loans, credit cards, lines of credit and other loans made by banks to individual borrowers. All loan originations must be underwritten in accordance with the Company's underwriting criteria, and include an assessment of each borrower's personal financial condition, including verification of income, assets, FICO score, and credit reports.

Residential mortgage loans: All loan originations, regardless of whether originated through the Company's retail banking network or purchased from third parties, must be underwritten in accordance with the Company's underwriting criteria, including loan-to-value ratios, borrower income qualifications, debt ratios and credit history, investor requirements, and title insurance and property appraisal requirements. The Company's mortgage underwriting standards comply with the relevant guidelines set forth by the Department of Housing and Urban Development ("HUD"), VA, FNMA, FHLMC, federal and Puerto Rico banking regulatory authorities, as applicable. The Company's underwriting personnel, while operating within the Company's loan offices, make underwriting decisions independent of the Company's mortgage loan origination personnel.

Commercial loans: Commercial loans include lines of credit and term facilities to finance business operations and to provide working capital for specific purposes, such as to finance the purchase of assets, equipment or inventory. Since a borrower's cash flow from operations is generally the primary source of repayment, the Company's analysis of the credit risk focuses heavily on the borrower's debt-repayment capacity. Commercial term loans generally have terms from one to five years, may be collateralized by the asset being acquired, real estate, or other available assets, and bear interest rates that float with the prime rate, LIBOR or another established index, or are fixed for the term of the loan. Lines of credit are extended to businesses based on an analysis of the financial strength and integrity of the borrowers and are generally secured primarily by real estate, accounts receivables or inventory, and have a maturity of one year or less. Such lines of credit bear an interest rate that floats with a base rate, the prime rate, LIBOR, or another established index.

Sale of Loans and Securitization Activities

The Company may engage in the sale or securitization of a portion of the residential mortgage loans that it originates and purchases and utilizes various channels to sell its mortgage products. The Company is an approved issuer of GNMA-guaranteed mortgage-backed securities which involves the packaging of FHA loans, RHS loans or VA loans into pools of mortgage-backed securities for sale primarily to securities broker-dealers and other institutional investors. The Company can also act as issuer in the case of conforming conventional loans in order to group them

into pools of FNMA or FHLMC-issued mortgage-backed securities which the Company then sells to securities broker-dealers. The issuance of mortgage-backed securities provides the Company with flexibility in selling the mortgage loans that it originates or purchases and also provides income by increasing the value and marketability of such loans. In the case of conforming conventional loans, the Company also has the option to sell such loans through the FNMA and FHLMC cash-window programs.

Wealth Management Activities

Wealth management activities are generated by such businesses as securities brokerage, trust services, retirement planning, insurance, pension administration, and other financial services.

Oriental Financial Services is a Puerto Rico corporation and the Company's subsidiary engaged in securities brokerage activities in accordance with the Company's strategy of providing fully integrated financial solutions to the Company's clients. Oriental Financial Services, member of FINRA and the Securities Investor Protection Corporation, is a registered securities broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. The broker-dealer does not carry customer accounts and is, accordingly, exempt from the Customer Protection Rule (SEC Rule 15c3-3) pursuant to subsection (k)(2)(ii) of such rule. It clears securities transactions through Pershing LLC, a clearing agent that carries the accounts of its customers on a "fully disclosed" basis.

Oriental Financial Services offers securities brokerage services covering various investment alternatives such as tax-advantaged fixed income securities, mutual funds, stocks, and bonds to retail and institutional clients. It also offers separately-managed accounts and mutual fund asset allocation programs sponsored by unaffiliated professional asset managers. These services are designed to meet each client's specific needs and preferences, including transaction-based pricing and asset-based fee pricing.

Oriental Financial Services has managed and participated in public offerings and private placements of debt and equity securities in Puerto Rico and has engaged in municipal securities business with the Commonwealth of Puerto Rico and its instrumentalities, municipalities, and public corporations. Investment banking revenue from such activities includes gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which it acts as an underwriter or agent. Investment banking revenue also includes fees earned from providing merger-and-acquisition and financial restructuring advisory services.

Oriental Insurance is a Puerto Rico limited liability company and the Company's subsidiary engaged in insurance agency services. It was established by the Company to take advantage of the cross-marketing opportunities provided by financial modernization legislation. Oriental Insurance currently earns commissions by acting as a licensed insurance agent in connection with the issuance of insurance policies by unaffiliated insurance companies and continues to cross market its services to the Company's existing customer base.

OPC, a Florida corporation, is the Company's subsidiary engaged in the administration of retirement plans in the U.S., Puerto Rico, and the Caribbean.

Treasury Activities

Treasury activities encompass all of the Company's treasury-related functions. The Company's investment portfolio consists of mortgage-backed securities, obligations of U.S. government-sponsored agencies, Puerto Rico government and agency obligations and money market instruments. Agency mortgage-backed securities, the largest component, consist principally of pools of residential mortgage loans that are made to consumers and then resold in the form of pass-through certificates in the secondary market, the payment of interest and principal of which is guaranteed by GNMA, FNMA or FHLMC.

Market Area and Competition

The main geographic business and service area of the Company is in Puerto Rico, where the banking market is highly competitive. Puerto Rico banks are subject to the same federal laws, regulations and supervision that apply to similar institutions in the United States of America. The Company also competes with brokerage firms with retail operations, credit unions, savings and loan cooperatives, small loan companies, insurance agencies, and mortgage banks in Puerto Rico. The Company encounters intense competition in attracting and retaining deposits and in its consumer and commercial lending activities. Management believes that the Company has been able to compete effectively for deposits and loans by offering a variety of transaction account products and loans with competitive terms, by emphasizing the quality of its service, by pricing its products at competitive interest rates, by offering convenient branch locations, and by offering financial planning and financial services at most of its branch locations. The phase-out consolidation of three failed Puerto Rico banks in 2010 and the failure of another Puerto Rico bank in 2015 has created an environment for more rational loan and deposit pricing. The Company's ability to originate loans depends primarily on the services that it provides to its borrowers, in making prompt credit decisions, and on the rates and fees that it charges.

Regulation and Supervision

General

The Company is a financial holding company subject to supervision and regulation by the Federal Reserve Board under the BHC Act, as amended by the Gramm-Leach-Bliley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The qualification requirements and the process for a bank holding company that elects to be treated as a financial holding company requires that a bank holding company and all of the subsidiary banks controlled by it at the time of election must be and remain at all times “well capitalized” and “well managed.”

The Company elected to be treated as a financial holding company as permitted by the Gramm-Leach-Bliley Act. Under the Gramm-Leach-Bliley Act, if the Company fails to meet the requirements for being a financial holding company and is unable to correct such deficiencies within certain prescribed time periods, the Federal Reserve Board could require the Company to divest control of its depository institution subsidiary or alternatively cease conducting activities that are not permissible for bank holding companies that are not financial holding companies.

Financial holding companies may engage, directly or indirectly, in any activity that is determined to be (i) financial in nature or incidental to such financial activity, or (ii) complementary to a financial activity provided it does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Gramm-Leach-Bliley Act specifically provides that the following activities have been determined to be “financial in nature”: (a) lending, trust and other banking activities; (b) insurance activities; (c) financial, investment or economic advisory services; (d) securitization of assets; (e) securities underwriting and dealing; (f) existing bank holding company domestic activities; (g) existing bank holding company foreign activities; and (h) merchant banking activities. A financial holding company may generally commence any activity, or acquire any company, that is financial in nature without prior approval of the Federal Reserve Board. As provided by the Dodd-Frank Act, a financial holding company may not acquire a company, without prior Federal Reserve Board approval, in a transaction in which the total consolidated assets to be acquired by the financial holding company exceed \$10 billion.

In addition, the Gramm-Leach-Bliley Act specifically gives the Federal Reserve Board the authority, by regulation or order, to expand the list of financial or incidental activities, but requires consultation with the U.S. Treasury Department and gives the Federal Reserve Board authority to allow a financial holding company to engage in any activity that is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system.

The Company is required to file with the Federal Reserve Board and the SEC periodic reports and other information concerning its own business operations and those of its subsidiaries. In addition, Federal Reserve Board approval must also be obtained before a bank holding company acquires all or substantially all of the assets of another bank or merges or consolidates with another bank holding company. The Federal Reserve Board also has the authority to issue cease and desist orders against bank holding companies and their non-bank subsidiaries.

The Bank is regulated by various agencies in the United States and the Commonwealth of Puerto Rico. Its main regulators are the OCFI and the FDIC. The Bank is subject to extensive regulation and examination by the OCFI and the FDIC, and is subject to the Federal Reserve Board’s regulation of transactions between the Bank and its affiliates. The federal and Puerto Rico laws and regulations which are applicable to the Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of and collateral for certain loans. In addition to the impact of such regulations, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to control inflation in the economy.

The Company’s mortgage banking business is subject to the rules and regulations of FHA, VA, RHS, FNMA, FHLMC, HUD and GNMA with respect to the origination, processing and selling of mortgage loans and the sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisal reports, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. The Company is also subject to regulation by the OCFI with respect to, among other things, licensing requirements and maximum origination fees on certain types of mortgage loan products.

The Company and its subsidiaries are subject to the rules and regulations of certain other regulatory agencies. Oriental Financial Services, as a registered broker-dealer, is subject to the supervision, examination and regulation of FINRA, the SEC, and the OCFI in matters relating to the conduct of its securities business, including record keeping and reporting requirements, supervision and licensing of employees, and obligations to customers.

Oriental Insurance is subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico in matters relating to insurance sales, including but not limited to, licensing of employees, sales practices, charging of commissions and reporting requirements.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act implements a variety of far-reaching changes and has been described as the most sweeping reform of the financial services industry since the 1930's. It has a broad impact on the financial services industry, including significant regulatory and compliance changes, such as: (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) enhanced lending limits strengthening the existing limits on a depository institution's credit exposure to one borrower; (iii) increased capital and liquidity requirements; (iv) increased regulatory examination fees; (v) changes to assessments to be paid to the FDIC for federal deposit insurance; (vi) prohibiting bank holding companies, such as the Company, from including in regulatory Tier 1 capital future issuances of trust preferred securities or other hybrid debt and equity securities; and (vii) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector.

Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve Board, the Office of the Comptroller of the Currency and the FDIC. Further, the Dodd-Frank Act addresses many corporate governance and executive compensation matters that affect most U.S. publicly traded companies, including the Company. A few provisions of the Dodd-Frank Act became effective immediately, while various provisions have become effective in stages. Many of the requirements called for in the Dodd-Frank Act have been implemented over time and most are subject to implementing regulations.

The Dodd-Frank Act also created a new consumer financial services regulator, the Bureau of Consumer Financial Protection (the “CFPB”), which assumed most of the consumer financial services regulatory responsibilities previously exercised by federal banking regulators and other agencies. The CFPB’s primary functions include the supervision of “covered persons” (broadly defined to include any person offering or providing a consumer financial product or service and any affiliated service provider) for compliance with federal consumer financial laws. It has primary authority to enforce the federal consumer financial laws, as well as exclusive authority to require reports and conduct examinations for compliance with such laws, in the case of any insured depository institution with total assets of more than \$10 billion and any affiliate thereof. The CFPB also has broad powers to prescribe rules applicable to a covered person or service provider identifying as unlawful, unfair, deceptive, or abusive acts or practices in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service.

Holding Company Structure

The Bank is subject to restrictions under federal laws that limit the transfer of funds to its affiliates (including the Company), whether in the form of loans, other extensions of credit, investments or asset purchases, among others. Such transfers are limited to 10% of the transferring institution’s capital stock and surplus with respect to any affiliate (including the Company), and, with respect to all affiliates, to an aggregate of 20% of the transferring institution’s capital stock and surplus. Furthermore, such loans and extensions of credit are required to be secured in specified amounts, carried out on an arm’s length basis, and consistent with safe and sound banking practices.

Under the Dodd-Frank Act, a bank holding company, such as the Company, must serve as a source of financial strength for any subsidiary depository institution. The term “source of financial strength” is defined as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress at such subsidiaries. This support may be required at times when, absent such requirement, the bank holding company might not otherwise provide such support. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain capital of a subsidiary bank will be assumed by the bankruptcy trustee and be entitled to a priority of payment. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The Bank is currently the only depository institution subsidiary of the Company.

Since the Company is a financial holding company, its right to participate in the assets of any subsidiary upon the latter’s liquidation or reorganization will be subject to the prior claims of the subsidiary’s creditors (including depositors in the case of the Bank) except to the extent that the Company is a creditor with recognized claims against the subsidiary.

Dividend Restrictions

The principal source of funds for the Company is the dividends from the Bank. The ability of the Bank to pay dividends on its common stock is restricted by the Puerto Rico Banking Act of 1933, as amended (the “Banking Act”),

the Federal Deposit Insurance Act, as amended (the “FDIA”), and the FDIC regulations. In general terms, the Banking Act provides that when the expenditures of a bank are greater than its receipts, the excess of expenditures over receipts shall be charged against the undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If there is no sufficient reserve fund to cover such balance in whole or in part, the outstanding amount shall be charged against the bank’s capital account. The Banking Act provides that until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends. In general terms, the FDIA and the FDIC regulations restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding a bank.

The payment of dividends by the Bank may also be affected by other regulatory requirements and policies, such as maintenance of adequate capital. If, in the opinion of the regulatory authority, a depository institution under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (that, depending on the financial condition of the depository institution, could include the payment of dividends), such authority may require, after notice and hearing, that such depository institution cease and desist from such practice. The Federal Reserve Board has a policy statement that provides that an insured bank or bank holding company should not maintain its existing rate of cash dividends on common stock unless (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality, and overall financial condition. In addition, all insured depository institutions are subject to the capital-based limitations required by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA").

Federal Home Loan Bank System

The FHLB system, of which the Bank is a member, consists of 12 regional FHLBs governed and regulated by the Federal Housing Finance Agency. The FHLB serves as a credit facility for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the boards of directors of each regional FHLB.

As a system member, the Bank is entitled to borrow from the FHLB of New York (the "FHLB-NY") and is required to invest in FHLB membership and activity-based stock. The Bank must purchase membership stock equal to the greater of \$1,000 or 0.15% of certain mortgage-related assets held by the Bank. The Bank is also required to purchase activity-based stock equal to 4.50% of outstanding advances to the Bank by the FHLB. The Bank is in compliance with the membership and activity-based stock ownership requirements described above. All loans, advances and other extensions of credit made by the FHLB to the Bank are secured by a portion of the Bank's mortgage loan portfolio, certain other investments, and the capital stock of the FHLB held by the Bank. The Bank is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances.

Prompt Corrective Action Regulations

Pursuant to the Dodd-Frank Act, federal banking agencies have adopted 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 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".

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. Under the new rules, an insured depository institution is:

(i) “well capitalized,” if it has a total risk-based capital ratio of 10% or more, a tier 1 risk-based capital ratio of 8% or more, a common equity tier 1 capital ratio of 6.5% or more, and a tier 1 leverage capital ratio of 5% or more, and is not subject to any written capital order or directive;

(ii) “adequately capitalized,” if it has a total risk-based capital ratio of 8% or more, a tier 1 risk-based capital ratio of 6% or more, a common equity tier 1 capital ratio of 4.5% or more, and a tier 1 leverage capital ratio of 4% or more;

(iii) “undercapitalized,” if it has a total risk-based capital ratio that is less than 8%, a tier 1 risk-based ratio that is less than 6%, a common equity tier 1 capital ratio that is less than 4.5%, or a tier 1 leverage capital ratio that is less than 4%;

(iv) “significantly undercapitalized,” if it has a total risk-based capital ratio that is less than 6%, a tier 1 risk-based capital ratio that is less than 4%, a common equity tier 1 capital ratio that is less than 3%, or a tier 1 leverage capital ratio that is less than 3%; and

(v) “critically undercapitalized,” if it has a ratio of tangible equity (defined as tier 1 capital plus non-tier 1 perpetual preferred stock) to total assets that is equal to or less than 2%.

The new capital rules also include a policy statement by the agencies that all banking organizations should maintain capital commensurate with their risk profiles, which may entail holding capital significantly above the minimum requirements. They also provide a reservation of authority permitting examiners to require that such organizations hold additional regulatory capital.

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fees to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. A depository institution’s holding company must guarantee the capital plan, up to an amount equal to the lesser of 5% of the depository institution’s assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to the appointment of a receiver or conservator.

FDIC Insurance Assessments

The Bank is subject to FDIC deposit insurance assessments. The Federal Deposit Insurance Reform Act of 2005 (the “Reform Act”) merged the Bank Insurance Fund (“BIF”) and the Savings Association Insurance Fund (“SAIF”) into a single Deposit Insurance Fund, and increased the maximum amount of the insurance coverage for certain retirement accounts, and possible “inflation adjustments” in the maximum amount of coverage available with respect to other insured accounts. In addition, it granted a one-time initial assessment credit (of approximately \$4.7 billion) to recognize institutions’ past contributions to the fund. As a result of the merger of the BIF and the SAIF, all insured institutions are subject to the same assessment rate schedule.

The Dodd-Frank Act contains several important deposit insurance reforms, including the following: (i) the maximum deposit insurance amount was permanently increased to \$250,000; (ii) the deposit insurance assessment is now based on the insured depository institution’s average consolidated assets minus its average tangible equity, rather than on its deposit base; (iii) the minimum reserve ratio for the Deposit Insurance Fund was raised from 1.15% to 1.35% of estimated insured deposits by September 30, 2020; (iv) the FDIC is required to “offset the effect” of increased assessments on insured depository institutions with total consolidated assets of less than \$10 billion; (v) the FDIC is no longer required to pay dividends if the Deposit Insurance Fund’s reserve ratio is greater than the minimum ratio; and (vi) the FDIC temporarily insured the full amount of qualifying “noninterest-bearing transaction accounts” until December 31, 2012. As defined in the Dodd-Frank Act, a “noninterest-bearing transaction account” is a deposit or

account maintained at a depository institution with respect to which interest is neither accrued nor paid, on which the depositor or account holder is permitted to make withdrawals by negotiable or transferrable instrument, payment orders of withdrawals, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others, and on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal.

The FDIC amended its regulations under the FDIA, as amended by the Dodd-Frank Act, to modify the definition of a depository institution's insurance assessment base; to revise the deposit insurance assessment rate schedules in light of the new assessment base and altered adjustments; to implement the dividend provisions of the Dodd-Frank Act; and to revise the large insured depository institution assessment system to better differentiate for risk and better take into account losses from large institution failures that the FDIC may incur. Since the new assessment base under the Dodd-Frank Act is larger than the current assessment base, the new assessment rates adopted by the FDIC are lower than the former rates.

Brokered Deposits

FDIC regulations adopted under the FDIA govern the receipt of brokered deposits by banks. Well capitalized institutions are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the interest paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. As of December 31, 2015, the Bank is a well capitalized institution and is therefore not subject to these limitations on brokered deposits.

Regulatory Capital Requirements

Under the Dodd-Frank Act, federal banking regulators are required to establish minimum leverage and risk-based capital requirements, on a consolidated basis, for insured institutions, depository institution holding companies, and non-bank financial companies supervised by the Federal Reserve Board. The minimum leverage and risk-based capital requirements are to be determined based on the minimum ratios established for insured depository institutions under prompt corrective action regulations. In effect, such provision of the Dodd-Frank Act, which is commonly known as the Collins Amendment, applies to bank holding companies the same leverage and risk-based capital requirements that apply to insured depository institutions. Because the capital requirements must be the same for insured depository institutions and their holding companies, the Collins Amendment generally excludes certain debt or equity instruments, such as cumulative perpetual preferred stock and trust preferred securities, from Tier 1 Capital, subject to a three-year phase-out from Tier 1 qualification for such instruments issued before May 19, 2010, with the phase-out commencing on January 1, 2014 for advanced approaches banking organizations and January 1, 2015 for other bank holding companies with consolidated assets of \$15 billion or more as of December 31, 2009. However, such instruments issued before May 19, 2010 by a bank holding company, such as the Company, with a total consolidated assets of less than \$15 billion as of December 31, 2009, are not affected by the Collins Amendments, are “grandfathered” under the new capital rules, and may continue to be included in tier 1 Capital as a restricted core capital element.

The new capital rules adopted by the federal banking agencies revise the agencies’ risk-based and leverage capital requirements for banking organizations, and consolidate three separate notices of proposed rulemaking that the OCC, Federal Reserve Board and FDIC published in the Federal Register on August 30, 2012, with selected changes. In particular, and consistent with the framework of the Basel Committee on Banking Supervision in “Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems,” the new capital rules include a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets that apply to all banking organizations. The rules also raise the minimum ratio of tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking organizations. In addition, for the largest, most internationally active banking organizations, the rules include a new minimum supplementary leverage ratio that takes into account off-balance sheet exposures. The rules incorporate these new requirements into the agencies’ prompt corrective action framework. In addition, the rules establish limits on a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. Further, the rules amend the methodologies for determining risk-weighted assets for all banking organizations; introduce disclosure requirements that would apply to top-tier banking organizations domiciled in the United States with \$50 billion or more in total assets; and adopt changes to the agencies’ regulatory capital requirements that meet the requirements of Section 171 and Section 939A of the Dodd-Frank Act. These rules also codify the agencies’ current capital rules, which have previously resided in various appendices to their respective regulations, into a harmonized integrated regulatory framework.

Failure to meet the capital guidelines could subject an institution to a variety of enforcement actions including the termination of deposit insurance by the FDIC and to certain restrictions on its business. At December 31, 2015, the Company was in compliance with all applicable capital requirements. For more information, please refer to the accompanying consolidated financial statements.

Safety and Soundness Standards

Section 39 of the FDIA, as amended by FDICIA, requires each federal banking agency to prescribe for all insured depository institutions standards relating to internal control, information systems, and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, and such other operational and managerial standards as the agency deems appropriate. In addition, each federal banking agency also is required to adopt for all insured depository institutions standards relating to asset quality, earnings and stock valuation that the agency determines to be appropriate. Finally, each federal banking agency is required to prescribe standards for the employment contracts and other compensation arrangements of executive officers, employees, directors and principal stockholders of insured depository institutions that would prohibit compensation, benefits and other arrangements that are excessive or that could lead to a material financial loss for the institution. If an institution fails to meet any of the standards described above, it will be required to submit to the appropriate federal banking agency a

plan specifying the steps that will be taken to cure the deficiency. If the institution fails to submit an acceptable plan or fails to implement the plan, the appropriate federal banking agency will require the institution to correct the deficiency and, until it is corrected, may impose other restrictions on the institution, including any of the restrictions applicable under the prompt corrective action provisions of FDICIA.

The FDIC and the other federal banking agencies have adopted Interagency Guidelines Establishing Standards for Safety and Soundness that, among other things, set forth standards relating to internal controls, information systems and internal audit systems, loan documentation, credit, underwriting, interest rate exposure, asset growth and employee compensation.

Activities and Investments of Insured State-Chartered Banks

Section 24 of the FDIA, as amended by FDICIA, generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. Under FDIC regulations of equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank, such as the Bank, is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary engaged in permissible activities, (ii) investing as a limited partner in a partnership, or as a non-controlling interest holder of a limited liability company, the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such investments may not exceed 2% of the bank's total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting stock of an insured depository institution if certain requirements are met, including that it is owned exclusively by other banks. Under the FDIC regulations governing the activities and investments of insured state banks which further implemented Section 24 of the FDIA, as amended by FDICIA, an insured state-chartered bank may not, directly, or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the Deposit Insurance Fund and the bank is in compliance with applicable regulatory capital requirements.

Transactions with Affiliates and Related Parties

Transactions between the Bank and any of its affiliates are governed by sections 23A and 23B of the Federal Reserve Act. These sections are important statutory provisions designed to protect a depository institution from transferring to its affiliates the subsidy arising from the institution's access to the Federal safety net. An affiliate of a bank is any company or entity that controls, is controlled by, or is under common control with the bank, including investment funds for which the bank or any of its affiliates is an investment advisor. Generally, sections 23A and 23B (i) limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the bank's capital stock and surplus, and limit such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms that are consistent with safe and sound banking practices. The term "covered transactions" includes the making of loans, purchase of or investment in securities issued by the affiliate, purchase of assets, acceptance of securities issued by the affiliate as collateral for a loan or extension of credit, issuance of guarantees and other similar types of transactions. The Dodd-Frank Act expanded the scope of transactions treated as "covered transactions" to include credit exposure to an affiliate on derivatives transactions, credit exposure resulting from a securities borrowing or lending transaction, or derivative transaction, and acceptances of affiliate-issued debt obligations as collateral for a loan or extension of credit. Most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100% to 130% of the loan amount, depending on the nature of the collateral. In addition, any covered transaction by a bank with an affiliate and any sale of assets or provision of services to an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with nonaffiliated

companies. Regulation W of the Federal Reserve Board comprehensively implements sections 23A and 23B. The regulation unified and updated staff interpretations issued over the years prior to its adoption, incorporated several interpretative proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate), and addressed issues arising as a result of the expanded scope of non-banking activities engaged in by banks and bank holding companies and authorized for financial holding companies under the Gramm-Leach-Bliley Act.

Sections 22(g) and 22(h) of the Federal Reserve Act place restrictions on loans by a bank to executive officers, directors, and principal shareholders. Regulation O of the Federal Reserve Board implements these provisions. Under Section 22(h) and Regulation O, loans to a director, an executive officer and to greater-than-10% shareholders of a bank and certain of their related interests (“insiders”), and insiders of its affiliates, may not exceed, together with all other outstanding loans to such person and its related interests, the bank’s single borrower limit (generally equal to 15% of the institution’s unimpaired capital and surplus). Section 22(h) and Regulation O also require that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of

the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) and Regulation O also require prior board of directors' approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) and Regulation O place additional restrictions on loans to executive officers.

Community Reinvestment Act

Under the Community Reinvestment Act ("CRA"), a financial institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires federal examiners, in connection with the examination of a financial institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Company has a Compliance Department that oversees the planning of products and services offered to the community, especially those aimed to serve low and moderate income communities.

USA Patriot Act

Under Title III of the USA Patriot Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions, including the Company, Oriental Financial Services, and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions.

The U.S. Treasury Department (the "US Treasury") has issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions. The regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal consequences for the institution. The Company and its subsidiaries, including the Bank, have adopted policies, procedures and controls to address compliance with the USA Patriot Act under existing regulations, and will continue to revise and update their policies, procedures and controls to reflect changes required by the USA Patriot Act and the US Treasury's regulations.

Privacy Policies

Under the Gramm-Leach-Bliley Act, all financial institutions are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect customer data from unauthorized access. The Company and its subsidiaries have established policies and procedures to assure the Company's compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 (“SOX”) implemented a range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. In addition, SOX established membership requirements and responsibilities for the audit committee, imposed restrictions on the relationship between the Company and external auditors, imposed additional responsibilities for the external financial statements on the chief executive officer and the chief financial officer, expanded the disclosure requirements for corporate insiders, required management to evaluate its disclosure controls and procedures and its internal control over financial reporting, and required the auditors to issue a report on the internal control over financial reporting.

The Company has included in this annual report on Form 10-K management’s assessment regarding the effectiveness of the Company’s internal control over financial reporting. The internal control report includes a statement of management’s responsibility for establishing and maintaining adequate internal control over financial reporting for the Company; management’s assessment as to the effectiveness of the Company’s internal control over financial reporting based on management’s evaluation as of year-end; and the framework used by management as criteria for evaluating the effectiveness of the Company’s internal control over financial reporting. As of December 31, 2015, the Company’s management concluded that its internal control over financial reporting was effective.

Puerto Rico Banking Act

As a Puerto Rico-chartered commercial bank, the Bank is subject to regulation and supervision by the OCFI under the Banking Act, which contains provisions governing the incorporation and organization of the Bank, rights and responsibilities of directors, officers and stockholders, as well as the corporate powers, savings, lending, capital and investment requirements and other aspects of the Bank and its affairs. In addition, the OCFI is given extensive rulemaking power and administrative discretion under the Banking Act. The OCFI generally examines the Bank at least once every year.

The Banking Act requires that a minimum of 10% of the Bank's net income for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid-in capital on common and preferred stock. At December 31, 2015 and 2014, legal surplus amounted to \$70.4 million. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

The Banking Act also provides that when the expenditures of a bank are greater than the receipts, the excess of the former over the latter must be charged against the undistributed profits of the bank, and the balance, if any, must be charged against the reserve fund. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount must be charged against the capital account and no dividend may be declared until said capital has been restored to its original amount and the reserve fund to 20% of the original capital.

The Banking Act further requires every bank to maintain a legal reserve which cannot be less than 20% of its demand liabilities, except government deposits (federal, commonwealth and municipal), which are secured by actual collateral.

The Banking Act also requires change of control filings. When any person or entity will own, directly or indirectly, upon consummation of a transfer, 5% or more of the outstanding voting capital stock of a bank, the acquiring parties must inform the OCFI of the details not less than 60 days prior to the date said transfer is to be consummated. The transfer will require the approval of the OCFI if it results in a change of control of the bank. Under the Banking Act, a change of control is presumed if an acquirer who did not own more than 5% of the voting capital stock before the transfer exceeds such percentage after the transfer.

The Banking Act permits Puerto Rico commercial banks to make loans to any one person, firm, partnership or corporation, up to an aggregate amount of 15% of the sum of: (i) the bank's paid-in capital; (ii) the bank's reserve fund; (iii) 50% of the bank's retained earnings, subject to certain limitations; and (iv) any other components that the OCFI may determine from time to time. If such loans are secured by collateral worth at least 25% more than the amount of the loan, the aggregate maximum amount will include 33.33% of 50% of the bank's retained earnings. Such restrictions under the Banking Act on the amount of loans to a single borrower do not apply to loans: (i) to the government of the United States or the government of the Commonwealth of Puerto Rico, or any of their respective agencies, instrumentalities or municipalities, or (ii) that are wholly secured by bonds, securities and other evidence of indebtedness of the government of the United States or of the Commonwealth of Puerto Rico or by bonds, not in default, of municipalities or instrumentalities of the Commonwealth of Puerto Rico.

The Puerto Rico Finance Board is composed of the Commissioner of Financial Institutions of Puerto Rico; the Presidents of the Government Development Bank for Puerto Rico, the Economic Development Bank for Puerto Rico and the Planning Board; the Puerto Rico Secretaries of Commerce and Economic Development, Treasury and Consumer Affairs; the Commissioner of Insurance; and the President of the Public Corporation for Insurance and Supervision of Puerto Rico Credit Unions. It has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and unincorporated businesses in the Commonwealth. The current

regulations of the Puerto Rico Finance Board provide that the applicable interest rate on loans to individuals and unincorporated businesses is to be determined by free competition. The Puerto Rico Finance Board also has the authority to regulate maximum finance charges on retail installment sales contracts and for credit card purchases. There is presently no maximum rate for retail installment sales contracts and for credit card purchases.

Puerto Rico Internal Revenue Code

On July 2014, the Governor signed into law Act No. 77-2014, known as “Ley de Ajustes al Sistema Contributivo” (Act of Adjustments to the Tax System). The main purpose of this legislation is to increase government collections in order to alleviate the structural budget deficit. Its most relevant provisions, 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.

On May 29, 2015 the Governor signed Act No. 72 of 2015. The most relevant provisions of the Act No. 72, as applicable to the Company, for taxable years beginning after December 31, 2014, are as follows: (1) establishes a new definition of “large taxpayers,” which require them to file their tax return following a special procedure established by the Secretary of the Treasury, (2) net operating losses carried forward may be deducted up to 70% of the alternative minimum net income for purposes of computing the alternative minimum tax, and (3) net operating losses carried forward may be deducted up to 80% of the net income for purposes of computing the regular corporate income tax.

Other Code amendments applicable during 2015 are the increase of the Sales and Use Tax (SUT) from 7% to 11.5% beginning July 1st, 2015 and a special SUT to business to business transactions of 4%, beginning October 1st, 2015. These were implemented as a transitional phase to the enacted Value Added Tax (VAT) of 10.5%, which will be in place on April 1st, 2016, along with a Municipal SUT of 1% on certain taxable items.

International Banking Center Regulatory Act of Puerto Rico

The business and operations of the Bank’s IBE Unit and IBE Subsidiary are subject to supervision and regulation by the OCFI. Under the IBE Act, no sale, encumbrance, assignment, merger, exchange or transfer of shares, interest or participation in the capital of an IBE may be initiated without the prior approval of the OCFI if by such transaction a person would acquire, directly or indirectly, control of 10% or more of any class of stock, interest or participation in the capital of the IBE. The IBE Act and the regulations issued thereunder by the OCFI (the “IBE Regulations”) limit the business activities that may be carried out by an IBE. Such activities are limited in part to persons and assets/liabilities located outside of Puerto Rico. The IBE Act provides further that every IBE must have not less than \$300 thousand of unencumbered assets or acceptable financial guarantees.

Pursuant to the IBE Act and the IBE Regulations, the Bank’s IBE Unit and IBE Subsidiary have to maintain books and records of all their transactions in the ordinary course of business. They are also required to submit quarterly and annual reports of their financial condition and results of operations to the OCFI, including annual audited financial statements.

The IBE Act empowers the OCFI to revoke or suspend, after notice and hearing, a license issued thereunder if, among other things, the IBE fails to comply with the IBE Act, the IBE Regulations or the terms of its license, or if the OCFI finds that the business or affairs of the IBE are conducted in a manner that is not consistent with the public interest.

In 2012, the IBE Act was superseded by a new law that, among other things, prohibits new license applications to organize and operate an IBE. Any such newly organized entity (now called an “international financial entity”) must be licensed under the new law, and such entity (as opposed to existing IBEs organized under the IBE Act, including the Bank’s IBE Unit and IBE Subsidiary, which are “grandfathered”) will generally be subject to a 4% Puerto Rico income tax rate.

Volcker Rule

The so-called “Volcker Rule” adopted by the federal banking regulatory agencies under Section 619 of the Dodd-Frank Act generally prohibits insured depository institutions and their affiliates from (i) engaging in short-term proprietary trading of securities, derivatives, commodities futures and options on these instruments for their own account; and (ii) owning, sponsoring or having certain relationships with hedge funds or private equity funds. However, it exempts certain activities, including market making, underwriting, hedging, trading in government and municipal obligations, and organizing and offering a hedge fund or private equity fund, among others. A banking entity that engages in any such covered activity (i.e., proprietary trading or investment activities in hedge funds or private equity funds) is generally required to establish an internal compliance program reasonably designed to ensure and monitor compliance with the Volcker Rule.

Employees

At December 31, 2015, the Company had 1,466 employees. None of its employees is represented by a collective bargaining group. The Company considers its employee relations to be good.

Internet Access to Reports

The Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any and all amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on or through the “Investor Relations” link of the Company’s internet website at www.orientalbank.com, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

The Company's corporate governance principles and guidelines, code of business conduct and ethics, and the charters of its audit committee, compensation committee, risk and compliance committee, and corporate governance and nominating committee are available free of charge on the Company's website at www.orientalbank.com in the investor relations section under the corporate governance link. The Company's code of business conduct and ethics applies to its directors, officers, employees and agents, including its principal executive, financial and accounting officers.

ITEM 1A. RISK FACTORS

In addition to other information set forth in this report, you should carefully consider the following risk factors, as updated by other filings the Company makes with the SEC under the Securities Exchange Act of 1934. Additional risks and uncertainties not presently known to us at this time or that the Company currently deems immaterial may also adversely affect the Company's business, financial condition or results of operations.

Most of our business is conducted in Puerto Rico, which in recent years has been experiencing a deep economic recession, a downturn in the real estate market, and a government fiscal and liquidity crisis.

Our loan and deposit activities are directly affected by economic conditions within Puerto Rico. Because a significant portion of our credit risk exposure on our loan portfolio, which is the largest component of our interest-earning assets, is concentrated in Puerto Rico, our profitability and financial condition may be adversely affected by an extended economic recession, adverse political, fiscal 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 our loans and loan servicing portfolio.

The Puerto Rico economy has been in a recession since 2006 and the Commonwealth government currently faces a severe fiscal and liquidity crisis as a result of many years of significant budget deficits, among other factors, which have adversely affected its ability to obtain financing at reasonable interest rates, if at all. Puerto Rico also faces high unemployment, unprecedented population decline, and high levels of government debt and pension obligations. A further deterioration in local economic conditions or in the financial condition of an industry on which the local market depends could adversely affect factors such as unemployment rates and real estate vacancy and values. This could result in, among other things, a reduction of creditworthy borrowers seeking loans, an increase in loan delinquencies, defaults and foreclosures, an increase in classified and non-accrual loans, a decrease in the value of collateral for or loans, and a decrease in core deposits. Any of these factors could materially impact our business.

For a discussion of the impact of the economy on our loan portfolios, see “—A prolonged economic downturn or recession or a continuing decline in the real estate market would likely result in an increase in delinquencies, defaults and foreclosures and in a reduction in loan origination activity, which would adversely affect our financial results.”

We are exposed to credit and concentration risk in connection with our loans to certain public corporations, instrumentalities and municipalities of Puerto Rico, and a credit default on their debt obligations could adversely affect the value of such loans and our financial condition.

Although the economy of Puerto Rico is closely related to the economy of the rest of the United States, the Commonwealth and its instrumentalities face a number of severe economic and fiscal challenges that, either individually or in the aggregate, could adversely affect the Commonwealth's ability to pay debt-service on its obligations when due. The three main credit rating agencies have downgraded all debt obligations of the Puerto Rico government to categories that are well below investment grade and a credit or payment default by at least two of the Commonwealth's public instrumentalities has occurred and additional defaults are generally expected. The downgrades are based mostly on concerns about Puerto Rico's economic recession, liquidity availability, sizable debt-obligations, high unemployment, shrinking population, unreliable forecasts for financial information, and the Puerto Rico government's lack of financial flexibility and limited capacity to borrow in the capital markets, which increase the Commonwealth's risk of default. Securities that are below investment grade present greater risks and are less liquid than investment-grade securities.

The Commonwealth government has unveiled a fiscal restructuring plan that, among other findings, provides that paying debt service on Puerto Rico's government obligations in the face of significant financing gaps could severely impair its ability to provide essential services to the residents of Puerto Rico. In this regard, it has proposed to seek a consensual restructuring of its outstanding debt and other tax-supported obligations. If the government is unable to restructure its debts and/or negotiate upcoming maturities and liquidity sources continue scarce, the government may have to declare a debt-service moratorium, default on its debt obligations, eliminate government agencies, cut essential programs or services, and take other emergency or extraordinary actions. Any further deterioration of economic or fiscal conditions in Puerto Rico 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 December 31, 2015, we had approximately \$415 million of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, all of which 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 their 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”). Public corporations have varying degrees of independence from the central government and many have received appropriations or are due other payments from it.

Oriental Bank is part of a four bank syndicate providing a \$550 million revolving line of credit to finance the purchase of fuel for PREPA’s day-to-day power generation activities. Our participation in the line of credit has an unpaid principal balance of \$190.3 million as of December 31, 2015. As part of the bank syndicate, the Bank entered into a forbearance agreement with PREPA, which was extended several times until the execution of a Restructuring Support Agreement on November 5, 2015 with PREPA and certain other creditors. The Restructuring Support Agreement provides for the restructuring of the fuel line of credit subject to the accomplishment of several milestones, including some milestones that depend on the actions of third parties to the agreement, such as the negotiation of agreements with other creditors and legislative action. The Company has classified the credit facility to PREPA as substandard and on non-accrual status. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company’s analysis showing PREPA’s capacity to repay the line of credit, the Company placed its participation in non-accrual during the first quarter of 2015 and recorded a \$53.3 million provision for loan and lease losses during 2015. Since April 1, 2015, interest payments have been applied to principal.

In June 2014, Puerto Rico enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”), which established procedures for the adjustment of debts of certain public corporations owned by the Commonwealth, which, as Puerto Rico governmental instrumentalities, are not currently eligible for federal bankruptcy relief under any chapter of the U.S. Bankruptcy Code. The Recovery Act states in its preamble that it further promotes the government’s public policy of no longer providing financial support to such public corporations, such as, for example, the PREPA, and promoting their economic independence. In February 2015, the United States District Court for the District of Puerto Rico held that the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void pursuant to the Supremacy Clause of the United States Constitution. It also permanently enjoined the Commonwealth from enforcing the Recovery Act. The District Court’s decision was upheld on appeal by the United States Circuit Court of Appeals for the First Circuit. However, on December 4, 2015, the United States Supreme Court granted the Commonwealth’s petition for writ of certiorari to review the District Court’s decision. Oral arguments before the United States Supreme Court are scheduled for March 22, 2016. In addition, there are ongoing initiatives in Congress to make Chapter 9 of the U.S. Bankruptcy Code applicable to Puerto Rico and/or otherwise provide an orderly debt restructuring regime for the Commonwealth. In summary, the Commonwealth’s current ability to restructure the debts of some of its public corporations, such as PREPA, remains uncertain, and a broad disorderly restructuring with multiple creditor lawsuits and other legal actions

is possible.

PREPA’s enabling act provides for local receivership upon request to any Puerto Rico court of competent jurisdiction in the event of a default in debt-service payments or other obligations in connection with PREPA’s bonds. The

receiver so appointed would be empowered, directly or through its agents and attorneys, to take possession of the undertakings, income and revenues pledged to the payment of the bonds in default; to have, hold, use, operate, manage and control the same; and to exercise all of PREPA's rights and powers with respect to such undertakings. However, any such receiver would not have the power to sell, assign, mortgage or otherwise dispose of PREPA's assets, and its powers would be limited to the operation and maintenance of such undertakings and the collection and application of the income and revenues therefrom. These provisions have not been tested in the courts, and it is not clear if and how they would apply in connection with other debts and obligations of PREPA upon an event of default.

The PREPA Revitalization Act was recently signed into law by the Governor of Puerto Rico. It provides for a major debt restructuring of PREPA's outstanding debt and sets forth a legal framework for PREPA to execute on the agreements reached with its creditors. Among other things, it (i) enhances PREPA's governance processes; (ii) adjusts PREPA's practices for hiring and managing personnel; (iii) changes PREPA's processes for collecting outstanding bills from public and private entities; (iv) improves transparency of PREPA's billing practices; (v) implements a competitive bidding process for soliciting third party investment in PREPA's infrastructure; (vi) allows for the refinancing of existing PREPA bonds through a securitization that would reduce PREPA's indebtedness and cost of borrowing; and (vii) sets forth a process for the Energy Commission to address PREPA's proposal for a new rate structure that consistent with its recovery plan.

If our Commonwealth public debtors are unable to pay their obligations to us as they become due, or under certain other circumstances, we may be required to adversely classify such loans and provision for losses in connection therewith. Such provision may significantly impact our financial condition and our regulatory capital ratios.

Our decisions regarding credit risk and the allowance for loan and lease losses may materially and adversely affect our business and results of operations.

Making loans is an essential element of our business, and there is a risk that the loans will not be repaid. This default risk is affected by a number of factors, including:

- the duration of the loan;
- credit risks of a particular borrower;
- changes in economic or industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

Our customers might not repay their loans according to the original terms, and the collateral securing the payment of those loans might be insufficient to pay any remaining loan balance. Hence, we may experience significant loan losses, which could have a materially adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the amount of the allowance for loan losses, we rely on loan quality reviews, past loss experience, and an evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease our net income.

Our emphasis on the origination of commercial real estate and business loans is one of the more significant factors in evaluating our allowance for loan losses. As we continue to increase the amount of these loans, additional or increased provisions for credit losses may be necessary and as a result would decrease our earnings.

We strive to maintain an appropriate allowance for loan and lease losses to provide for probable losses inherent in the loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors such as default frequency, internal risk ratings, expected future cash collections, loss recovery rates and general economic factors, among others. Our methodology for measuring the adequacy of the allowance relies on several key elements, which include a specific allowance for identified problem loans and a general systematic allowance.

We believe our allowance for loan and lease losses is currently sufficient given the constant monitoring of the risk inherent in the loan portfolio. However, there is no precise method of predicting loan losses and therefore we always face the risk that charge-offs in future periods will exceed the allowance for loan and lease losses and that additional increases in the allowance for loan and lease losses will be required. In addition, the FDIC as well as the OCFI may require us to establish additional reserves. Additions to the allowance for loan and lease losses would result in a decrease of net earnings and capital, and could hinder our ability to pay dividends.

Given the severe economic conditions in Puerto Rico, we may continue to experience increased credit costs or need to take greater than anticipated markdowns and make greater than anticipated provisions to increase the allowances for loan losses on the loans acquired that could adversely affect our financial condition and results of operations in the future.

Bank regulators periodically review our allowance for loan losses and may require us to increase our provision for credit losses or loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities could have a materially adverse effect on our results of operations and/or financial condition.

Non-Compliance with USA Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

Financial Institutions are required under the USA Patriot Act and Bank Secrecy Acts to develop programs to prevent financial institutions from being used for money-laundering and terrorist activities. Financial institutions are obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure or the inability to comply with these regulations could result in enforcement actions, fines or

penalties, curtailment of expansion opportunities, intervention or sanctions by regulators or costly litigation or expensive additional controls and systems. We have developed policies and continue to augment procedures, staff and systems designed to assist in compliance with such laws and regulations.

We are subject to default and other risks in connection with mortgage loan originations.

From the time that we fund the mortgage loans originated to the time that they are sold, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loans, the risk of loss from mortgage loan defaults and foreclosures passes to the purchaser or insurer of the mortgage loans. However, in the ordinary course of business, we make representations and warranties to the purchasers and insurers of mortgage loans relating to the validity of such loans. If there is a breach of any of these representations or warranties, we may be required to repurchase the mortgage loan and bear any subsequent loss on the mortgage loan. We also may be required to repurchase mortgage loans in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. For the year ended December 31, 2015, we repurchased \$26.6 million of loans from GNMA and FNMA. Any such repurchases in the future may negatively impact our liquidity and operating results. Termination of our ability to sell mortgage products to the U.S government-sponsored entities would have a material adverse effect on our results of operations and financial condition. In addition, we may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, including securities fraud claims, and the amount of such losses could exceed the purchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans. In addition, we incur higher liquidity risk with respect to mortgage loans not eligible to be purchased or insured by FNMA, GNMA or FHLMC, due to a lack of secondary market in which to sell these loans.

We have established reserves in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by us. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation related to us and the industry, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations. For additional information related to our allowance for loan and lease losses, see “Note 6—Allowance for Loan and Lease Losses” to our audited consolidated financial statements included in this annual report on Form 10-K.

A prolonged economic downturn or recession or a continuing decline in the real estate market would likely result in an increase in delinquencies, defaults and foreclosures and in a reduction in loan origination activity, which would adversely affect our financial results.

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and industry-wide losses. The market for residential mortgage loan originations in Puerto Rico is currently in decline, and this trend could also reduce the level of mortgage loans that we may originate in the future and may adversely impact our business. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values. A significant trend of decreasing values in several housing segments in Puerto Rico has also been noted. There is a risk that a reduction in housing values could negatively impact our loss levels on the mortgage loan portfolio because the value of the homes underlying the loans is a primary source of repayment in the event of foreclosure.

The decline in Puerto Rico's economy has had an adverse effect in the credit quality of our loan portfolios. Among other things, during the ongoing recession, we have experienced an increase in the level of non-performing assets and loan loss provision, which adversely affected our profitability. Although the delinquency rates have decreased recently, they may increase if the recession continues or worsens. If there is another decline in economic activity, additional increases in the allowance for loan and lease losses could be necessary with further adverse effects on our profitability.

Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the price received on the sale of such loans, and the value of the mortgage loan portfolio, all of which could have a negative impact on our results of operations

and financial condition. In addition, any material decline in real estate values would weaken our collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults. For a discussion of the impact of the Puerto Rico economy on our business operations, see “Most of our business is conducted in Puerto Rico, which is experiencing a deep economic recession, downturn in the real estate market, and a government fiscal and liquidity crisis.”

We are subject to security and operational risk related to our use of technology, including the risk of cyber-attack or cyber theft

Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks regarding our customers and their accounts. To provide these products and services, we use information systems and infrastructure that we and third party service providers operate. As a financial institution, we also are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs.

Such incidents may include unauthorized access to our digital systems for purposes of misappropriation of assets, gaining access to sensitive information, corrupting data, or causing operational disruption. Although our information technology structure continue to be subject to cyber attacks, we have not experience a breach of cyber-security. Such an event could compromise our confidential information as well as that of our customers and third parties with whom we interact with and may result in negative consequences, including remediation costs, loss of revenues, additional regulatory scrutiny, litigation and reputational damage. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

While we have policies and procedures designated to prevent or limit the effect of the possible security breach of our information systems, if unauthorized persons were somehow to get access to confidential or proprietary information in our possession or to our proprietary information, it could result in significant legal and financial exposure, damage to our reputation or a loss of confidence in the security of our systems that could adversely affect our business. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

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.

Our financial results are constantly exposed to market risk, in particular to changes in interest rates.

Market risk refers to the probability of variations in the net interest income or the fair value of assets and liabilities due to changes in interest rates, currency exchange rates or equity prices.

Changes in interest rates are one of the principal market risks affecting us. Our income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets, such as loans and investment securities, and the interest rates paid on interest-bearing liabilities, such as deposits and borrowings. Net interest income is the difference between the revenue generated on interest-earning assets and the interest cost of funding those assets. Depending on the duration and repricing characteristics of the assets, liabilities and off-balance sheet items, changes in interest rates could either increase or decrease the level of net interest income. For any given period, the pricing structure of the assets and liabilities is matched when an equal amount of such assets and liabilities mature or reprice in that period.

We use an asset-liability management software program to project future movements in the 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 highly complex and use many simplifying assumptions. In addition, the interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the value of loans and investment securities, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding.

We are subject to interest rate risk because of the following factors:

- Assets and liabilities may mature or reprice at different times. For example, if assets reprice slower than liabilities and interest rates are generally rising, earnings may initially decline.
- Assets and liabilities may reprice at the same time but by different amounts. For example, when the general level of interest rates is rising, we may increase rates charged on loans by an amount that is less than the general increase in market interest rates because of intense pricing competition. Also, basis risk occurs when assets and liabilities have similar repricing frequencies but are tied to different market interest rate indices that may not move in tandem.
- Short-term and long-term market interest rates may change by different amounts, *i.e.*, the shape of the yield curve may affect new loan yields and funding costs differently.
- The remaining maturity of various assets and liabilities may shorten or lengthen as interest rates change. For example, if long-term mortgage interest rates decline sharply, our mortgage-backed securities portfolios may prepay significantly earlier than anticipated, which could reduce portfolio income. If prepayment rates increase, we would be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant impact on mortgage-backed securities and collateralized mortgage obligations since prepayments could shorten the weighted average life of these portfolios.
- Interest rates may have an indirect impact on loan demand, credit losses, loan origination volume, the value of financial assets and financial liabilities, gains and losses on sales of securities and loans, the value of mortgage

servicing rights and other sources of earnings.

In limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed rate assets and liabilities, change pricing schedules, adjust maturities through sales and purchases of investment securities, and enter into derivative contracts, among other alternatives. We may suffer losses or experience lower spreads than anticipated in initial projections as management implements strategies to reduce future interest rate exposure.

The hedging transactions that we enter into may not be effective in managing our exposure to market risk, including interest rate risk.

We use over-the-counter (“OTC”) derivatives, such as interest rate swaps and options on interest rate swaps, to manage part of our exposure to market risk caused by changes in interest rates. We have offered certificates of deposit with an option tied to the performance of the Standard & Poor 500 stock market index and use derivatives, such as option agreements with major broker-dealer companies, to manage our exposure to changes in the value of the index. The OTC derivative instruments that we may utilize also have their own risks, which include: (i) basis risk, which is the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost; (ii) credit or default risk, which is the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder; and (iii) legal risk, which is the risk that we are unable to enforce certain terms of such instruments. All or any of such risks could expose us to losses. Further, as a result of the new regulatory regime

for OTC derivatives enacted under the Dodd-Frank Act, and the regulations issued thereunder by the SEC and the Commodity Futures Trading Commission, we are subject to additional reporting, recordkeeping and other requirements in connection with our use of OTC derivatives.

If the counterparty to an OTC derivative contract fails to perform, our credit risk is equal to the net fair value of the contract. We deal with counterparties that have high quality credit ratings at the time we enter into the counterparty relationships. However, there can be no assurances that the counterparties will have the ability to perform under their contracts. If the counterparty fails to perform, including as a result of the bankruptcy or insolvency of such counterparty, we would incur losses as a result.

Our business could be adversely affected if we cannot maintain access to stable funding sources.

Our business requires continuous access to various funding sources. We are able to fund our operations through deposits as well as through advances from the FHLB-NY and FRB-NY; however, our business is significantly dependent upon other wholesale funding sources, such as repurchase agreements and brokered deposits, which consisted of approximately 23% of our total interest-bearing liabilities as of December 31, 2015.

Brokered deposits are typically sold through an intermediary to small retail investors. Our 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, our credit rating and the relative interest rates that we are 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.

We expect to have continued access to credit from the foregoing sources of funds. However, 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 us, the availability and cost of funding sources could be adversely affected. In that event, our cost of funds may increase, thereby reducing the net interest income, or we may need to dispose of a portion of the investment portfolio, which, depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon the dispositions. The interest rates that we pay on our securities are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Our 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 us or market related events. In the event that such sources of funds are reduced or eliminated and we are not able to replace them on a cost-effective basis, we may be forced to curtail or cease our loan origination business and treasury activities, which would have a material adverse effect on our operations and financial condition.

Our risk management policies, procedures and systems may be inadequate to mitigate all risks inherent in our various businesses.

A comprehensive risk management function is essential to the financial and operational success of our business. The types of risk we monitor and seek to manage include, but are not limited to, operational risk, technological and organizational risk, market risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various policies, procedures and systems to monitor and manage these risks. There can be no assurance that those policies, procedures and systems are adequate to identify and mitigate all risks inherent in our various businesses. Our businesses and the markets in which we operate are also continuously evolving. If we fail to fully understand the implications of changes in our business or the financial markets and to adequately or timely enhance the risk framework to address those changes, we could incur losses. In addition, in a difficult or less liquid market environment, our risk management strategies may not be effective because other market participants may be attempting to use the same or similar strategies to deal with the challenging market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants.

Competition with other financial institutions could adversely affect our profitability.

We face substantial competition in originating loans and in attracting deposits and assets to manage. The competition in originating loans and attracting assets comes principally from other U.S., Puerto Rico and foreign banks, investment advisors, securities broker-dealers, mortgage banking companies, consumer finance companies, credit unions, insurance companies, and other institutional lenders and purchasers of loans. We will encounter greater competition as we expand our operations. Increased competition may require us to increase the rates paid on deposits or lower the rates charged on loans which could adversely affect our profitability.

We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.

Our operations are subject to extensive regulation by federal and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. For example, the Dodd-Frank Act has a broad impact on the financial services industry, including significant regulatory and compliance changes, as discussed under the subheading “Dodd-Frank Wall Street Reform and Consumer Protection Act” in Item 1 of this annual report.

The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. In particular, the potential impact of the Dodd-Frank Act on our operations and activities, both currently and prospectively, include, among others:

- a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;
- increased cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;
- the limitation on our ability to raise capital through the use of trust preferred securities as these securities will no longer be included as tier 1 capital going forward; and
- the limitation on our ability to expand consumer product and service offerings due to stricter consumer protection laws and regulations.

Further, we may be required to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

Legislative and other measures that may be taken by Puerto Rico governmental authorities could materially increase our tax burden or otherwise adversely affect our financial condition, results of operations or cash flows.

In an effort to address the Commonwealth’s ongoing fiscal problems, the Government has enacted tax reform in the past and is expected to do so in the future. In 2014, the Government of Puerto Rico approved an amendment to the Internal Revenue Code, which, among other things, changed the income tax rate for capital gains from 15% to 20%. In addition, in May 2015, the Government approved an increase in the state sales and use tax rate, effective July 1, 2015, from 6% to 10.5% (the municipal sales and use tax remained at a 1% rate), expanded the sales and use tax to certain

business-to-business services that were previously exempt, and provided for a transition to a value-added tax was expected to become effective on April 1, 2016. Now, the value added tax is expected to become effective on June 1, 2016. Legislative changes, particularly changes in tax laws, could adversely impact our results of operations.

We operate the IBE Unit and IBE Subsidiary pursuant to the IBE Act that provide us with significant tax advantages. An IBE has the benefits of exemptions from Puerto Rico income taxes on interest earned on, or gain realized from the sale of, non-Puerto Rico assets, including U.S. government obligations and certain mortgage-backed securities. This exemption has allowed us to have effective tax rates significantly below the maximum statutory tax rates. In the past, the Legislature of Puerto Rico has considered proposals to curb the tax benefits afforded to IBEs. In 2012, a new Puerto Rico law was enacted in this area. Although it did not repeal the IBE Act, the new law does not allow new license applications under the IBE Act to organize and operate an IBE. Any newly organized entity (now called an “international financial entity”) must be licensed under the new law and such entity (as opposed to existing IBEs organized under the IBE Act, including the Bank’s IBE Unit and IBE Subsidiary, which are “grandfathered”) will generally be subject to a 4% Puerto Rico income tax rate. In the event other legislation is passed in Puerto Rico to eliminate or modify the tax exemption enjoyed by IBEs, the consequences could have a materially adverse impact on us, including increasing the tax burden or otherwise adversely affecting our financial condition, results of operations or cash flows.

Our goodwill and other intangible assets could be determined to be impaired in the future and could decrease the Company’s earnings.

We are required to test our goodwill, core deposit and customer relationship intangible assets for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities, and information concerning the terminal valuation of similarly situated insured depository institutions. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment. If an impairment loss is recorded, it will have little or no impact on the tangible book value of our common shares or our regulatory capital levels, but such an impairment loss could significantly restrict the Company's ability to make dividend payments without prior regulatory approval.

Based on our annual goodwill impairment test, we determined that no impairment charges were necessary. As of December 31, 2015, we had on our consolidated balance sheet \$86.1 million of goodwill in connection with the BBVAPR Acquisition and the FDIC-assisted Eurobank acquisition, \$5.3 million of core deposit intangible in connection with the FDIC-assisted Eurobank acquisition and the BBVAPR Acquisition, and \$2.5 million of customer relationship intangible in connection with the BBVAPR Acquisition. There can be no assurance that future evaluations of such goodwill or intangibles will not result in any impairment charges. Among other factors, further declines in our common stock as a result of macroeconomic conditions and the general weakness of the Puerto Rico economy, could lead to an impairment of such assets. If such assets become impaired, it could have a negative impact on our results of operations.

Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends.

We are a separate and distinct legal entity from our subsidiaries. Dividends to us from our subsidiaries have represented a major source of funds for us to pay dividends on our common and preferred stock, make payments on corporate debt securities and meet other obligations. There are various U.S. federal and Puerto Rico law limitations on the extent to which Oriental Bank, our main subsidiary, can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, U.S. federal and Puerto Rico banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act of 1913 and Regulation W of the Federal Reserve Board governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. Further, under the new capital rules adopted by the federal banking regulatory agencies, a banking organization will need to hold a capital conservation buffer (composed of common equity tier 1 capital) greater than 2.5% of total risk-weighted assets to avoid limitations on capital distributions and discretionary bonus payments. Compliance with the capital conservation buffer is determined as of the end of the calendar quarter prior to any such capital distribution or discretionary bonus payment, and is subject to a three-year transition period beginning in 2016.

If our subsidiaries' earnings are not sufficient to make dividend payments while maintaining adequate capital levels, our liquidity may be affected, and we may not be able to make dividend payments to our holders of common and preferred stock or payments on outstanding corporate debt securities or meet other obligations, each of which could have a material adverse impact on our results of operations, financial position or perception of financial health.

In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of GAAP, which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by FASB. Market conditions have prompted accounting standard setters to promulgate new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. See "Note 1—Summary of Significant Accounting Policies" to our consolidated financial statements included herein for a discussion of any accounting developments that have been issued but not yet implemented. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our consolidated financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that applies to the consolidated financial statements and that such changes could have a material effect on our financial condition and results of operations.

Competition in attracting talented people could adversely affect our operations.

We depend on our ability to attract and retain key personnel and we rely heavily on our management team. The inability to recruit and retain key personnel or the unexpected loss of key managers may adversely affect our operations. Our success to date has been influenced strongly by the ability to attract and retain senior management experienced in banking and financial services. Retention of senior managers and appropriate succession planning will continue to be critical to the successful implementation of our strategies.

Reputational risk and social factors may impact our results.

Our ability to originate loans and to attract deposits and assets is highly dependent upon the perceptions of consumer, commercial and funding markets of our business practices and our financial health. Negative public opinion could result from actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, inadequate protection of customer information, or sales and marketing, and from actions taken by regulators in response to such conduct. Adverse perceptions regarding us could lead to difficulties in originating loans and generating and maintaining accounts as well as in financing them.

In addition, a variety of social factors may cause changes in borrowing activity, including credit card use, payment patterns and the rate of defaults by account holders and borrowers. If consumers develop or maintain negative attitudes about incurring debt, or if consumption trends decline, our business and financial results will be negatively affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company owns a fifteen-story office building located at 254 Muñoz Rivera Avenue, San Juan Puerto Rico, known as Oriental Center. The Company operates a full service branch at the plaza level and our centralized units and subsidiaries occupy approximately 66% of the office floor space. Approximately 34% of the office space is leased to outside tenants. The Company also leases offices at 997 San Roberto Street, Professional Offices Park, San Juan, Puerto Rico, known as Oriental Tower. In addition, the Company also leases an office space in Boca Raton, Florida for the operations of OPC, its retirement plan administrator.

The Bank owns ten branch premises and leases thirty eight branch commercial offices throughout Puerto Rico. The Bank's management believes that each of its facilities is well maintained and suitable for its purpose and can readily obtain appropriate additional space as may be required at competitive rates by extending expiring leases or finding alternative space.

At December 31, 2015, the aggregate future rental commitments under the terms of the leases, exclusive of taxes, insurance and maintenance expenses payable by the Company, was \$45.3 million.

The Company's investment in premises and equipment, exclusive of leasehold improvements at December 31, 2015, was \$106.9 million, gross of accumulated depreciation.

ITEM 3. 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 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG". Information concerning the range of high and low sales prices for the Company's common stock for each quarter in the years ended December 31, 2015 and 2014, as well as cash dividends declared for such periods is set forth under the sub-heading "Stockholders' Equity" in the "Analysis of Financial Condition" caption in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

Information concerning legal or regulatory restrictions on the payment of dividends by the Company and the Bank is contained under the sub-heading "Dividend Restrictions" in Item 1 of this report.

As of December 31, 2015, the Company had approximately 2,999 holders of record of its common stock, including all directors and officers of the Company, and beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees.

Stock Performance Graph

The graph below compares the percentage change in the Company's cumulative total stockholder return during the measurement period with the cumulative total return, assuming reinvestment of dividends, of the Russell 2000 Index and the SNL Bank Index.

The cumulative total stockholder return was obtained by dividing the sum of (i) the cumulative amount of dividends per share, assuming dividend reinvestment, for the measurement period beginning December 31, 2010, and (ii) the difference between the share price at the beginning and the end of the measurement period, by the share price at the beginning of the measurement period.

*Comparison of 5 Year Cumulative Total Return**Assumes Initial Investment of \$100*

Index	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
OFG Bancorp	100.00	98.78	111.17	146.65	143.69	65.22
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18
SNL Bank	100.00	77.44	104.51	143.49	160.40	163.14

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Item 7 and “Financial Statements and Supplementary Data” under Item 8 of this report.

OFG Bancorp
SELECTED FINANCIAL DATA
YEARS ENDED DECEMBER 31, 2015, 2014, 2013, 2012, AND 2011

	Year Ended December 31,				
	2015	2014	2013	2012	2011
EARNINGS DATA:	(In thousands, except per share data)				
Interest income	\$ 406,568	\$ 485,257	\$ 493,632	\$ 260,808	\$ 297,295
Interest expense	69,196	76,782	83,960	103,518	156,362
Net interest income	337,372	408,475	409,672	157,290	140,933
Provision for loan and lease losses	161,501	60,640	72,894	23,681	13,813
Net interest income after provision for loan and leases lossess	175,871	347,835	336,778	133,609	127,120
Non-interest income	52,472	17,323	17,095	26,057	32,241
Non-interest expenses	248,401	242,725	264,136	131,810	124,045
(Loss) income before taxes	(20,058)	122,433	89,737	27,856	35,316
Income tax (benefit) expense	(17,554)	37,252	(8,709)	3,301	866
Net (loss) income	(2,504)	85,181	98,446	24,555	34,450
Less: dividends on preferred stock	(13,862)	(13,862)	(13,862)	(9,939)	(4,802)
(Loss) income available to common shareholders	\$ (16,366)	\$ 71,319	\$ 84,584	\$ 14,616	\$ 29,648
PER SHARE DATA:					
Basic	\$ (0.37)	\$ 1.58	\$ 1.85	\$ 0.35	\$ 0.67
Diluted	\$ (0.37)	\$ 1.50	\$ 1.73	\$ 0.35	\$ 0.67
Average common shares outstanding	51,455	45,024	45,706	41,626	44,433
Average common shares outstanding and equivalents	44,231	52,326	53,033	45,304	44,524
Book value per common share	\$ 16.67	\$ 17.40	\$ 15.74	\$ 15.31	\$ 15.28
Tangible book value per common share	\$ 14.53	15.25	13.60	13.10	\$ 15.19
Market price at end of period	\$ 7.32	16.65	17.34	13.35	\$ 12.11
Cash dividends declared per common share	\$ 0.36	0.34	0.26	0.24	\$ 0.21
Cash dividends declared on common shares	\$ 15,932	15,286	11,875	10,067	\$ 9,153
PERFORMANCE RATIOS:					
Return on average assets (ROA)	-0.03%	1.10%	1.15%	0.37%	0.48%
Return on average tangible common stockholders' equity	-2.47%	10.91%	14.01%	2.32%	4.54%
Return on average common equity (ROE)	-2.16%	9.50%	12.03%	2.29%	4.50%
Equity-to-assets ratio	12.64%	12.65%	10.85%	9.38%	10.38%
Efficiency ratio	60.00%	49.90%	53.45%	64.05%	66.26%
Interest rate spread	4.95%	5.79%	5.46%	2.59%	2.15%

Interest rate margin	5.03%	5.84%	5.46%	2.67%	2.19%
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PERIOD END BALANCES AND CAPITAL RATIOS:	December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Investments and loans					
Investment securities	\$ 1,615,872	\$ 1,402,056	\$ 1,614,809	\$ 2,233,265	\$ 3,867,970
Originated loans, net	3,016,781	2,811,207	2,400,023	1,278,750	1,169,916
Acquired loans, net	1,417,432	2,015,439	2,619,396	3,878,887	496,276
Total investments and loans	\$ 6,050,085	\$ 6,228,702	\$ 6,634,228	\$ 7,390,902	\$ 5,534,162
Deposits and borrowings					
Deposits	\$ 4,716,859	\$ 4,924,406	\$ 5,383,265	\$ 5,690,579	\$ 2,437,796
Securities sold under agreements to repurchase	934,691	980,087	1,267,618	1,695,247	3,056,238
Other borrowings	436,843	439,919	439,816	791,417	427,063
Total deposits and borrowings	\$ 6,088,393	\$ 6,344,412	\$ 7,090,699	\$ 8,177,243	\$ 5,921,097
Stockholders' equity					
Preferred stock	\$ 176,000	\$ 176,000	\$ 176,000	\$ 176,000	\$ 68,000
Common stock	52,626	52,626	52,707	52,671	47,809
Additional paid-in capital	540,512	539,311	538,071	537,453	499,096
Legal surplus	70,435	70,435	61,957	52,143	50,178
Retained earnings	148,886	181,184	133,629	70,734	68,149
Treasury stock, at cost	(105,379)	(97,070)	(80,642)	(81,275)	(74,808)
Accumulated other comprehensive income	13,997	19,711	3,191	55,880	37,131
Total stockholders' equity	\$ 897,077	\$ 942,197	\$ 884,913	\$ 863,606	\$ 695,555
Capital ratios					
Leverage capital	11.18%	10.61%	9.06%	6.55%	9.65%
Tier 1 common equity to risk-weighted assets	N/A	11.88%	10.46%	8.76%	27.01%
Common equity Tier 1 capital ratio	12.14%	N/A	N/A	N/A	N/A
Tier 1 risk-based capital	15.99%	16.02%	14.38%	13.18%	31.84%
Total risk-based capital	17.29%	17.57%	16.16%	15.40%	33.12%
Financial assets managed					
Trust assets managed	\$ 2,691,423	\$ 2,841,111	\$ 2,796,923	\$ 2,514,401	\$ 2,216,088
Broker-dealer assets gathered	2,374,709	2,622,001	2,493,324	2,722,197	1,926,148
Total assets managed	\$ 5,066,132	\$ 5,463,112	\$ 5,290,247	\$ 5,236,598	\$ 4,142,236

The ratios shown below demonstrate the Company's ability to generate sufficient earnings to pay the fixed charges or expenses of its debt and preferred stock dividends. The Company's consolidated ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing earnings by combined fixed charges and preferred stock dividends, as specified below, using two different assumptions, one excluding interest on deposits and the second including interest on deposits:

	Year Ended December			
	2015	2014	2013	2012
Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends				
Excluding Interests on Deposits	(A) 2.81x	2.26x	1.2	
Including Interests on Deposits	(A) 2.16x	1.75x	1.15	

(A) In 2015, earnings were not sufficient to cover preferred stock dividends, and the ratio was less than 1:1. The Company would have had to generate additional earnings of \$34 million to achieve a ratio of 1:1 in 2015.

For purposes of computing these consolidated ratios, earnings represent income before income taxes plus fixed charges and amortization of capitalized interest, less interest capitalized. Fixed charges consist of interest expensed and capitalized, amortization of debt issuance costs, and the Company's estimate of the interest component of rental expense. The term "preferred stock dividends" is the amount of pre-tax earnings that is required to pay dividends on the Company's outstanding preferred stock. As of the dates presented above, except for 2011, the Company had noncumulative perpetual preferred stock issued and outstanding amounting to \$176.0 million, as follows: (i) Series A amounting to \$33.5 million or 1,340,000 shares at a \$25 liquidation value; (ii) Series B amounting to \$34.5 million or 1,380,000 shares at a \$25 liquidation value; (iii) Series C amounting to \$84.0 million or 84,000 shares at a \$1,000 liquidation value; and (iv) Series D amounting to \$24.0 million or 960,000 shares at a \$25 liquidation value. At December 31, 2011, the Company had noncumulative perpetual preferred stock issued and outstanding amounting to \$68.0 million, as follows: (i) Series A amounting to \$33.5 million or 1,340,000 shares at a \$25 liquidation value; (ii) Series B amounting to \$34.5 million or 1,380,000 shares at a \$25 liquidation value.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by the Company conform with GAAP and general practices within the financial services industry. The Company's significant accounting policies are described in detail in Note 1 to the consolidated financial statements and should be read in conjunction with this section.

Critical accounting policies require management to make estimates and assumptions, which involve significant judgment about the effect of matters that are inherently uncertain and that involve a high degree of subjectivity. These estimates are made under facts and circumstances at a point in time and changes in those facts and circumstances could produce actual results that differ from those estimates. The following MD&A section is a summary of what management considers the Company's critical accounting policies.

Loans and Leases

Originated and Other Loans and Leases Held in Portfolio

Loans the Company originates and intends to hold in portfolio are stated at the principal amount outstanding, adjusted for unamortized deferred fees and costs which are amortized to interest income over the expected life of the loan using the interest method. The Company discontinues accrual of interest on originated loans after payments become more than 90 days past due or earlier if the Company does not expect the full collection of principal or interest. The delinquency status is based upon the contractual terms of the loans.

Loans for which the recognition of interest income has been discontinued are designated as non-accruing. Collections are accounted for on the cash method thereafter, until qualifying to return to accrual status. Such loans are not reinstated to accrual status until interest is received on a current basis and other factors indicative of doubtful collection cease to exist generally for a period of six-months. The determination as to the ultimate collectability of the loan's balance may involve management's judgment in the evaluation of the borrower's financial condition and prospects for repayment.

The Company follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan and lease losses to provide for inherent losses in the loan portfolio. This methodology includes the consideration of factors such as economic conditions, portfolio risk characteristics, prior loss experience, and results of periodic credit reviews of individual loans. The provision for loan and lease losses charged to current operations is based on such methodology. Loan and lease losses are charged and recoveries are credited to the allowance for loan and lease losses on originated and other loans.

Larger commercial loans that exhibit potential or observed credit weaknesses are subject to individual review and grading. Where appropriate, allowances are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow, and legal options available to the Company.

Included in the review of individual loans are those that are impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Loans are individually evaluated for impairment, except large groups of small balance homogeneous loans that are collectively evaluated for impairment and loans that are recorded at fair value or at the lower of cost or fair value. The Company measures for impairment all commercial loans over \$250 thousand (i) that are either

over 90 days past due or adversely classified, or (ii) when deemed necessary by management and TDR's. The portfolios of mortgage loans, auto and leasing, and consumer loans are considered homogeneous and are evaluated collectively for impairment.

The Company uses a rating system to apply an overall allowance percentage to each originated and other loan portfolio segment based on historical credit losses adjusted for current conditions and trends. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over a determined look back period for each segment. The actual loss factor is adjusted by the appropriate loss emergence period as calculated for each portfolio. Then, the adjusted loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: the credit grading assigned to commercial loans; levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff, including the bank's loan review system as graded by regulatory agencies in their last examination; local economic trends and conditions; industry conditions; effects of external factors such as competition and regulatory requirements on the level of estimated credit losses in the current portfolio; and effects of changes in credit concentrations and collateral value. Additional impact from the historical loss experience is applied based on levels of delinquency and loan classification, and for the auto loan portfolio by FICO score.

At origination, a determination is made whether a loan will be held in our portfolio or is intended for sale in the secondary market. Loans that will be held in the Company's portfolio are carried at amortized cost. Residential mortgage loans held for sale are recorded at the lower of the aggregate cost or market value ("LOCOM").

Acquired Loans and Leases

Loans that the Company acquire in acquisitions are recorded at fair value with no carryover of the related allowance for loan losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The Company has acquired loans in two separate acquisitions, the BBVAPR Acquisition in December 2012 and the FDIC-assisted Eurobank acquisition in April 2010. For each acquisition, the Company considered the following factors as indicators that an acquired loan had evidence of deterioration in credit quality and was therefore in the scope of ASC 310-30:

- Loans that were 90 days or more past due,
- Loans that had an internal risk rating of substandard or worse. Substandard is consistent with regulatory definitions and is defined as having a well-defined weakness that jeopardizes liquidation of the loan,

- Loans that were classified as nonaccrual by the acquired bank at the time of acquisition, and
- Loans that had been previously modified in a troubled debt restructuring.

Any acquired loans that were not individually in the scope of ASC 310-30 because they did not meet the criteria above were either (i) pooled into groups of similar loans based on the borrower type, loan purpose, and collateral type and accounted for under ASC 310-30 by analogy or (ii) accounted for under ASC 310-20 (Non-refundable fees and other costs).

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

Revolving credit facilities such as credit cards, retail and commercial lines of credit and floor plans which are specifically scoped out of ASC 310-30 are accounted for under the provisions of ASC 310-20. Also, performing auto loans with FICO scores over 660 acquired at a premium in the BBVAPR Acquisition are accounted for under this guidance. Auto loans with FICO scores below 660 were acquired at a discount and are accounted for under the provisions of ASC 310-30. The provisions of ASC 310-20 require that any differences between the contractually required loan payments 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 acquired in the BBVAPR Acquisition that were accounted for under the provisions of ASC 310-20 which had fully amortized their premium or discount, recorded at the date of acquisition, are removed from the acquired loan category. Loans accounted for under ASC 310-20 are placed on non-accrual status when past due in accordance with the Company's non-accruing policy and any accretion of discount is discontinued. These assets were recorded at estimated fair value on their acquisition date, incorporating an estimate of future expected cash flows. Such fair value includes a credit discount which accounts for expected loan losses over the estimated life of these loans. Management takes into consideration this credit discount when determining the necessary allowance for acquired loans that are accounted for under the provisions of ASC 310-20.

The allowance for loan and lease losses model for acquired loans accounted for under ASC 310-20 is the same as for the originated and other loan portfolio.

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

The Company performed a fair market valuation of each of the loan pools, and each pool was recorded at a discount. The Company determined that at least part of the discount on the acquired individual or pools of loans was attributable to credit quality by reference to the valuation model used to estimate the fair value of these pools of loans. The valuation model incorporated lifetime expected credit losses into the loans' fair valuation in consideration of factors such as evidence of credit deterioration since origination and the amounts of contractually required principal and interest that the Company did not expect to collect as of the acquisition date. Based on the guidance included in the December 18, 2009 letter from the AICPA Depository Institutions Panel to the Office of the Chief Accountant of the SEC, the Company has made an accounting policy election to apply ASC 310-30 by analogy to all of these acquired pools of loans as they all (i) were acquired in a business combination or asset purchase, (ii) resulted in recognition of a discount attributable, at least in part, to credit quality; and (iii) were not subsequently accounted for at fair value.

The excess of expected cash flows from acquired loans over the estimated fair value of acquired loans at acquisition is referred to as the accretable discount and is recognized into interest income over the remaining life of the acquired loans using the interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount represents estimated future credit losses expected to be incurred over the life of the acquired loans. Subsequent decreases to the expected cash flows require the Company to evaluate the need for an addition to the allowance for loan losses. Subsequent improvements in expected cash flows result in the reversal of the associated allowance for loan losses, if any and the reversal of a corresponding amount of the nonaccretable discount which the Company then reclassifies as accretable discount that is recognized into interest income over the remaining life of the loan using the interest method. The Company's evaluation of the amount of future cash flows that it expects to collect takes into account actual credit performance of the acquired loans to date and the Company's best estimates for the expected lifetime credit performance of the loans using currently available information. Charge-offs of the principal amount on acquired loans would be first applied to the nonaccretable discount portion of the fair value adjustment. To the extent that the Company experiences deterioration in credit quality in its expected cash flows subsequent to the acquisition of the loans; an allowance for loan losses would be established based on the estimate of future credit losses over the remaining life of the loans.

In accordance with ASC 310-30, recognition of income is dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. The Company performs such an evaluation on a quarterly basis on both its acquired loans individually accounted for under ASC 310-30 and those in pools accounted for under ASC 310-30 by analogy.

Cash flows for acquired loans individually accounted for under ASC 310-30 are estimated on a quarterly basis. Based on this evaluation, a determination is made as to whether or not the Company has a reasonable expectation about the timing and amount of cash flows. Such an expectation includes cash flows from normal customer repayment, collateral value, foreclosure or other collection efforts. Cash flows for acquired loans accounted for on a pooled basis under ASC 310-30 by analogy are also estimated on a quarterly basis. For residential real estate, home equity and other consumer loans, cash flow loss estimates are calculated based on a model that incorporates a projected probability of default and loss. For commercial loans, lifetime loss rates are assigned to each pool with consideration given for pool make-up, including risk rating profile. Lifetime loss rates are developed from internally generated historical loss data and are applied to each pool.

To the extent that the Company cannot reasonably estimate cash flows, interest income recognition is discontinued. The unit of account for loans in pools accounted for under ASC 310-30 by analogy is the pool of loans. Accordingly, as long as the Company can reasonably estimate cash flows for the pool as a whole, accretable yield on the pool is recognized and all individual loans within the pool - even those more than 90 days past due - would be considered to be accruing interest in the Company's financial statement disclosures, regardless of whether or not the Company expects any principal or interest cash flows on an individual loan 90 days or more past due.

Because of the loss protection provided by the FDIC, the risk of the loans acquired in the FDIC-assisted Eurobank acquisition that are covered under the FDIC shared-loss agreements are significantly different from loans not covered under the FDIC shared-loss agreement. These loans are referred to as "covered loans". The FDIC shared-loss agreement related to the commercial and other non-single family acquired Eurobank loans expired on June 30, 2015. The coverage for single-family residential loans will expire on June 30, 2020. Covered loans are no longer a material amount. Therefore, the Company changed its current and prior year loan disclosures.

Covered loans are accounted for under ASC 310-30. To the extent credit deterioration occurs after the date of acquisition, the Company will record an allowance for loan and lease losses and an increase in the FDIC shared-loss indemnification asset for the expected reimbursement from the FDIC under the shared-loss agreement.

Allowance for Loan and Lease Losses for Originated and Acquired BBVAPR Loans and Leases

The Company follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan and lease losses to provide for inherent losses in its loan portfolio. This methodology includes the consideration of factors such as economic conditions, portfolio risk characteristics, prior loss experience, and results of periodic credit reviews of individual loans.

The loss factor used for the general reserve of these loans is established considering the Bank's historical loss experience adjusted for an estimated loss emergence period and the consideration of environmental factors. Environmental factors considered are: changes in non-performing loans; migration in classification; trends in charge offs; trends in volume of loans; changes in collateral values; changes in risk selections and underwriting standards, and other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staff, including the Company's loan review system; national and local economic trends and industry conditions; and effect of external factors such as competition and regulatory requirements on the level of estimated credit losses. The sum of the adjusted loss experience factors and the environmental factors will be the general valuation reserve ("GVA") factor to be used for the determination of the allowance for loan and lease losses in each category.

As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the year 2015 the following assumptions were reviewed:

- An assessment of the look-back period and historical loss factor was performed for all portfolio segments. The analysis was based on the trends observed and their relation with the economic cycle as of the period of the analysis. As a result, for the commercial portfolio, the look-back period was changed to 36 months from the previously determined 12 months. For auto, leasing and consumer, a look-back period of 24 months was maintained. The residential mortgages portfolio was evaluated during the fourth quarter of 2015. For this portfolio, a 12-month look-back period was maintained as management concluded that, given the charge offs evolution, a shorter period of losses is more representative of the recent trends and more accurate in predicting future losses

- During the second quarter of 2015, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration the current evolution of the portfolios and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others.

- During the fourth quarter of 2015 the loss realization period was revised to 1.60 years for commercial real estate, other portfolios remained at one year.

These changes in the allowance for loan and lease losses' look-back period and loss emergence period for the commercial portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments are made prospectively.

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

The Company determines the allowance for loan and lease losses by portfolio segments, which consist of mortgage loans, commercial loans, consumer loans, and auto and leasing, as follows:

Mortgage loans: These loans are divided into four classes: traditional mortgages, non-traditional mortgages, loans in loan modification programs and home equity secured personal loans. Traditional mortgage loans include loans secured by a dwelling, fixed coupons and regular amortization schedules. Non-traditional mortgages include loans with interest-first amortization schedules and loans with balloon considerations as part of their terms. Mortgages in loan modification programs are loans that are being serviced under such programs. Home equity loans are mainly equity lines of credit. The allowance factor on these loans is impacted by the adjusted historical loss factors on the sub-segments and the environmental risk factors described above and by delinquency buckets. The traditional mortgage loan portfolio is further segregated by vintages and then by delinquency buckets.

Commercial loans: The commercial portfolio is segmented by business line (corporate, institutional, middle market, corporate retail, floor plan, and real estate) and by collateral type (secured by real estate and other commercial and industrial assets). The loss factor used for the GVA of these loans is established considering the Bank's past thirty-six month historical loss experience of each segment adjusted for the loss realization period and the consideration of environmental factors. The sum of the adjusted loss experience and the environmental factors is the GVA factor used for the determination of the allowance for loan and lease losses on each category.

Consumer loans: The consumer portfolio consists of smaller retail loans such as retail credit cards, overdrafts, unsecured personal lines of credit, and personal unsecured loans. The allowance factor, consisting of the adjusted historical loss factor and the environmental risk factors, will be calculated for each sub-class of loans by delinquency bucket.

Auto and Leasing: The auto and leasing portfolio consists of financing for the purchase of new or used motor vehicles for private or public use. These loans are granted mainly through dealers authorized and approved by the auto department credit committee of the Bank. In addition, this segment includes personal loans guaranteed by vehicles in the form of lease financing. The allowance factor on the auto and leasing portfolio is impacted by the adjusted historical loss factor and the environmental risk factors. For the determination of the allowance factor, the portfolio is segmented by FICO score, which is updated on a quarterly basis and then by delinquency bucket.

The Company establishes its allowance for loan losses through a provision for credit losses based on our evaluation of the credit quality of the loan portfolio. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, and other factors that warrant recognition in determining our allowance for loan losses. The Company continues to monitor and modify the level of the allowance for loan losses to ensure it is adequate to cover losses inherent in our loan portfolio.

Our allowance for loan losses consists of the following elements: (i) specific valuation allowances based on probable losses on specifically identified impaired loans; and (ii) valuation allowances based on net historical loan loss experience for similar loans with similar inherent risk characteristics and performance trends, adjusted, as appropriate, for qualitative risk factors specific to respective loan types.

When current information and events indicate that it is probable that we will be unable to collect all amounts of principal and interest due under the original terms of a business or commercial real estate loan greater than \$250 thousand, such loan will be classified as impaired. Additionally, all loans modified in a troubled debt restructuring ("TDR") are considered impaired. The need for specific valuation allowances are determined for impaired loans and recorded as necessary. For impaired loans, we consider the fair value of the underlying collateral, less estimated costs to sell, if the loan is collateral dependent, or we use the present value of estimated future cash flows in determining the

estimates of impairment and any related allowance for loan losses for these loans. Confirmed losses are charged off immediately. Prior to a loan becoming impaired, we typically would obtain an appraisal through our internal loan grading process to use as the basis for the fair value of the underlying collateral.

Loan loss ratios and credit risk categories are updated at least quarterly and are applied in the context of GAAP as prescribed by ASC and the importance of depository institutions having prudent, conservative, but not excessive loan allowances that fall within an acceptable range of estimated losses. While management uses current available information in estimating possible loan and lease losses, factors beyond the Company's control, such as those affecting general economic conditions, may require future changes to the allowance.

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

For our acquired loans accounted for under ASC Subtopic 310-30, our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in the net present value of our expected cash flows (which are used as a proxy to identify probable incurred losses) subsequent to the acquisition of the loans, an allowance for loan losses is established based on our estimate of future credit losses over the remaining life of the loans.

Acquired loans accounted for under ASC 310-30 are not considered non-performing and continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs on loans

accounted under ASC Subtopic 310-30 are recorded only to the extent that losses exceed the non-accretable difference established with purchase accounting.

Covered loans are accounted for under ASC 310-30 and our policy is consistent with our policy for non-covered acquired loans. For covered loans, the portion of the loss reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC shared-loss indemnification asset.

Financial Instruments

Certain financial instruments, including derivatives, trading securities and investment securities available-for-sale, are recorded at fair value and unrealized gains and losses are recorded in other comprehensive income or as part of non-interest income, as appropriate. Fair values are based on listed market prices, if available. If listed market prices are not available, fair value is determined based on other relevant factors, including price quotations for similar instruments. The fair values of certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments as well as time value and yield curve or volatility factors underlying the positions.

The Company determines the fair value of its financial instruments based on the fair value measurement framework, which establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 — Level 1 assets and liabilities include equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. government agency securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on valuations obtained from third-party pricing services for identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments and (iii) derivative contracts and financial liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models for which the determination of fair value requires significant management judgment or estimation.

2015 FINANCIAL HIGHLIGHTS

For 2015, the Company reported a loss to common shareholders of \$16.4 million, or (\$0.37) per share, compared to income of \$71.3 million, or \$1.50 per diluted share, in 2014.

These results reflect the significant de-risking steps taken by the Company, including the following:

- Reduction in interest income as the balance of our loans to the Puerto Rico central government and its public corporations fell 47.8% to \$211.9 million at December 31, 2015, from \$406.1 million a year ago. Our loans to Puerto Rico municipalities declined 4.4% to \$203.5 million, and the balance of our Puerto Rico government securities decreased by 15.0% to \$17.8 million.
- An increase in share-loss amortization of \$10.2 million in the second quarter of 2015 upon successful negotiation and termination of the FDIC commercial shared loss coverage. However, this also resulted in a reduction of approximately \$10 million a quarter going forward, starting in the third quarter, for a total reduction of \$22.2 million in the year 2015.
- A successful bulk sale of \$235.2 million in unpaid principal balances of acquired non-performing assets ("NPAs"). This resulted in a charge of \$20.2 million pre-tax in 2015.
- The de-risking of the loan portfolio resulted in normalization of net interest margin to 5.03% from 5.84%, primarily reflecting contraction from the steep reduction in tax exempt, high-yield, government-related loans.
- A \$53.3 million provision for loan and lease losses on the \$200 million participation in a syndicated fuel line of credit to the PREPA, reflecting continued hurdles in restructuring the credit. Currently in non-accrual status, interest payments are being credited to the payment of principal, which now stands at \$137.0 million, net of allowances, or 68.5% of the outstanding principal balance.

Growth of the Oriental retail franchise through new customers, products and services.

- Oriental Bank furthered its innovative edge in the third quarter of 2015 with the launch of MyStatus. The industry-first mobile app updates home buyers on every step of their mortgage application from origination through closing.
- MyStatus followed the introduction of FOTOdepósito, People Pay, and Cuenta Libre (Freedom Account). With Cuenta Libre, customers who access their accounts via mobile phone, tablet, web, debit/credit card, or ATMs, do not have to pay ATM fees.
- Such products and services, among others, helped the Bank add 15,400 net new retail customers, increasing its total customer base by 4.40%. New customers added approximately \$67 million in deposits, \$115 million in loans, and \$15 million in wealth management assets.

○ In total, new loan production of \$1.0 billion increased 10.3% year over year, with commercial loans up 38.9%, residential mortgage loans up 14.8%, and consumer loans up 17.3%, more than offsetting a decline in auto loans.

All components of our business continued strong, given Puerto Rico's deep economic recession and severe fiscal crisis.

Interest Income

Total interest income for 2015 decreased 16.2% to \$406.6 million when compared to \$485.3 million for 2014, reflecting the transition in our loan portfolio as originated loans with normal yields grow and higher-yielding acquired loans decrease, due to repayments and maturities. The yield on interest-earning assets decreased to 6.06% from 6.94%.

Interest Expense

Total interest expense for 2015 decreased 9.9% to \$69.2 million as compared to \$76.8 million for 2014. Such decrease reflects the lower cost of deposits (0.66% vs. 0.84%, before amortization adjustments). 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 for 2015 decreased to \$337.4 million when compared with \$408.5 million for 2014, mostly due to lower balances in our acquired loan portfolios and lower yields in our originated loan portfolio. The decrease also reflects a \$9.7 million decrease in interest income from loans to PREPA, which was placed in non-accrual at the end of the first quarter of 2015, and Puerto Rico Aqueducts and Sewer Authority ("PRASA"), which was paid off during the second quarter of 2015. Such decrease also reflects a decrease in net interest margin of 81 basis points to 5.03%.

Provision for Loan and Lease Losses

Provision for loan and lease losses increased \$100.9 million to \$161.5 million, reflecting \$32.9 million and \$5.2 million provision for loan and lease losses on non-performing acquired Eurobank and BBVAPR loans, respectively, as a result of the bulk sale of commercial NPAs during 2015. In addition, the Company recorded a \$53.3 million provision for loan and lease losses related to the PREPA line of credit, which was changed to non-accrual status during the first quarter of 2015.

Non-Interest Income

Core banking and wealth management revenues decreased 1.7% to \$76.6 million from \$77.9 million as compared to 2014, primarily reflecting a decrease of \$1.3 million and \$815 thousand in mortgage banking activities and wealth management revenue, respectively, and an increase of \$754 thousand in banking service revenue.

During 2015, the Company recognized an other-than-temporary impairment charge of \$1.5 million on its portfolio of investment securities available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions. The Company determined that \$1.5 million of the unrealized loss carried by these securities was attributed to estimated credit losses.

The decrease in the FDIC shared-loss expense to \$42.8 million, compared to \$65.8 million in 2014, was principally driven by the expiration of the FDIC loss share coverage for commercial loans and other non-single family loans on June 30, 2015.

A \$20.0 million reimbursement from the FDIC was recognized in the statement of operations during 2015 related to the sale of a portion of covered non-performing commercial loans on September 28, 2015, as the FDIC agreed to cover \$20.0 million of losses as part of its loss-share agreement with the Company.

Non-Interest Expense

Non-interest expense of \$248.4 million, increased \$5.7 million or 2.3 % compared to 2014, primarily reflecting a \$9.3 million loss related to the bulk sale of non-performing acquired commercial loans, which included the sale of real estate owned with a carrying amount of \$11.0 million from the BBVAPR acquisition. Such increase also reflects an increase of \$2.8 million in electronic banking charges and \$1.5 million in legal fees related to PREPA's restructuring. The Company's efficiency ratio for 2015 was 60.00%, compared to 49.90% for 2014.

Income Tax Expense

Income tax benefit of \$17.6 million, primarily resulting from the 2015 loss, compared to an income tax expense of \$37.3 million in 2014.

Income Available to Common Shareholders

The Company's net loss to common shareholders amounted to \$16.4 million, compared to net income available to common shareholders of \$71.3 million for 2014. The loss per basic common share and fully diluted common share was \$0.37 for 2015, compared to income per basic common share of \$1.58 and fully diluted common share of \$1.50 for 2014.

Interest Earning Assets

The loan portfolio declined to \$4.434 billion at December 31, 2015, compared to \$4.827 billion at December 31, 2014, primarily due to the bulk sale of covered non-performing commercial loans with an unpaid principal balance amounting to \$197.1 million and the sale of non-performing commercial loans from the BBVAPR Acquisition with an unpaid principal balance amounting to \$38.1 million, as part of the same transaction, in addition to loan repayments and maturities as the Company continues to execute on its strategy to reduce its exposure to the Puerto Rico government. The investment portfolio of \$1.616 billion at December 31, 2015 increased 15.3% compared to \$1.402 billion at December 31, 2014.

Interest Bearing Liabilities

Total deposits amounted to \$4.717 billion at December 31, 2015, a decrease of 4.2% compared to \$4.924 billion at December 31, 2014. Interest bearing deposits decreased 5.3% to \$3.956 billion. Cost of deposits, which averaged 0.66% at December 31, 2014, decreased to 0.57% at December 31, 2015.

Stockholders' Equity

Stockholders' equity at December 31, 2015 was \$897.1 million compared to \$942.2 million at December 31, 2014, a decrease of 4.8%. This reflects a decrease of \$32.3 million in retained earnings and an increase of \$8.3 million in treasury stock. Book value per share was \$16.67 at December 31, 2015 compared to \$17.40 at December 31, 2014.

The Company maintains capital ratios in excess of regulatory requirements. At December 31, 2015, tier 1 leverage capital ratio was 11.18% (December 31, 2014 – 10.61%), tier 1 risk-based capital ratio was 15.99% (December 31, 2014 – 16.02%), and total risk-based capital ratio was 17.29% (December 31, 2014 – 17.57%). common equity tier 1 capital ratio under the new capital rules was 12.14% at December 31, 2015.

Return on Average Assets and Common Equity

Return on average common equity ("ROE") was (2.16%) compared to 9.50% for 2014. Return on average assets ("ROA") was (0.03%) compared to 1.10% for 2014. Both decreases reflect the net loss in 2015.

Assets under Management

At December 31, 2015, total assets managed by the Company's trust division and OPC decreased to \$2.691 billion compared to \$2.841 billion at December 31, 2014. At December 31, 2015, total assets gathered by the securities broker-dealer subsidiary from its customer investment accounts decreased to \$2.375 billion, compared to \$2.622 billion at December 31, 2014. Changes in trust and broker-dealer related assets primarily reflect a decrease in portfolio balances and fluctuations in market values.

Lending

Total loan production of \$1.014 billion increased by 10.3% compared to 2014. Total commercial loan production of \$365.2 million increased by 38.9% from \$262.9 million for 2014, mostly from corporate and institutional loans. Mortgage loan production of \$247.2 million increased by 14.8% from \$215.4 million. In the aggregate, consumer loan and auto and leasing production totaled \$401.5 million, an increase of 9.0% from 2014.

Credit Quality on Non-Acquired Loans

Net credit losses, excluding acquired loans, increased \$9.1 million to \$38.1 million, representing 1.30% of average non-acquired loans outstanding versus 1.11% in 2014. The allowance for loan and lease losses, excluding acquired loans, at December 31, 2015, increased to \$112.6 million (3.62% of total non-acquired loans) compared to \$51.4 million (1.81% of total non-acquired loans) at December 31, 2014, mostly from the PREPA allowance of \$53.3 million in 2015.

Non-GAAP Measures

The Company uses certain non-GAAP measures of financial performance to supplement the 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 in 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 year ended December 31, 2015, the Company's pre-tax pre-provision operating income decreased 32.0% to \$165.6 million as compared to \$243.7 million for 2014. Pre-tax pre-provision operating income is calculated as follows:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
<u>PRE-TAX PRE-PROVISION OPERATING INCOME</u>			
Net interest income	\$ 337,372	\$ 408,475	\$ 409,672
Core non-interest income:			
Banking service revenue	41,466	40,712	44,239
Wealth management revenue	29,040	29,855	30,924
Mortgage banking activities	6,128	7,381	10,994
Total core non-interest income	76,634	77,948	86,157
Non-interest expenses	248,401	242,725	264,136
Less merger and restructuring charges	-	-	(17,660)
Total pre-tax pre-provision operating income	\$ 165,605	\$ 243,698	\$ 249,353

Tangible common equity consists of common equity less goodwill, core deposit intangibles and customer relationship intangible. 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, tier 1 common equity to risk-weighted assets, and tangible book value per common share are non-GAAP measures and are not codified in the federal banking regulations.

At December 31, 2015, tangible common equity to total assets decreased to 8.98% from 9.14% and tangible common equity to risk-weighted assets decreased to 13.02% from 14.04% at December 31, 2014. Total equity to risk-weighted assets decreased to 18.32% from 19.44% at December 31, 2014.

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. Tangible common equity or related measures should not 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 years ended 2015 and 2014:

TABLE 1 - YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Interest		Average rate		Average balance	
	December	December	December	December	December	December
	2015	2014	2015	2014	2015	2014
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	\$ 406,568	\$ 485,257	6.06%	6.94%	\$ 6,704,995	\$ 6,992,631
Tax equivalent adjustment	6,891	50,793	0.10%	0.73%	-	-
Interest-earning assets - tax equivalent	413,459	536,050	6.16%	7.67%	6,704,995	6,992,631
Interest-bearing liabilities	69,196	76,782	1.11%	1.15%	6,226,372	6,663,591
Tax equivalent net interest income / spread	344,263	459,268	5.05%	6.52%	478,623	329,040
Tax equivalent interest rate margin			5.13%	6.57%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	37,596	48,242	2.49%	3.33%	1,508,819	1,450,778
Trading securities	70	151	8.25%	8.67%	848	1,741
Interest bearing cash and money market investments	1,280	1,311	0.26%	0.23%	491,051	573,403
Total investments	38,946	49,704	1.95%	2.45%	2,000,718	2,025,922
Non-acquired loans						
Mortgage	39,778	40,978	5.16%	5.21%	771,322	786,607
Commercial	60,931	64,328	4.56%	5.41%	1,336,510	1,190,038
Consumer	21,003	15,367	10.35%	10.04%	202,971	153,067
Auto and leasing	62,108	51,971	9.86%	10.38%	629,910	500,720
Total non-acquired loans	183,820	172,644	6.25%	6.56%	2,940,713	2,630,432
Acquired loans:						
Acquired BBVAPR						
Mortgage	34,842	37,612	5.55%	5.46%	628,340	689,408
Commercial	48,730	73,403	10.65%	11.29%	457,767	649,936
Consumer	13,187	15,412	16.35%	13.70%	80,666	112,477
Auto	34,633	47,513	9.03%	8.62%	383,583	551,186
Total acquired BBVAPR loans	131,392	173,940	8.47%	8.68%	1,550,356	2,003,007
Acquired Eurobank	52,410	88,969	24.58%	26.70%	213,208	333,270
Total loans	367,622	435,553	7.81%	8.77%	4,704,277	4,966,709
Total interest earning assets	406,568	485,257	6.06%	6.94%	6,704,995	6,992,631

	Interest		Average rate		Average balance	
	December 2015	December 2014	December 2015	December 2014	December 2015	December 2014
(Dollars in thousands)						
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	4,451	8,001	0.38%	0.56%	1,163,424	1,417,272
Savings and money market	6,504	8,097	0.52%	0.69%	1,256,909	1,169,482
Individual retirement accounts	2,482	3,760	0.88%	1.15%	281,197	325,678
Retail certificates of deposits	5,397	6,852	1.32%	1.39%	409,038	491,485
Total core deposits	18,834	26,710	0.61%	0.78%	3,110,568	3,403,917
Institutional deposits	2,790	4,961	1.04%	1.42%	268,678	348,742
Brokered deposits	4,900	5,715	0.78%	0.82%	624,210	697,756
Total wholesale deposits	7,690	10,676	0.86%	1.02%	892,888	1,046,498
	26,524	37,386	0.66%	0.84%	4,003,456	4,450,415
Non-interest bearing deposits	-	-	0.00%	0.00%	769,790	715,729
Deposits fair value premium amortization	(660)	(4,773)	0.00%	0.00%	-	-
Core deposit intangible amortization	1,170	1,341	0.00%	0.00%	-	-
Total deposits	27,034	33,954	0.57%	0.66%	4,773,246	5,166,144
Borrowings:						
Securities sold under agreements to repurchase	29,567	29,654	2.92%	2.85%	1,012,756	1,041,378
Advances from FHLB and other borrowings	9,072	9,185	2.68%	2.58%	338,299	355,322
Subordinated capital notes	3,523	3,989	3.45%	3.96%	102,071	100,747
Total borrowings	42,162	42,828	2.90%	2.86%	1,453,126	1,497,447
Total interest bearing liabilities	69,196	76,782	1.11%	1.15%	6,226,372	6,663,591
Net interest income / spread	\$ 337,372	\$ 408,475	4.95%	5.79%		
Interest rate margin			5.03%	5.84%		
Excess of average interest-earning assets					\$ 478,623	\$ 329,040
over average interest-bearing liabilities						
Average interest-earning assets to average					107.69%	104.94%
interest-bearing liabilities ratio						

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
	(In thousands)		
Interest Income:			
Investments	\$ (729)	\$ (10,029)	\$ (10,758)
Loans	(42,700)	(25,231)	(67,931)
Total interest income	(43,429)	(35,260)	(78,689)
Interest Expense:			
Deposits	(2,582)	(4,338)	(6,920)
Repurchase agreements	(815)	728	(87)
Other borrowings	(453)	(126)	(579)
Total interest expense	(3,850)	(3,736)	(7,586)
Net Interest Income	\$ (39,579)	\$ (31,524)	\$ (71,103)

TABLE 1A - YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Interest		Average rate		Average balance	
	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	\$ 485,257	\$ 493,632	6.94%	6.58%	\$ 6,992,631	\$ 7,499,993
Tax equivalent adjustment	50,793	41,106	0.73%	0.55%	-	-
Interest-earning assets - tax equivalent	536,050	534,738	7.67%	7.13%	6,992,631	7,499,993
Interest-bearing liabilities	76,782	83,960	1.15%	1.12%	6,663,591	7,482,019
Tax equivalent net interest income / spread	459,268	450,778	6.52%	6.01%	329,040	17,974
Tax equivalent interest rate margin			6.57%	6.01%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	48,242	48,456	3.33%	2.60%	1,450,778	1,862,274
Trading securities	151	117	8.67%	6.56%	1,741	1,784
Interest bearing cash and money market investments	1,311	1,157	0.23%	0.21%	573,403	540,724
Total investments	49,704	49,730	2.45%	2.07%	2,025,922	2,404,782
Non-acquired loans						
Mortgage	40,978	43,531	5.21%	5.71%	786,607	762,403
Commercial	64,328	32,891	5.41%	4.95%	1,190,038	663,968
Consumer	15,367	8,058	10.04%	9.34%	153,067	86,250
Auto and leasing	51,971	21,181	10.38%	9.94%	500,720	213,127
Total non-acquired loans	172,644	105,661	6.56%	6.12%	2,630,432	1,725,748
Acquired loans:						
Acquired BBVAPR						
Mortgage	37,612	42,740	5.46%	5.60%	689,408	763,195
Commercial	73,403	114,492	11.29%	9.38%	649,936	1,220,471
Consumer	15,412	21,147	13.70%	13.13%	112,477	161,120
Auto	47,513	68,093	8.62%	7.99%	551,186	852,165
Total acquired BBVAPR loans	173,940	246,472	8.68%	8.22%	2,003,007	2,996,951
Acquired Eurobank	88,969	91,769	26.70%	24.64%	333,270	372,512
Total loans	435,553	443,902	8.77%	8.71%	4,966,709	5,095,211
Total interest earning assets	485,257	493,632	6.94%	6.58%	6,992,631	7,499,993

	Interest		Average rate		Average balance	
	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013
			(Dollars in thousands)			
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	\$ 8,001	\$ 11,151	0.56%	0.77%	\$ 1,417,272	\$ 1,452,030
Savings and money market	8,097	9,481	0.69%	1.01%	1,169,482	938,450
Individual retirement accounts	3,760	4,832	1.15%	1.35%	325,678	358,605
Retail certificates of deposits	6,852	11,203	1.39%	1.66%	491,485	674,241
Total core deposits	26,710	36,667	0.78%	1.07%	3,403,917	3,423,326
Institutional deposits	4,961	9,983	1.42%	1.66%	348,742	602,769
Brokered deposits	5,715	7,068	0.82%	0.86%	697,756	821,112
Total wholesale deposits	10,676	17,051	1.02%	1.20%	1,046,498	1,423,881
	37,386	53,718	0.84%	1.11%	4,450,415	4,847,207
Non-interest bearing deposits	-	-	0.00%	0.00%	715,729	\$ 751,757
Deposits fair value premium amortization	(4,773)	(14,400)	0.00%	0.00%	-	-
Core deposit intangible amortization	1,341	1,659	0.00%	0.00%	-	-
Total deposits	33,954	40,977	0.66%	0.73%	5,166,144	5,598,964
Borrowings:						
Securities sold under agreements to repurchase	29,654	29,249	2.85%	2.16%	1,041,378	1,353,011
Advances from FHLB and other borrowings	9,185	8,620	2.58%	2.05%	355,322	419,880
Subordinated capital notes	3,989	5,114	3.96%	4.64%	100,747	110,164
Total borrowings	42,828	42,983	2.86%	2.28%	1,497,447	1,883,055
Total interest bearing liabilities	76,782	83,960	1.15%	1.12%	6,663,591	7,482,019
Net interest income / spread	\$ 408,475	\$ 409,672	5.79%	5.46%		
Interest rate margin			5.84%	5.46%		
Excess of average interest-earning assets over					\$ 329,040	\$ 17,974
average interest-bearing liabilities						
Average interest-earning assets to average					104.94%	100.24%
interest-bearing liabilities ratio						

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
	(In thousands)		
Interest Income:			
Investments	\$ (7,835)	\$ 7,809	\$ (26)
Loans	(16,322)	7,973	(8,349)
Total interest income	(24,157)	15,782	(8,375)
Interest Expense:			
Deposits	(3,168)	(3,855)	(7,023)
Repurchase agreements	(6,737)	7,142	405
Other borrowings	(1,917)	1,357	(560)
Total interest expense	(11,822)	4,644	(7,178)
Net Interest Income	\$ (12,335)	\$ 11,138	\$ (1,197)

Net Interest Income

Comparison for the years ended December 31, 2015 and 2014

Net interest income is a function of the difference between rates earned on the Company's interest-earning assets and rates paid on its interest-bearing liabilities (interest rate spread) and the relative amounts of its interest earning assets and interest-bearing liabilities (interest rate margin). The Company constantly monitors the composition and re-pricing of its assets and liabilities to maintain its net interest income at adequate levels. Table 1 above shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for 2015 and 2014.

Net interest income of \$337.4 million decreased 17.4% compared with \$408.5 million reported in 2014, reflecting a decrease of 15.6% in interest income from loans and a decrease of 21.6% in interest income from investments.

Interest rate spread decreased 84 basis points from 5.79% to 4.95%. This decrease is mainly due to the net effect of a 88 basis points decrease in the average yield of interest-earning assets from 6.94% to 6.06%, reflecting reduction in high yielding loan portfolios including Puerto Rico government credit and acquired loan portfolio.

Interest income decreased to \$406.6 million from \$485.3 million in 2014. Such decrease reflects decreases of \$43.4 million and \$35.3 million in the volume and interest rate, respectively, of interest-earning assets. Interest income from loans decreased 15.6% to \$367.6 million, reflecting a decrease in both, volume and interest rate of \$42.7 million and \$25.2 million, respectively. Such decrease reflects lower acquired loan balances and yield mainly related to the bulk sale at the end of the third quarter of 2015 and also normal repayments and maturities. In addition, the decrease reflects a \$9.7 million decrease in interest income from loans to PREPA, which was placed in non-accrual status at the end of the first quarter of 2015, and Puerto Rico Aqueducts and Sewer Authority ("PRASA"), which was paid off during the second quarter of 2015. Non-acquired loans interest income increased 6.5% to \$183.8 million as average balances grew 11.8% and yield contracted 31 basis points to 6.25%. Acquired BBVAPR loans interest income fell 24.5% to \$131.4 million as average balances declined 22.6% and yield decreased 21 basis points to 8.47%. Acquired Eurobank loans interest income fell 41.1% to \$52.4 million as average balances declined 36.0% and yield decreased 212 basis points to 24.58%. Interest income from investments decreased 21.6% to \$38.9 million, reflecting a decrease in interest rate and volume of \$10.0 million and \$729 thousand, respectively. Such decrease in interest income from investments reflects a decrease in investment securities from redemptions, maturities and sales, and higher premium amortization on existing securities.

Interest expense decreased 9.9% to \$69.2 million, primarily because of a \$3.9 million decrease in the volume of interest-bearing liabilities and a decrease of \$3.7 million in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease of \$2.6 million in deposits volume and \$4.3 million in interest rate, a decrease of \$815

thousand in repurchase agreements volume which was partially offset by an increase of \$728 thousand in interest rate, and a decrease in other borrowings volume of \$453 thousand and \$126 thousand in interest rate. The cost of interest bearing deposits before fair value amortization and core deposit intangible amortization decreased 18 basis points to 0.66%, compared to 0.84% for 2014. The decrease in the cost of deposits was partially offset by an increase in the cost of borrowings, which increased 4 basis points to 2.90% from 2.86%.

The average balance of total interest-earning assets was \$6.704 billion, a decrease of 4.1% from 2014. The decrease in average balance of interest-earning assets was mainly attributable to a decrease of 1.2% in average investments and a decrease of 5.3% in average loans.

Comparison of years ended December 31, 2014 and 2013

Net interest income amounted to \$408.5 million, a slight decrease of 0.3% from \$409.7 million for 2013. This change reflects a decrease of 1.8% in interest income from loans and a 17.1% decrease in interest expense from deposits, when comparing the years 2014 and 2013.

Interest rate spread for 2014 increased 33 basis points to 5.79% from 5.46% in 2013. This increase is mainly due to the net effect of a 36 basis point increase in the average yield of interest-earning assets from 6.58% to 6.94%, and a 3 basis point increase in the average cost of funds from 1.12% to 1.15%.

Interest income for 2014 decreased to \$485.3 million from \$493.6 million in 2013. Such decrease reflects \$24.2 million reduction in the volume of interest-earning assets, partially offset by an increase in rate of \$15.8 million. Interest income from loans decreased 1.9% to \$435.6 million, primarily reflecting a decrease in volume of \$16.3 million, partially offset by an \$8.0 million increase in interest rate. Interest income from investments remained leveled at \$49.7 million compared to 2013, reflecting a decrease in volume of \$7.8 million, offset by a \$7.8 million increase in interest rate.

Interest expense for 2014 decreased 8.5% to \$76.8 million from \$84.0 million in 2013. The decrease was primarily the net result of an \$11.8 million decrease in the volume of interest-bearing liabilities and an increase of \$4.6 million in interest rate. The decrease in interest-bearing liabilities was mostly due to the decrease in repurchase agreements volume of \$6.7 million, and a decrease in deposits volume of \$3.2 million and deposits interest rate of \$3.9 million, partially offset by a \$7.1 million increase in repurchase agreements interest rate. The cost of interest bearing deposits before fair value amortization and core deposit intangible amortization decreased 27 basis points to 0.84% for 2014, compared to 1.11% for 2013. The decrease in the cost of deposits was partially offset by an increase in the cost of borrowings, which increased 58 basis points to 2.86% from 2.28%.

For 2014, the average balance of total interest-earning assets was \$6.993 billion, a decrease of \$507.4 million, or 6.8%, from 2013. Such decrease was mainly attributable to a decline of \$378.9 million, or 22.1%, in average investment securities, resulting from sales, redemptions and maturities during 2014. The average yield on interest-earning assets was 6.94% compared to 6.58% for 2013. The yield of the investment portfolio increased to 2.45% from 2.07%. Increase in investment yield is related to lower premium amortization in the mortgage-backed securities portfolio from the extension of the duration of the portfolio as a result of the level of market rates.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Year Ended December 31,			
	2015	2014	Variance	2013
	(Dollars in thousands)			
Banking service revenue	\$ 41,466	\$ 40,712	1.9%	\$ 44,239
Wealth management revenue	29,040	29,855	-2.7%	30,924
Mortgage banking activities	6,128	7,381	-17.0%	10,994
Total banking and financial service revenue	76,634	77,948	-1.7%	86,157
Total other-than-temporary impairment losses on investment securities	(4,662)	-	-100.0%	-
Portion of loss recognized in other comprehensive income, before taxes	3,172	-	100.0%	-
Net impairment losses recognized in earnings	(1,490)	-	-100.0%	-
FDIC shared-loss expense, net:				
FDIC indemnification asset expense	(40,131)	(62,285)	35.6%	(66,253)
Change in true-up payment obligation	(2,677)	(3,471)	22.9%	(3,014)
	(42,808)	(65,756)	34.9%	(69,267)
Reimbursement from FDIC shared-loss coverage in sale of loans	20,000	-	100.0%	-
Net gain (loss) on:				

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Sale of securities available for sale	2,572	4,366	-41.1%	-
Derivatives	(190)	(608)	68.8%	(1,526)
Early extinguishment of debt	-	-	0.0%	1,061
Other non-interest (loss) income	(2,246)	1,373	-263.6%	670
	(24,162)	(60,625)	60.1%	(69,062)
Total non-interest income, net	\$ 52,472	\$ 17,323	202.9%	\$ 17,095

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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, trading and other transactions.

Comparison of years ended December 31, 2015 and 2014

As shown in Table 2 above, the Company recorded non-interest income in the amount of \$52.5 million, compared to \$17.3 million for 2014, an increase of 202.9%, or \$35.2 million, mostly from a \$20.0 million reimbursement from the FDIC upon successful negotiation and termination of the commercial shared-loss coverage.

The net FDIC shared-loss expense decreased to \$42.8 million as compared to \$65.8 million for 2014, primarily from the decrease of the FDIC commercial loss share amortization related to the expiration of the non-single family loss share coverage by the FDIC. The decrease is also related to 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). The FDIC indemnification asset expense decreased to \$40.1 million from \$62.3 million compared with 2014. The true-up payment obligation decreased to \$2.7 million as compared to \$3.5 million for 2014. The true-up payment obligation may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value. Notwithstanding the expiration of loss share coverage for non-single family loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a sale of loss-share assets covered under the non-single family loss share agreement. As a result to such agreement, the FDIC agreed and paid \$20 million in loss share coverage with respect to the aggregate loss resulting from the recent bulk sale of covered non-performing commercial loans, as reflected in Table 2, and such reimbursement was received in December 2015.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, increased to \$41.5 million, from \$40.7 million for 2014. The increase is mainly driven by higher electronic banking fees of \$2.4 million, partially offset by lower checking account fees by \$1.4 million.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased to \$29.0 million from \$29.9 million in 2014, mainly due to a decrease in mutual fund and over-the-counter trading of \$680 thousand and lower bond sales by \$294 thousand.

Income generated from mortgage banking activities decreased 17.0% to \$6.1 million, compared to \$7.4 million 2014. The decrease in mortgage banking activities was mostly due to foregone gains on sales as a result of retaining securitized GNMA pools. The Company retained securitized GNMA pools totaling \$54.5 million at a yield of 3.09% from its own originations during the second half of 2015.

During 2015, the Company recognized an other-than-temporary impairment charge on its portfolio of investment securities available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions. The Corporation determined that \$1.5 million of the unrealized loss carried by these securities was attributed to estimated credit losses.

Gains from the sale of securities were \$2.6 million compared to \$4.4 million for the same period in 2014. Losses from derivative activities were \$190 thousand, compared to \$608 thousand for 2014.

Other non-interest income declined \$3.6 million, mainly related to the sale during the second quarter of 2015 of GNMA mortgage loan servicing rights for approximately \$7.0 million. The Company recognized a loss of \$2.7 million related to this transaction.

Comparison of the years ended December 31, 2014 and 2013

The Company recorded non-interest income in the amount of \$17.3 million, compared to \$17.1 million for 2013, an increase of \$228 thousand.

The FDIC shared-loss expense, net, decreased to \$65.8 million for 2014, as compared to \$69.3 million for 2013. This amortization is decreasing as 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 second quarter of 2015, although the recovery share period extends for an additional three-year period.

The true-up payment obligation increased to \$3.5 million for 2014, as compared to \$3.0 million 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 8.0% to \$40.7 million for 2014, from \$44.2 million in 2013. The decrease in banking services revenues is mostly due to a \$1.5 million decrease in retail checking account fees, as customers have shifted to lower fee account products, a \$733 thousand decrease in credit card interchange income, and a \$1.1 million decrease in other loan fees due to a non-recurrent prepayment penalty from a commercial loan cancellation during 2013.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 3.5% to \$29.9 million for 2014, compared to \$30.9 million in 2013. This decrease is mainly due to a decrease in Oriental Financial Services revenues subject to commissions which is attributable to lower trading activity in Puerto Rico bonds and mutual funds as a result of current local economic conditions.

Income generated from mortgage banking activities decreased 32.9% to \$7.4 million for 2014, compared to \$11.0 million for 2013. The decrease in mortgage banking activities is mainly due to higher losses in repurchased loans and a decrease in sales when compared to 2013.

**TABLE 3 - NON-INTEREST EXPENSES
SUMMARY**

	Year Ended December 31,			2013
	2015	2014	Variance %	
	(Dollars in thousands)			
Compensation and employee benefits	\$ 79,172	\$ 85,283	-7.2%	\$ 91,957
Professional and service fees	16,217	15,996	1.4%	21,321
Occupancy and equipment	34,186	34,710	-1.5%	34,408
Insurance	9,567	8,830	8.3%	8,795
Electronic banking charges	21,893	19,081	14.7%	16,702
Information technology expenses	5,648	6,019	-6.2%	10,546
Advertising, business promotion, and strategic initiatives	6,452	7,014	-8.0%	7,025
Merger and restructuring charges	-	-	0.0%	17,660
Foreclosure, repossession and other real estate expenses	37,522	25,125	49.3%	16,484
Loan servicing and clearing expenses	9,075	7,567	19.9%	7,588
Taxes, other than payroll and income taxes	9,460	14,409	-34.3%	15,539
Communication	3,086	3,430	-10.0%	3,377
Printing, postage, stationery and supplies	2,575	2,533	1.7%	3,459
Director and investor relations	1,091	1,106	-1.4%	1,098
Other operating expenses	12,457	11,622	7.2%	8,177
Total non-interest expenses	\$ 248,401	\$ 242,725	2.3%	\$ 264,136
Relevant ratios and data:				
Efficiency ratio	60.00%	49.90%		53.27%
Compensation and benefits to non-interest expense	31.87%	35.14%		34.81%
Compensation to average total assets owned	1.08%	1.10%		1.08%
Average number of employees	1,496	1,567		1,564
Average compensation per employee	\$ 52.9	\$ 54.4		\$ 58.8
Average loans per average employee	\$ 3,145	\$ 3,170		\$ 3,258

Non-Interest Expenses

Comparison of years ended December 30, 2015 and 2014

Non-interest expense for 2015 was \$248.4 million, representing an increase of 2.3% compared to \$242.7 million in the previous year.

Foreclosure, repossession and other real estate expenses increased 49.3% to \$37.5 million, as compared to \$25.1 million for the previous year, primarily reflecting an \$8.5 million loss related to foreclosed estate sold as part of the bulk sale completed during the third quarter of 2015. In addition, there was a \$5.1 million increase in commercial properties markdowns, as part of our ongoing and proactive de-risking efforts.

Electronic banking charges increased 14.7% to \$21.9 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.

Loan servicing and clearing expenses increased 19.9% to \$9.1 million, mainly due to an increase of \$764 thousand in servicing expenses and \$807 thousand in the preparation for mortgage servicing migration to the Bank.

The increases in the foregoing non-interest expenses were partially offset by decreases in compensation and employee benefits and in taxes other than payroll and income taxes.

Compensation and employee benefits decreased 7.2% to \$79.2 million from \$85.3 million for 2014. The decrease is due mainly to lower salaries and lower benefits as a result of a headcount reduction from 1,567 to 1,496 mainly from the voluntary early retirement programs offered by the Company in December 2014 and during 2015 for qualified employees as a cost savings initiative.

Taxes, other than payroll and income taxes decreased by \$4.9 million or 34.3%, mostly due to a decrease of \$6.6 million in the local gross receipts tax that was repealed for taxable years commencing after December 31, 2014.

Efficiency ratio was 60.00% compared to 49.90% for 2014. The efficiency ratio measures how much of the Company's revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, credit-related other-than-temporary impairment losses, FDIC shared-loss expense, FDIC reimbursement, 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 losses that are excluded from the efficiency ratio computation amounted to losses of \$24.2 million, compared to \$53.7 million in 2014.

Comparison of years December 31, 2014 and 2013

Non-interest expense for 2014 was \$242.7 million, representing a decrease of 8.1% compared to \$264.1 million in the previous year. The decrease is due mainly to the non-recurring merger and restructuring charges of \$17.7 million incurred during 2013 for the BBVAPR Acquisition and to the decrease of \$6.7 million in compensation and employee benefits.

Compensation and employee benefits decreased 7.3% to \$85.3 million from \$92.0 million in 2013. The decrease is due mainly to the impact of the assessment of employee bonuses required pursuant to the BBVAPR Acquisition of \$4.3 million for 2013, a \$929 thousand decrease in fixed compensation mainly due to consolidation of employee positions, a decrease in loan incentives of \$844 thousand related to lower new loan production during 2014, a decrease in stock option expense of \$788 thousand mainly from stock option forfeitures, and a decrease of \$1.3 million in commissions paid by the securities broker-dealer due to lower business activity. This decrease was partially offset by a non-recurring accrual of \$3.8 million for a voluntary early retirement program offered by the Company for qualified employees as a cost savings initiative for 2015. The increase in total employee headcount is mainly related to the conversion from temporary to regular employees, mainly concentrated in branches.

Professional and service fees decreased 25.0% to \$16.0 million, as compared to \$21.3 million in 2013. Professional and service fees primarily comprise legal expenses and consulting and outsourcing expenses. For 2014, legal expenses amounted to \$5.1 million compared to \$5.6 million in 2013. The decrease in professional and service fees is mainly related to consulting and outsourcing expenses which amounted to \$3.9 million, compared to \$5.5 million in 2013, and a decrease in audit fees which amounted to \$1.8

million compared to \$2.3 million in 2013. The decrease in consulting and outsourcing expenses is mainly related to loan servicing fees amounting to \$3.0 million for a third-party loan servicer whose contract was terminated during the second quarter of 2013.

Information technology expenses decreased 42.9% to \$6.0 million, as compared to \$10.5 million, mostly due to systems integration during the end of the year 2013, as part of BBVAPR systems conversion.

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 49.8% to \$25.1 million, as compared to \$16.5 million 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 14.2% to \$19.1 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 49.9% from 53.3% for 2013. The efficiency ratio measures how much of the Company's revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, 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 \$60.6 million, compared to \$69.0 million in 2013.

Provision for Loan and Lease Losses

Comparison of years ended December 30, 2015 and 2014

Provision for loan and lease losses increased 166.3% or \$100.9 million, to \$161.5 million, reflecting a \$38.1 million provision for loan and lease losses resulting from the bulk sale completed during the third quarter of 2015 and a \$53.3 million provision related to the PREPA line of credit.

Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for 2015 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 loan and lease losses, excluding acquired loans, increased 216.1%, or \$67.9 million, to \$99.3 million from \$31.4 million when compared with 2014. Such increase was primarily due to the classification of a \$200 million participation in the PREPA line of credit on non-accrual status and the recognition of a \$53.3 million provision for

loan and lease losses on such credit facility during 2015.

Total charge-offs, excluding acquired loans, increased 35.0% to \$53.0 million, as compared to \$39.3 million for 2014. Commercial charge-offs increased \$3.1 million to \$5.5 million. Auto and leasing charge-offs increased \$7.3 million to \$33.4 million. Consumer charge-offs increased \$2.9 million to \$8.7 million.

Total recoveries, excluding acquired loans, increased from \$10.2 million to \$14.9 million. As a result, the recoveries to charge-offs ratio increased from 25.95% to 28.03%. Net credit losses increased \$9.1 million to \$38.1 million, representing 1.30% of average originated and other loans outstanding versus 1.11% for 2014.

Provision for acquired loan and lease losses increased 113.0%, or \$33.0 million, to \$62.2 million from \$29.2 million when compared with 2014. Provision for acquired BBVAPR loan and lease losses increased 2.5% to \$24.1 million, compared to \$23.5 million for 2014. An additional provision of \$5.2 million was recorded as a result of the sale of certain non-performing commercial loans from the BBVAPR Acquisition, during the third quarter of 2015. Provision for acquired Eurobank loan and lease losses increased \$32.4 million from \$5.7 million to \$38.0 million. Such increase reflects an additional provision of \$32.9 million recorded as a result of the

sale of a portfolio of non-performing commercial loans acquired in the Eurobank transaction with an unpaid principal balance of \$197.1 million (\$100.0 million carrying amount) during the third quarter of 2015.

The provision for loan and lease losses for loans accounted for under ASC 310-30 reflects 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 years December 31, 2014 and 2013

Provision for non-covered loan and lease losses decreased \$12.6 million to \$55.0 million when compared to \$67.6 million in 2013, 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 increased 6.5% to \$5.7 million from \$5.3 million 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 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 \$24.2 million to \$31.4 million, when compared to \$55.6 million in 2013. This was the result of a decrease in the provision for mortgage loans of 87.8% to \$4.3 million and a recapture for commercial loans of \$4.4 million compared to a provision of \$3.3 million in 2013, which was partially offset by an increase in the provision for auto and leasing of 127.4% to \$23.6 million and an increase in the provision for consumer loans of 33.1% to \$8.3 million.

Total charge-offs on non-covered loans, excluding acquired loans, decreased 19.1% to \$39.3 million, as compared to \$48.5 million in 2013. This was the result of a 86.3% decrease in mortgage charge-offs to \$5.0 million and a 58.8% decrease in commercial charge-offs to \$2.4 million, partially offset by a 466.0% increase in auto and leasing charge-offs to \$26.0 million and a 289.4% increase in consumer charge-offs to \$5.8 million.

Total recoveries increased from \$2.1 million to \$10.2 million. As a result, the recoveries to charge-offs ratio increased from 4.37% to 25.95%. Net credit losses, excluding acquired loans, decreased \$17.4 million to \$29.1 million, representing 4.42% of average non-covered loans outstanding versus 2.69% for 2013.

The non-covered acquired loans accounted for under ASC 310-20 required a provision for loan and lease losses of \$12.9 million, as compared to \$9.1 million in 2013. Non-covered acquired loans accounted for under ASC 310-30 required a provision for loan and lease losses of \$10.6 million compared to \$2.9 million in 2013. The provision for 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 \$5.7 million, compared to \$5.3 million 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.

Income Taxes

Comparison of years December 31, 2015 and 2014

Income tax expense decreased \$54.8 million to a benefit of \$17.6 million, compared to \$37.3 million for 2014. The decrease in income tax expense reflects the decrease in the net income before income taxes of \$142.5 million to a loss of \$20.1 million in 2015, compared to net income before income taxes of \$122.4 million a year ago.

Comparison of years December 31, 2014 and 2013

The income tax expense for 2014 amounted \$37.3 million, compared to an income tax benefit of \$8.7 million for 2013. Notwithstanding, the effective income tax rate for 2014 was 30.43% compared with the maximum income tax statutory rate of 39%. During 2013, the Company recognized a \$38.1 million income tax benefit from the increase in the Company's deferred tax asset as a result of the increase in corporate income taxes to 39% from 30%.

Business Segments

The Company segregates its businesses into the following major reportable segments: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Company's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated. The Company's methodology for allocating non-interest expenses among segments is based on several factors such as revenue, employee headcount, occupied space, dedicated services or time, among others. Following are the results of operations and the selected financial information by operating segment for 2015, 2014 and 2013.

Year Ended December 31, 2015

	Banking		Wealth Management		Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)							
Interest income	\$ 367,620	\$ 95	\$ 38,853	\$ 406,568	\$ -	\$ -	\$ -	406,568
Interest expense	(28,425)	-	(40,771)	(69,196)	-	-	-	(69,196)
Net interest income	339,195	95	(1,918)	337,372	-	-	-	337,372
Provision for								
loan and lease losses	(161,501)	-	-	(161,501)	-	-	-	(161,501)
Non-interest income (loss)	23,900	28,288	284	52,472	-	-	-	52,472
Non-interest expenses	(219,415)	(22,564)	(6,422)	(248,401)	-	-	-	(248,401)
Intersegment revenue	1,427	-	948	2,375	(2,375)	-	-	
Intersegment expenses	(948)	(1,027)	(400)	(2,375)	2,375	-	-	
(Loss) income before income taxes	\$ (17,342)	\$ 4,792	(7,508)	\$ (20,058)	\$ -	\$ -	\$ -	(20,058)
Total assets	\$ 5,867,874	\$ 22,349	\$ 2,126,921	\$ 8,017,144	\$ (917,995)	\$ -	\$ -	7,099,149

Year Ended December 31, 2014

	Banking		Wealth Management		Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)							
Interest income	\$ 435,580	\$ 174	\$ 49,503	\$ 485,257	\$ -	\$ -	\$ -	485,257
Interest expense	(34,721)	-	(42,061)	(76,782)	-	-	-	(76,782)
Net interest income	400,859	174	7,442	408,475	-	-	-	408,475
Provision for								
loan and lease losses	(60,640)	-	-	(60,640)	-	-	-	(60,640)
Non-interest income (loss)	(13,389)	28,525	2,187	17,323	-	-	-	17,323
Non-interest expenses	(213,935)	(21,748)	(7,042)	(242,725)	-	-	-	(242,725)
Intersegment revenue	1,410	-	327	1,737	(1,737)	-	-	
Intersegment expenses	(327)	(1,089)	(321)	(1,737)	1,737	-	-	

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Income before income taxes	\$ 113,978	\$ 5,862	\$ 2,593	\$ 122,433	\$ -	\$ 122,433
Total assets	\$ 6,454,015	\$ 21,644	\$ 1,940,504	\$ 8,416,163	(967,054)	\$ 7,449,109

Year Ended December 31, 2013

	Wealth		Total Major		Consolidated	
	Banking	Management	Treasury	Segments	Eliminations	Total
	(In thousands)					
Interest income	\$ 445,363	\$ 354	\$ 47,915	\$ 493,632	\$ -	\$ 493,632
Interest expense	(42,044)	-	(41,916)	(83,960)	-	(83,960)
Net interest income	403,319	354	5,999	409,672	-	409,672
Provision for loan and lease losses	(72,894)	-	-	(72,894)	-	(72,894)
Non-interest income (loss)	(17,438)	30,614	3,919	17,095	-	17,095
Non-interest expenses	(222,408)	(26,603)	(15,125)	(264,136)	-	(264,136)
Intersegment revenue	618	-	1,195	1,813	(1,813)	-
Intersegment expenses	-	(1,813)	-	(1,813)	1,813	-
Income (loss) before income taxes	\$ 91,197	\$ 2,552	\$ (4,012)	\$ 89,737	\$ -	\$ 89,737
Total assets	\$ 5,820,726	\$ 23,280	\$ 3,084,409	\$ 8,928,415	\$ (770,400)	\$ 8,158,015

*Comparison of year ended December 31, 2015 and 2014***Banking**

Net interest income of the Company's Banking segment decreased \$61.7 million for 2015, or 15.4%, reflecting a decrease of 15.6% in interest income from loans. Interest income from loans decreased 15.6% to \$367.6 million, reflecting a decrease in both, volume and interest rate of \$42.7 million and \$25.2 million, respectively. Such decrease reflects lower acquired loan balances and yields mainly related to the bulk sale of non-performing acquired commercial loans and foreclosed real estate at the end of the third quarter of 2015 and also normal repayments and maturities. In addition, the decrease reflects a \$9.7 million decrease in interest income from a loan to PREPA, which was placed in non-accrual status during the first quarter of 2015, and a loan to PRASA, which was paid off during the second quarter of 2015.

Provision for loan and lease losses increased 166.3%, or \$100.9 million, to \$161.5 million, reflecting a \$38.1 million provision for loan and lease losses resulting from the bulk sale of non-performing acquired commercial loans and foreclosed real estate completed during 2015. In addition, during 2015, the Company recorded an additional provision for loan and lease losses of \$53.3 million related to its participation in the line of credit to PREPA.

The net FDIC shared-loss expense decreased to \$42.8 million as compared to \$65.8 million for 2014, primarily from the decrease of the FDIC commercial loss share amortization related to the expiration of the non-single family loss share coverage by the FDIC at the end of the second quarter of 2015. Notwithstanding the expiration of loss share coverage for non-single family loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a potential sale of a pool of loss share assets covered under the non-single family loss share agreement. Pursuant to such agreement, the FDIC agreed and paid \$20 million in loss share coverage with respect to the aggregate loss resulting from the sale of covered non-performing commercial loans, and such

reimbursement was received in December 2015.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, increased to \$41.5 million, from \$40.7 million for 2014. The increase is mainly driven by higher electronic banking fees of \$2.4 million, partially offset by lower checking account fees of \$1.4 million.

Income generated from mortgage banking activities decreased 17.0% to \$6.1 million, compared to \$7.4 million in 2014. The decrease in mortgage banking activities was mostly due to foregone gains on sales as a result of retaining securitized GNMA pools, as the Company retained securitized GNMA pools totaling \$54.5 million at a yield of 3.09% from its own loan originations during the second half of 2015.

Non-interest expense of \$219.4 million increased 2.6% when compared to 2014. The increase in non-interest expense primarily reflects an \$8.5 million loss related to the sale of foreclosed real estate, mostly from Eurobank Acquisition, as part of the bulk sale during 2015. In addition, there was a \$5.1 million increase in commercial properties markdowns, as part of our ongoing de-risking efforts. Also, electronic banking charges increased 14.7%, mainly from merchant business and credit/debit card interchange transactions as our banking business continues to grow.

Wealth Management

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities decreased slightly to \$28.3 million, compared to \$28.5 million in 2014.

Non-interest expenses increased by 3.8% to \$22.6 million from \$21.7 million, mainly due to a \$2.1 million payment in 2015 consisting of restitution to certain clients of our broker-dealer subsidiary as required by FINRA.

Treasury

The investment portfolio of \$1.616 billion at December 31, 2015 increased 15.3% compared to \$1.402 billion at December 31, 2014. This was mainly the result of \$617.6 million purchases, \$101.3 million sales, and \$277.3 million principal paydowns of available-for-sale and held-to-maturity investment securities during 2015. Interest income from investments decreased 21.6% to \$38.9 million, reflecting a decrease in interest rate of \$10.0 million. Such decrease in interest income from investments reflects higher premium amortization on existing securities.

Comparison of years ended December 31, 2014 and 2013

Banking

Net interest income of the Banking segment slightly decreased \$2.5 million for 2014, or 1.0%, reflecting a decrease of 2.0% in interest income from loans, partially offset by a decrease of 17.4% in interest expense. The decrease in interest income mainly reflects a decrease in loan volume, as acquired loans continue to mature at higher level at higher level than the increase in the originated loans.

Provision for non-covered loans losses decreased \$12.6 million to \$55.0 million when compared to \$67.6 million for 2013, 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 loans losses increased \$345 thousand when compared to 2013.

Non-interest loss decreased \$4.0 million to \$13.4 million when compared to \$17.4 million in 2013, mainly as a result of a decrease of \$3.5 million in net FDIC shared-loss expense from \$69.3 million. In addition, for 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 2014.

Banking service revenues decreased, mostly due to a \$1.5 million decrease in retail checking account fees, as customers have shifted to lower fee account products, a \$733 thousand decrease in credit card interchange income, and a \$1.1 million decrease in other loan fees due to a non-recurrent prepayment penalty from a commercial loan cancellation during 2013.

Non-interest expense of \$214.0 million decreased 3.8% when compared to 2013, mainly due to \$17.7 million in non-recurring merger and restructuring charges during 2013 compared to none in 2014. This decrease was partially offset by an increase in foreclosure, repossession and other real estate expenses of \$8.6 million to \$25.1 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 \$2.4 million to \$19.1 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.

Wealth Management

Wealth management income before income taxes increased \$3.3 million, mostly due to a decrease of \$4.9 million in non-interest expense, partially offset by a decrease of \$2.1 million in non-interest income.

Wealth management revenues, which consist of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased to \$28.5 million mostly as a result of current local economic conditions.

Non-interest expenses decreased to \$21.7 million, mainly as commissions paid by the securities broker-dealer decreased when compared to 2013. In addition, other operating expenses decreased as a result of cost reduction strategies.

Treasury

Average investments decreased 15.8% resulting from sales, redemptions and maturities in 2014. Interest income from investments increased 3.3% and the yield increased to 2.45% from 2.07% in 2013. Increase in yield is related to lower premium amortization in the mortgage-backed securities portfolio from the extension of the duration of the portfolio as a result of the level of market rates. Interest expenses remained leveled at \$42 million for 2014 and 2013.

Non-interest expenses of the treasury segment, mainly composed of indirect expenses allocated from support departments decreased 53.44% to \$7.0 million as part of the Company's general expenses reduction.

During 2014, the classification of certain cash accounts was revised to more accurately depict the nature of the underlying segments. This reclassification resulted in a reduction in banking segment total assets of approximately \$1.190 billion, with a corresponding increase in treasury segment total assets of \$830.9 million and a decrease in total assets eliminations of \$358.8 million in 2013. The Company evaluated the impact of this reclassification on the total assets allocated to these segments and determined that the effect of this adjustment was not material to any previously reported results.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At December 31, 2015, the Company's total assets amounted to \$7.099 billion representing a decrease of 4.7% when compared to \$7.449 billion at December 31, 2014. This reduction is mainly due to a decrease in the loan portfolio, partially offset by an increase in the investment portfolio. The loan portfolio decreased \$392.4 million from \$4.827 billion at December 31, 2014 to \$4.434 billion, which included the sale of a portion of acquired non-performing commercial loans amounting to \$109.9 million, carrying amount, during the third quarter of 2015, the full repayment of the \$75 million loan to PRASA during the second quarter of 2015, and the full payment of the \$78 million loan to Puerto Rico State Insurance Fund Corporation. Investment securities increased \$213.8 million from \$1.402 billion at December 31, 2014 to \$1.616 billion. This was mainly the result of \$617.6 million purchases, \$101.3 million sales, and \$277.3 million principal paydowns of available-for-sale and held-to-maturity investment securities in 2015.

At December 31, 2015, loans represented 73% of total interest-earning assets while investments represented 27%, compared to 77% and 23%, respectively, at December 31, 2014.

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 December 31, 2015, the Company's loan portfolio decreased by 8.1% to \$4.434 billion compared to \$4.827 billion at December 31, 2014, primarily due to lower acquired loan balances. Our loan portfolio is transitioning as originated loans grow at a slower pace than acquired loans decrease, due to portfolio sales, repayments and maturities, and the Company continues to reduce its exposure to the Puerto Rico government. At December 31, 2015, the originated loan portfolio increased \$206.5 million, or 7.4%, the acquired BBVAPR loan portfolio decreased \$445.9 million, or 26.0%, and the acquired Eurobank loan portfolio decreased \$152.1 million, or 50.9% from December 31, 2014.

Investments principally consist of U.S. government and agency bonds, mortgage-backed securities, and Puerto Rico government and agency bonds. At December 31, 2015, the investment portfolio increased 15.3% to \$1.616 billion from \$1.402 billion at December 31, 2014. During 2015, the Company sold \$101.3 million of mortgage-backed securities available for sale and reduced some interest rate sensitivity. Recent purchases of investment securities, mostly FNMA and FHLM certificates, were categorized as held-to-maturity. The Company's management will determine the category of upcoming investment securities purchases based on the Company's expectations at such time. During 2015, the Company recognized an other-than-temporary impairment charge on its portfolio of investment securities available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions. The Company determined that \$1.5 million of the unrealized loss carried by these securities was attributed to estimated credit losses.

The FDIC indemnification asset amounted to \$22.6 million at December 31, 2015 and \$97.4 million at December 31, 2014, representing a 76.8% reduction. The decrease in the FDIC indemnification asset is mainly related to collections and reimbursement receivables from the FDIC of \$38.4 million and amortization of \$36.4 million for 2015, as the FDIC loss-share coverage for commercial loans expired on June 30, 2015.

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 securities 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, OPC, manages private retirement plans. At December 31, 2015, total assets managed by the Company's trust division and OPC amounted to \$2.691 billion, compared to \$2.841 billion at December 31, 2014. 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 December 31, 2015, total assets gathered by Oriental Financial Services from its customer investment accounts decreased 9.4% to \$2.375 billion, compared to \$2.622 billion at December 31, 2014. Changes in trust and broker-dealer related assets primarily reflect a decrease in portfolio and differences in market values due principally to economic conditions in Puerto Rico.

Goodwill

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

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

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

As of December 31, 2015, the Company had \$86.1 million of goodwill allocated as follows: \$84.1 million to the Banking unit and \$2.0 to the Wealth Management unit. Based on its annual goodwill impairment test, the Company determined that the Banking unit failed step one of the two-step impairment test and that Wealth Management unit passed such step. As a result of step one, the Banking unit's adjusted net book value exceed its fair value by approximately \$263.1 million, or 29.6%. Accordingly, the Company proceeded to perform step two of the analysis. Based on the results of step two, the Company determined that the carrying value of the goodwill allocated to the Banking unit was not impaired as of the valuation date. For additional details related to such goodwill impairment test, please refer to "Goodwill and Intangible Assets" under Note 1 of the accompanying consolidated financial statements.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION

	December 31,		Variance
	2015	2014	%
	(Dollars in thousands)		
Investments:			
FNMA and FHLMC certificates	\$ 1,354,802	\$ 1,172,262	15.6%
Obligations of US government-sponsored agencies	5,093	7,182	-29.1%
US Treasury securities	25,032	-	100.0%
CMOs issued by US government-sponsored agencies	135,073	176,129	-23.3%
GNMA certificates	58,495	4,752	1131.0%
Puerto Rico government and public instrumentalities	13,731	15,671	-12.4%
FHLB stock	20,783	21,169	-1.8%
Other debt securities	2,572	3,294	-21.9%
Other investments	291	1,597	-81.8%
Total investments	1,615,872	1,402,056	15.3%
Loans	4,434,213	4,826,646	-8.1%
Total securities and loans	6,050,085	6,228,702	-2.9%
Other assets:			
Cash and due from banks (including restricted cash)	535,359	577,159	-7.2%
Money market investments	4,699	4,675	0.5%
FDIC indemnification asset	22,599	97,378	-76.8%
Foreclosed real estate	58,176	95,661	-39.2%
Accrued interest receivable	20,637	21,345	-3.3%
Deferred tax asset, net	145,901	108,708	34.2%
Premises and equipment, net	74,590	80,599	-7.5%
Servicing assets	7,455	13,992	-46.7%
Derivative assets	3,025	8,107	-62.7%
Goodwill	86,069	86,069	0.0%
Other assets and customers' liability on acceptances	90,554	126,714	-28.5%
Total other assets	1,049,064	1,220,407	-14.0%
Total assets	\$ 7,099,149	\$ 7,449,109	-4.7%
Investments portfolio composition:			
FNMA and FHLMC certificates	83.9%	83.7%	
Obligations of US government-sponsored agencies	0.3%	0.5%	
US Treasury securities	1.5%	0.0%	
CMOs issued by US government-sponsored agencies	8.4%	12.6%	
GNMA certificates	3.6%	0.3%	
Puerto Rico government and public instrumentalities	0.8%	1.1%	
FHLB stock	1.3%	1.5%	
Other debt securities and other investments	0.2%	0.3%	
	100.0%	100.0%	

TABLE 5 — LOANS RECEIVABLE COMPOSITION

	December 31,	
	2015	2014
	(In thousands)	
Originated and other loans and leases held for investment:		
Mortgage	\$ 757,828	\$ 799,111
Commercial	1,441,649	1,285,111
Consumer	242,950	186,111
Auto and leasing	669,163	575,111
	3,111,590	2,845,544
Allowance for loan and lease losses on originated and other loans and leases	(112,626)	(51,111)
	2,998,964	2,794,433
Deferred loan costs, net	4,203	4,203
Total originated and other loans held for investment, net	3,003,167	2,798,636
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	7,457	12,457
Consumer	38,385	43,385
Auto	106,911	184,911
	152,753	240,753
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(5,542)	(4,542)
	147,211	236,211
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	608,294	656,294
Commercial	287,311	452,311
Construction	88,180	106,180
Consumer	11,843	29,843
Auto	153,592	247,592
	1,149,220	1,492,220
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(25,785)	(13,785)
	1,123,435	1,478,435
Total acquired BBVAPR loans, net	1,270,646	1,716,646
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	92,273	102,273
Commercial and construction	142,377	256,377
Consumer	2,314	4,314
	236,964	362,964
Allowance for loan and lease losses on Eurobank loans	(90,178)	(64,178)
Total acquired Eurobank loans, net	146,786	298,786
Total acquired loans, net	1,417,432	2,015,432
Total held for investment, net	4,420,599	4,814,068
Mortgage loans held for sale	13,614	14,614
Total loans, net	\$ 4,434,213	\$ 4,828,682

The Company's loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred as "originated and other" loans) and loans acquired (referred 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 sharing coverage, related to commercial 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-share agreement. Pursuant to such agreement, the FDIC agreed to pay up to \$20 million in loss share coverage with respect to the aggregate loss resulting from any portfolio sale within 120 days of the agreement. This sale was completed on September 28, 2015. The coverage for the single-family residential loans will expire on June 30, 2020. At December 31, 2015, the remaining covered loans amounting to \$59.6 million, net carrying amount, are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties". At December 31, 2014, covered loans amounted to \$298.9 million, net carrying amount. Covered loans are no longer a material amount. Therefore, the Company changed its current and prior year loan disclosures during 2015.

As shown in Table 5 above, total loans, net, amounted to \$4.434 billion at December 31, 2015 and \$4.827 billion at December 31, 2014. On September 28, 2015, the Company sold covered non-performing commercial loans with an unpaid principal balance amounting to \$197.1 million (\$100.0 million carrying amount). The sales price was 18.44% of UPB, or \$36.3 million. The FDIC agreed to cover and paid \$20.0 million of losses as part of its loss-share agreement with the Company. As a result, a \$20.0 million reimbursement was recorded in the statement of operations. The Company also recorded a \$32.9 million provision for loan and lease losses for acquired Eurobank loans, which was partially offset by \$4.6 million in cost recoveries. Also, as part of this transaction, the Company sold certain non-performing commercial loans that were part of the BBVAPR Acquisition with an unpaid principal balance amounting to \$38.1 million (\$9.9 million carrying amount). The sales price was \$5.2 million. As a result, a \$5.2 million provision for loan and lease losses was recorded for BBVAPR acquired loans, which was partially offset by \$2.4 million in cost recoveries. In addition, certain foreclosed real estate with a carrying amount of \$11.0 million was sold for \$1.7 million. As part of this transaction, the Company made customary representations and warranties to the purchaser regarding certain characteristics of the assets that were sold. Such representations and warranties survive for a limited period of time. To the extent that the assets sold do not meet the specified characteristics, and subject to certain notice, cure period and other conditions, the purchaser would be entitled to require the Company to repurchase such assets.

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

- Mortgage loan portfolio amounted to \$757.8 million (24.4% of the gross originated loan portfolio) compared to \$791.8 million (27.8% of the gross originated loan portfolio) at December 31, 2014. Mortgage loan production totaled \$247.2 million for 2015, which represents an increase of 14.8% from \$215.4 million in the previous year. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to \$7.9 million and \$42.2 million at December 31, 2015 and 2014, 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.

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- Commercial loan portfolio amounted to \$1.442 billion (46.3% of the gross originated loan portfolio) compared to \$1.290 billion (45.4% of the gross originated loan portfolio) at December 31, 2014. Commercial loan production increased 38.9% to \$365.2 million for 2015 from \$262.9 million for 2014.
- Consumer loan portfolio amounted to \$243.0 million (7.8% of the gross originated loan portfolio) compared to \$186.8 million (6.6% of the gross originated loan portfolio) at December 31, 2014. Consumer loan production increased 17.3% to \$140.7 million for 2015 from \$119.9 million for 2014.
- Auto and leasing portfolio amounted to \$669.2 million (21.5% of the gross originated loan portfolio) compared to \$575.6 million (20.2% of the gross originated loan portfolio) at December 31, 2014. Auto and leasing production decreased by 18.8% to \$260.8 million for 2015, compared to \$321.2 million for 2014.

The following table summarizes the remaining contractual maturities of the Company's total gross non-covered loans, excluding loans accounted for under ASC 310-30, segmented to reflect cash flows as of December 31, 2015. Contractual maturities do not necessarily reflect the period of resolution of a loan, considering prepayments.

	Balance Outstanding at December 31, 2015	One Year or Less	Maturities		After Five Years	
			From One to Five Years	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates
(Dollars in thousands)						
Originated and other loans:						
Mortgage	\$ 757,828	\$ 2,414	\$ 13,473	\$ -	\$ 741,941	\$ -
Commercial	1,441,649	893,429	398,578	-	149,642	-
Consumer	242,950	30,305	141,450	-	71,195	-
Auto and leasing	669,163	3,014	302,453	-	363,696	-
Total	\$ 3,111,590	929,162	855,954	-	1,326,474	-
Acquired loans accounted under ASC 310-20						
Commercial	4,340	4,340	-	-	-	-
Commercial secured by real estate	3,117	2,929	188	-	-	-
Consumer	38,385	38,385	-	-	-	-
Auto	106,911	8,115	98,796	-	-	-
Total	\$ 152,753	\$ 53,769	\$ 98,984	\$ -	\$ -	\$ -

TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	December 31, 2015								
	Higher-Risk Residential Mortgage Loans*								
	Junior Lien Mortgages			Interest Only Loans			High Loan-to-Value Ratio		
	Carrying	Value	Allowance	Carrying	Value	Allowance	Carrying	Value	Allowance
		Coverage			Coverage			Coverage	
	(In thousands)								
Delinquency:									
0 - 89 days	\$ 11,849	\$ 259	2.19%	\$ 14,849	\$ 627	4.22%	\$ 71,687	\$ 1,227	1.71%
90 - 119 days	26	3	11.54%	522	26	4.98%	761	41	5.39%
120 - 179 days	96	-	0.00%	1,319	84	6.37%	1,306	78	5.97%
180 - 364 days	246	5	2.03%	641	41	6.40%	1,066	15	1.41%
365+ days	323	57	17.65%	712	185	25.98%	2,319	72	3.10%
Total	\$ 12,540	\$ 324	2.58%	\$ 18,043	\$ 963	5.34%	\$ 77,139	\$ 1,433	1.86%
Percentage of total loans excluding									
acquired loans accounted for under ASC 310-30			0.38%			0.55%			2.36%
Refinanced or Modified Loans:									
Amount	\$ 2,079	\$ 222	10.68%	\$ 195	\$ 19	9.74%	\$ 11,449	\$ 820	7.16%
Percentage of Higher-Risk Loan			16.58%			1.08%			14.84%
Category									
Loan-to-Value Ratio:									
Under 70%	\$ 7,940	\$ 220	2.77%	\$ 2,603	\$ 227	8.72%	\$ -	\$ -	-
70% - 79%	2,300	68	2.96%	2,543	108	4.25%	-	-	-
80% - 89%	179	14	7.82%	4,915	251	5.11%	-	-	-
90% and over	2,121	22	1.04%	7,982	377	4.72%	77,139	1,433	1.86%
	\$ 12,540	\$ 324	2.58%	\$ 18,043	\$ 963	5.34%	\$ 77,139	\$ 1,433	1.86%

* Loans may be included in more than one higher-risk loan category and excludes acquired residential mortgage loans.

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

Loans and Securities:	Carrying Value	December 31, 2015 Maturity			Comments
		Less than 1 Year (In thousands)	1 to 3 Years	More than 3 Years	
Central government	\$ 20,957	\$ -	\$ -	\$ 20,957	Repayment sources include all available revenues of the Commonwealth
Public corporations	190,935	190,290	645	-	Includes \$190.3 million PREPA loan, which has \$53.3 million allowance for loan and lease losses
Municipalities	203,520	187	48,165	155,168	Repayment from property taxes
Investment securities	17,801	-	8,733	9,068	Includes \$11 million in PRIDCO bonds that had a \$1.2 million other-than-temporary impairment
Total	\$ 433,213	\$ 190,477	\$ 57,543	\$ 185,193	

Some highlights follow regarding the data included above:

- Loans to municipalities are backed by their unlimited taxing power or real and personal property taxes.
- 44% of loans and securities balances mature in 12-months or less.
- Deposits from municipalities, central government and other government entities totaled \$99.0 million at December 31, 2015. However, this amount could decline as a result of local legislation intended 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.
- 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. The Bank's participation in the line of credit has an unpaid principal balance of \$190.3 million as of December 31, 2015. During the first quarter of 2015, the Bank placed its participation in such line of credit on non-accrual status. After the first quarter of 2015, interest payments received were applied to principal. As of December 31, 2015, the specific reserve was at \$53.3 million.

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. At December 31, 2015, the Company's allowance for loan and lease losses amounted to \$234.1 million, an increase from \$133.8 million at December 31, 2014. 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.

At December 31, 2015, \$112.6 million of the allowance corresponded to originated and other loans held for investment, or 3.62% of total originated and other loans held for investment, compared to \$51.4 million or 1.81% of total originated and other loans held for investment at December 31, 2014. The allowance increased as a result of a \$99.3 million provision for loan and lease losses and \$14.9 million of recoveries, which were partially offset by charge-offs of \$53.0 million during 2015. During the last year, the Company recorded a \$53.3 million provision for loan and lease losses for the PREPA line of credit. The allowance for commercial loans increased 668.4% (or \$56.4 million), when compared with the balances recorded at December 31, 2014. The allowance for residential mortgage loans decreased by 6.7% (or \$1.3 million), when compared with the balances recorded at December 31, 2014. The allowance for consumer loans and auto and leases increased by 23.4% (or \$2.1 million) and 28.1% (or \$4.0 million), respectively, when compared with the balances recorded at December 31, 2014.

Allowance for loan and lease losses recorded for acquired BBVAPR loans accounted for under the provisions of ASC 310-20 at December 31, 2015 was \$5.5 million compared to \$4.6 million at December 31, 2014, a 20.6% increase. The allowance increased as a result of a \$7.5 million provision for loan and lease losses and \$2.8 million of recoveries, which were partially offset by \$9.3 million in charge-offs during 2015. The allowance for commercial loans decreased by 60.0% (or \$39 thousand), when compared with the balance recorded at December 31, 2014. The allowance for consumer loans increased by 183.2% (or \$2.2 million) and auto loans decreased by 37.2% (or \$1.2 million), respectively, when compared with the balances recorded at December 31, 2014, due to the normal amortization of credit discount of these acquired loans.

Allowance for loan and lease losses recorded for acquired BBVAPR loans accounted for under ASC-310-30 at December 31, 2015 was \$25.8 million as compared to \$13.5 million at December 31, 2014. The allowance increased as a result of a \$16.7 million provision for loan and lease losses, partially offset by \$4.4 million in charge-offs during 2015. During the third quarter of 2015, the Company recorded \$5.2 million of provision for loan and lease losses for acquired BBVAPR loans related to the most recent sale of certain non-performing commercial loans on September 28, 2015. The allowance for commercial loans increased by 57.0% (or \$7.7 million), when compared with the balance recorded at December 31, 2014. The allowance for residential mortgage loans increased \$1.7 million, when compared with the balances recorded at December 31, 2014. The allowance for consumer loans and auto loans increased by \$84

thousand and \$2.9 million, respectively, when compared with the balances recorded at December 31, 2014.

Allowance for loan and lease losses recorded for acquired Eurobank loans at December 31, 2015 was \$90.2 million as compared to \$64.2 million at December 31, 2014. The allowance increased as a result of a \$38.0 million provision for loan and lease losses and a provision of \$2.5 million of FDIC shared-loss portion for covered loan and lease losses, partially offset by \$14.6 million in loan pools fully charged-off. During the third quarter of 2015, the Company recorded \$32.9 million of provision for loan and losses for acquired Eurobank loans related to the sale of a portfolio of non-performing commercial loans on September 28, 2015. The allowance for loan and lease losses on covered loans is accounted for 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 December 31, 2015 and 2014, the Company had \$300.1 million and \$101.5 million, respectively, of non-accrual loans, including acquired BBVAPR loans accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium). During the first quarter of 2015, the Company placed its \$200.0 million participation in the PREPA line of credit, which was previously classified as troubled-debt restructuring, on non-accrual status. At December 31, 2015 and 2014, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to \$93.6 million and \$274.4 million, respectively.

Oriental Bank is part of a four bank syndicate providing a \$550 million revolving line of credit to finance the purchase of fuel for PREPA's day-to-day power generation activities. Our participation in the line of credit has an unpaid principal balance of \$190.3 million as of December 31, 2015. As part of the bank syndicate, the Bank entered into a forbearance agreement with PREPA, which was extended several times until the execution of a Restructuring Support Agreement on November 5, 2015 with PREPA and certain other creditors. The Restructuring Support Agreement provides for the restructuring of the fuel line of credit subject to the accomplishment of several milestones, including some milestones that depend on the actions of third parties to the agreement, such as the negotiation of agreements with other creditors and legislative action. The Company has classified the credit facility to PREPA as substandard and on non-accrual status. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual during the first quarter of 2015 and recorded a \$54.1 million provision for loan and lease losses during 2015. Since April 1, 2015, interest payments have been applied to principal.

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

Acquired loans 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 these loans when it is probable that all cash flows expected at acquisition will not be collected.

At December 31, 2015, the Company's non-performing assets increased by 106.5% to \$367.8 million (6.31% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) from \$178.1 million (4.30% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) at December 31, 2014. The

increase is mostly due to the classification of PREPA to non-performing status during the first quarter of 2015. 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 December 31, 2015, the allowance for originated loan and lease losses to non-performing loans coverage ratio was 37.15% (49.11% at December 31, 2014).

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 December 31, 2015, the Company's originated non-performing mortgage loans totaled \$77.9 million (25.5% of the Company's non-performing loans), a 6.9% increase from \$72.8 million (66.8% of the Company's non-performing loans) at December 31, 2014. 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 December 31, 2015, the Company's originated non-performing commercial loans amounted to \$215.3 million (70.5% of the Company's non-performing loans), a 893.0% increase from \$21.7 million at December 31, 2014 (19.9% of the Company's non-performing loans). Most of this portfolio is collateralized by commercial real estate properties. During the first quarter of 2015, the Company placed its \$200.0 million participation in the PREPA line of credit, which was previously classified as troubled-debt-restructuring, on non-accrual status. At December 31, 2015, the PREPA line of credit had an outstanding principal balance of \$190.3 million.

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 December 31, 2015, the Company's originated non-performing consumer loans totaled \$1.6 million (0.5% of the Company's non-performing loans), compared to \$1.6 million (1.5% of the Company's non-performing loans) at December 31, 2014.

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 December 31, 2015, the Company's originated non-performing auto loans and leases amounted to \$8.4 million (2.8% of the Company's total non-performing loans), a decrease of 2.9% from \$8.7 million at December 31, 2014 (8.0% of the Company's total non-performing loans).

- Acquired BBVAPR 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 December 31, 2015, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to \$880 thousand (0.3% of the Company's non-performing loans), a 25.9% decrease from \$1.2 million at December 31, 2014 (1.1% 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 December 31, 2015, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled \$535 thousand (0.2% of the Company's non-performing loans), a 63.8% decrease from \$1.5 million at December 31, 2014 (1.4% 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 December 31, 2015, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled \$831 thousand (0.3% of the Company's non-performing loans), a 45.0% decrease from \$1.5 million at December 31, 2014 (1.4% of the Company's non-performing loans).

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, PRHFA, ("Puerto Rico Housing Finance Authority"), 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.

In order to apply for any of the loan modification programs, if the borrower is active in Chapter 13 bankruptcy, they must request an authorization from the bankruptcy trustee to allow for the loan modification. Borrowers with discharged Chapter 7 bankruptcies may also apply. Loans in these programs are evaluated by designated underwriters 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 BREAKDOWN

	December 31,		Variance %
	2015	2014	
	(Dollars in thousands)		
<u>Originated and other loans held for investment</u>			
Allowance balance:			
Mortgage	\$ 18,352	\$ 19,679	-6.7%
Commercial	64,791	8,432	668.4%
Consumer	11,197	9,072	23.4%
Auto and leasing	18,261	14,255	28.1%
Unallocated allowance	25	1	2400.0%
Total allowance balance	\$ 112,626	\$ 51,439	119.0%
Allowance composition:			
Mortgage	16.30%	38.26%	-57.4%
Commercial	57.53%	16.39%	251.0%
Consumer	9.94%	17.64%	-43.7%
Auto and leasing	16.21%	27.71%	-41.5%
Unallocated allowance	0.02%	0.00%	100.0%
	100.00%	100.00%	
Allowance coverage ratio at end of period applicable to:			
Mortgage	2.42%	2.49%	-2.8%
Commercial	4.49%	0.65%	590.8%
Consumer	4.61%	4.86%	-5.1%
Auto and leasing	2.73%	2.48%	10.1%
Total allowance to total originated loans	3.62%	1.81%	100.0%
Allowance coverage ratio to non-performing loans:			
Mortgage	23.57%	27.03%	-12.8%
Commercial	30.10%	38.89%	-22.6%
Consumer	686.51%	570.57%	20.3%
Auto and leasing	216.93%	164.46%	31.9%
Total	37.15%	49.11%	-24.4%
<u>Acquired BBVAPR loans accounted for under ASC</u>			
<u>310-20</u>			
Allowance balance:			
Commercial	\$ 26	\$ 65	-60.0%
Consumer	3,429	1,211	183.2%
Auto	2,087	3,321	-37.2%
Total allowance balance	\$ 5,542	\$ 4,597	20.6%
Allowance composition:			
Commercial	0.47%	1.41%	-66.7%
Consumer	61.87%	26.34%	134.9%
Auto	37.66%	72.25%	-47.9%
	100.00%	100.00%	
Allowance coverage ratio at end of period applicable to:			
Commercial	0.35%	0.51%	-31.4%
Consumer	8.93%	2.67%	234.5%
Auto	1.95%	1.80%	8.3%

Total allowance to total acquired loans	3.63%	1.89%	92.1%
Allowance coverage ratio to non-performing loans:			
Commercial	2.95%	5.48%	-46.2%
Consumer	640.93%	82.05%	681.1%
Auto	251.14%	219.64%	14.3%
Total	246.75%	110.11%	124.1%

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES BREAKDOWN (CONTINUED)

December 31,

		2015		2014	Variance
		(Dollars in thousands)			%
<u>Acquired BBVAPR loans accounted for under ASC 310-30</u>					
Allowance balance:					
Mortgage	\$	1,678	\$	-	100.0%
Commercial		21,161		13,476	57.0%
Consumer		84		5	1580.0%
Auto		2,862		-	100.0%
Total allowance balance	\$	25,785	\$	13,481	91.3%
Allowance composition:					
Mortgage		6.51%		0.00%	100.0%
Commercial		82.06%		99.96%	-17.9%
Consumer		0.33%		0.04%	725.0%
Auto		11.10%		0.00%	100.0%
		100.00%		100.00%	
<u>Acquired Eurobank loans accounted for under ASC 310-30</u>					
Allowance balance:					
Mortgage	\$	32,624	\$	15,522	110.2%
Commercial		57,187		48,334	18.3%
Consumer		367		389	-5.7%
Total allowance balance	\$	90,178	\$	64,245	40.4%
Allowance composition:					
Mortgage		36.18%		24.16%	49.8%
Commercial		63.41%		75.23%	-15.7%
Consumer		0.41%		0.61%	-32.8%
		100.0%		100.0%	

TABLE 9 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY

	Year Ended December 31,			2013 (Dollars in thousands)
	2015 (Dollars in thousands)	2014	Variance %	
Originated and other loans:				
Balance at beginning of year	\$ 51,439	\$ 49,081	4.8%	\$ 39,921
Provision for loan and lease losses	99,336	31,427	216.1%	55,579
Charge-offs	(53,001)	(39,258)	35.0%	(48,541)
Recoveries	14,852	10,189	45.8%	2,122
Balance at end of year	\$ 112,626	\$ 51,439	119.0%	\$ 49,081
Acquired loans:				
<u>BBVAPR loans</u>				
Acquired loans accounted for				
under ASC 310-20:				
Balance at beginning of year	\$ 4,597	\$ 2,354	95.3%	\$ -
Provision for loan and lease losses	7,469	12,915	-42.2%	9,117
Charge-offs	(9,345)	(13,445)	-30.5%	(11,205)
Recoveries	2,821	2,773	1.7%	4,442
Balance at end of year	\$ 5,542	\$ 4,597	20.6%	\$ 2,354
Acquired loans accounted for				
under ASC 310-30:				
Balance at beginning of year	\$ 13,481	\$ 2,863	370.9%	\$ -
Provision for loan and lease losses	16,656	10,618	56.9%	2,863
Loan pools fully charged off	(4,352)	-	-100.0%	-
Balance at end of year	\$ 25,785	\$ 13,481	91.3%	\$ 2,863
<u>Eurobank loans</u>				
Balance at beginning of year	\$ 64,245	\$ 52,729	21.8%	\$ 54,124
Provision for loan and lease losses	38,040	5,680	569.7%	5,335
Loan pools fully charged off	(14,610)	-	-100.0%	(6,730)
FDIC shared-loss portion on				
(provision for) recapture of loan				
and lease losses	2,503	5,836	-57.1%	-
Balance at end of year	\$ 90,178	\$ 64,245	40.4%	\$ 52,729
Allowance for loans and lease losses on originated				
and other loans to:				
Total originated loans	3.62%	1.81%	100.0%	2.04%
Non-performing originated loans	37.15%	49.11%	-24.4%	61.52%

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	3.63%	1.89%	92.1%	0.54%
Non-performing acquired loans	246.75%	110.11%	124.1%	36.95%
accounted for under ASC 310-20				

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TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30

	Year Ended December 31,			
	2015	2014	Variance %	2013
(Dollar in thousands)				
Originated and other loans and leases:				
Mortgage				
Charge-offs	\$ (5,397)	\$ (5,011)	7.7%	\$ (36,566)
Recoveries	391	428	-8.6%	6
Total	(5,006)	(4,583)	9.2%	(36,560)
Commercial				
Charge-offs	(5,546)	(2,424)	128.8%	(5,889)
Recoveries	432	333	29.7%	383
Total	(5,114)	(2,091)	144.6%	(5,506)
Consumer				
Charge-offs	(8,683)	(5,782)	50.2%	(1,485)
Recoveries	871	570	52.8%	165
Total	(7,812)	(5,212)	49.9%	(1,320)
Auto				
Charge-offs	(33,375)	(26,041)	28.2%	(4,601)
Recoveries	13,158	8,858	48.5%	1,568
Total	(20,217)	(17,183)	17.7%	(3,033)
Net credit losses				
Total charge-offs	(53,001)	(39,258)	35.0%	(48,541)
Total recoveries	14,852	10,189	45.8%	2,122
Total	\$ (38,149)	\$ (29,069)	31.2%	\$ (46,419)
Net credit losses to average				
loans outstanding:				
Mortgage	0.65%	0.58%	12.1%	4.80%
Commercial	0.38%	0.18%	111.1%	0.83%
Consumer	3.85%	3.41%	12.9%	1.53%
Auto	3.21%	3.43%	-6.4%	1.42%
Total	1.30%	1.11%	17.1%	2.69%
Recoveries to charge-offs	28.02%	25.95%	8.0%	4.37%
Average originated loans:				
Mortgage	\$ 771,322	\$ 786,607	-1.9%	\$ 762,403
Commercial	1,336,510	1,190,038	12.3%	663,968
Consumer	202,971	153,067	32.6%	86,250
Auto	629,910	500,720	25.8%	213,127
Total	\$ 2,940,713	\$ 2,630,432	11.8%	\$ 1,725,748

TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30 (CONTINUED)

	Year Ended December 31,			
	2015	2014	Variance %	2013
	(Dollars in thousands)			
Acquired loans accounted for under ASC 310-20:				
Commercial				
Charge-offs	\$ (42)	\$ (532)	-92.1%	\$ (25)
Recoveries	31	73	-57.5%	9
Total	(11)	(459)	-97.6%	(16)
Consumer				
Charge-offs	(4,755)	(6,902)	-31.1%	(5,530)
Recoveries	680	532	27.8%	1,035
Total	(4,075)	(6,370)	-36.0%	(4,495)
Auto				
Charge-offs	(4,548)	(6,011)	-24.3%	(5,650)
Recoveries	2,110	2,169	-2.7%	3,398
Total	(2,438)	(3,842)	-36.5%	(2,252)
Net credit losses				
Total charge-offs	(9,345)	(13,445)	-30.5%	(11,205)
Total recoveries	2,821	2,774	1.7%	4,442
Total	\$ (6,524)	\$ (10,671)	-38.9%	\$ (6,763)
Net credit losses to average				
loans outstanding:				
Commercial	1.31%	1.61%	-18.6%	0.01%
Consumer	6.59%	9.53%	-30.9%	7.03%
Auto	1.27%	1.61%	-21.0%	0.59%
Total	2.56%	3.20%	-19.6%	0.89%
Recoveries to charge-offs	30.19%	20.63%	46.3%	39.64%
Average loans accounted for under ASC 310-20:				
Commercial	\$ 840	\$ 28,509	-97.1%	\$ 311,546
Consumer	61,842	66,812	-7.4%	63,983
Auto	192,058	238,653	-19.5%	382,770
Total	\$ 254,740	\$ 333,974	-23.7%	\$ 758,299

TABLE 11 — NON-PERFORMING ASSETS

	December 31,		Variance
	2015	2014	(%)
	(Dollars in thousands)		
Non-performing assets:			
Non-accruing loans			
Troubled-Debt Restructuring loans	\$ 217,691	\$ 27,707	685.7%
Other loans	82,429	73,835	11.6%
Accruing loans			
Troubled-Debt Restructuring loans	4,240	3,862	9.8%
Other loans	1,091	3,523	-69.0%
Total non-performing loans	\$ 305,451	\$ 108,927	180.4%
Foreclosed real estate not covered under the			
shared-loss agreements with the FDIC	56,304	48,147	16.9%
Other repossessed assets	6,034	21,043	-71.3%
	\$ 367,789	\$ 178,117	106.5%
Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)	6.31%	4.30%	46.7%
Non-performing assets to total capital	41.00%	18.90%	116.9%

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	\$ 3,118	\$ 2,204	\$ 1,468

TABLE 12 — NON-PERFORMING LOANS

	December 31,		Variance
	2015	2014	%
	(Dollars in thousands)		
Non-performing loans:			
Originated and other loans held for investment			
Mortgage	\$ 77,875	\$ 72,815	6.9%
Commercial	215,281	21,679	893.0%
Consumer	1,631	1,590	2.6%
Auto and leasing	8,418	8,668	-2.9%
	303,205	104,752	189.5%
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	880	1,187	-25.9%
Consumer	535	1,476	-63.8%
Auto	831	1,512	-45.0%
	2,246	4,175	-46.2%
Total	\$ 305,451	\$ 108,927	180.4%
Non-performing loans composition percentages:			
Originated loans			
Mortgage	25.5%	66.8%	
Commercial	70.5%	19.9%	
Consumer	0.5%	1.5%	
Auto and leasing	2.8%	8.0%	
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	0.3%	1.1%	
Consumer	0.2%	1.4%	
Auto	0.2%	1.3%	
Total	100.0%	100.0%	
Non-performing loans to:			
Total loans, excluding loans accounted for			
under ASC 310-30 (including those by analogy)	9.36%	3.53%	165.2%
Total assets, excluding loans accounted for			
under ASC 310-30 (including those by analogy)	5.24%	2.63%	99.2%
Total capital	34.05%	11.56%	194.6%
Non-performing loans with partial charge-offs to:			
Total loans, excluding loans accounted for			
under ASC 310-30 (including those by analogy)	1.15%	1.04%	10.58%
Non-performing loans	12.25%	29.42%	-58.4%
Other non-performing loans ratios:			
Charge-off rate on non-performing loans to non-performing loans	61.15%	53.42%	14.5%

on which charge-offs have been taken
Allowance for loan and lease losses to non-performing

loans on which no charge-offs have been taken	44.09%	72.88%	-39.5%
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FDIC Indemnification Asset

The Company recorded the FDIC indemnification asset, measured separately from the covered loans, as part of the Eurobank FDIC-assisted transaction. Based on the accounting guidance in ASC Topic 805, at each reporting date subsequent to the initial recording of the indemnification asset, the Company measures the indemnification asset on the same basis as the covered loans and assesses its collectability. The amount to be ultimately collected for the indemnification asset is dependent upon the performance of the underlying covered assets, the passage of time, claims submitted to the FDIC and the Corporation's compliance with the terms of the loss sharing agreements. Refer to Notes 6 and 7 to the consolidated financial statements for additional information on the FDIC loss share agreements.

The FDIC loss-share coverage for the commercial loans and other non-single family loans was in effect until June 30, 2015. The coverage for the single family residential loans will expire on June 30, 2020. Accordingly, the Company amortized the remaining portion of the FDIC indemnification asset attributable to non-single family loans at the close of the second quarter of 2015. At December 31, 2015, the FDIC indemnification asset only reflects the balance for single family residential mortgage loans.

On July 2, 2015, the Bank entered into an agreement with the FDIC pursuant to which the FDIC concurred with a proposed sale of a pool of shared-loss assets under the commercial shared loss agreement. Pursuant to such agreement, the FDIC agreed and paid the Bank \$20 million in loss-share coverage with respect to the aggregate loss resulting from the sale on September 28, 2015 of a portion of covered non-performing commercial loans amounting to \$197.1 million in unpaid principal balance (\$100.0 million carrying amount). The sales price was 18.4% of UPB, or \$36.3 million. As a result, a \$20.0 million reimbursement from the FDIC was recorded in the statement of operations.

TABLE 13 - ACTIVITY OF FDIC INDEMNIFICATION ASSET

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
<u>FDIC indemnification asset:</u>			
Balance at beginning of year	\$ 97,378	\$ 189,240	\$ 302,295
Shared-loss agreements reimbursements from the FDIC	(55,723)	(47,666)	(47,100)
Increase (decrease) in expected credit losses to be			
covered under shared-loss agreements, net	2,503	5,836	(6,730)
FDIC indemnification asset expense	(36,398)	(62,285)	(66,253)
Final settlement with the FDIC on commercial loans	(1,589)	-	-
Incurred expenses to be reimbursed under shared-loss agreements	16,428	12,253	7,028
Balance at end of year	\$ 22,599	\$ 97,378	\$ 189,240

**TABLE 14 - ACTIVITY IN THE
REMAINING FDIC INDEMNIFICATION
ASSET DISCOUNT**

		Year Ended December 31,				
	2015	2014	2013			
		(In thousands)				
Balance at beginning of year	\$	21,682	\$	71,451	\$	105,903
Amortization of negative discount		(36,417)		(62,285)		(66,253)
Impact of lower projected losses		19,549		12,516		31,801
Balance at end of year	\$	4,814	\$	21,682	\$	71,451

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TABLE 15 - LIABILITIES SUMMARY AND COMPOSITION

	December 31,		Variance
	2015	2014	%
	(Dollars in thousands)		
Deposits:			
Non-interest bearing deposits	\$ 761,117	\$ 745,570	2.1%
NOW accounts	1,100,541	1,251,943	-12.1%
Savings and money market accounts	1,179,229	1,385,823	-14.9%
Certificates of deposit	1,674,431	1,539,324	8.8%
Total deposits	4,715,318	4,922,660	-4.2%
Accrued interest payable	1,541	1,746	-11.7%
Total deposits and accrued interest payable	4,716,859	4,924,406	-4.2%
Borrowings:			
Securities sold under agreements to repurchase	934,691	980,087	-4.6%
Advances from FHLB	332,476	334,331	-0.6%
Subordinated capital notes	102,633	101,584	1.0%
Other term notes	1,734	4,004	-56.7%
Total borrowings	1,371,534	1,420,006	-3.4%
Total deposits and borrowings	6,088,393	6,344,412	-4.0%
Other Liabilities:			
Derivative liabilities	6,162	11,221	-45.1%
Acceptances outstanding	14,582	17,989	-18.9%
Other liabilities	92,935	133,290	-30.3%
Total liabilities	\$ 6,202,072	\$ 6,506,912	-4.7%
Deposits portfolio composition percentages:			
Non-interest bearing deposits	16.2%	15.1%	
NOW accounts	23.3%	25.4%	
Savings and money market accounts	25.0%	28.2%	
Certificates of deposit	35.5%	31.3%	
	100.0%	100.0%	
Borrowings portfolio composition percentages:			
Securities sold under agreements to repurchase	68.2%	69.0%	
Advances from FHLB	24.2%	23.5%	
Other term notes	0.1%	0.3%	
Subordinated capital notes	7.5%	7.2%	
	100.0%	100.0%	
Securities sold under agreements to repurchase (excluding accrued interest)			
Amount outstanding at period-end	\$ 932,500	\$ 977,816	
Daily average outstanding balance	\$ 1,012,756	\$ 1,041,378	
Maximum outstanding balance at any month-end	\$ 1,158,945	\$ 1,149,167	

Liabilities and Funding Sources

As shown in Table 15 above, at December 31, 2015, the Company's total liabilities were \$6.202 billion, 4.7% less than the \$6.507 billion at December 31, 2014. Deposits and borrowings, the Company's funding sources, amounted to \$6.088 billion at December 31, 2015 versus \$6.344 billion at December 31, 2014, a 4.0% decrease.

At December 31, 2015, deposits represented 77% and borrowings represented 23% of interest-bearing liabilities. At December 31, 2015, deposits (including accrued interest payable), the largest category of the Company's interest-bearing liabilities, were \$4.717 billion, a decrease of 4.2% from \$4.924 billion at December 31, 2014. Demand and savings deposits decreased 9.7% to \$2.969 billion, brokered deposits increased 26.4% to \$783.0 million and time deposits declined 5.0% to \$964.6 million as part of our efforts to reduce the cost of deposits, which averaged 0.57% at December 31, 2015 compared to 0.66% at December 31, 2014.

Borrowings consist mainly of repurchase agreements, FHLB-NY advances and subordinated capital notes. At December 31, 2015, borrowings amounted to \$1.372 billion, representing a decrease of 3.4% when compared with the \$1.420 billion reported at December 31, 2014. Repurchase agreements at December 31, 2015 decreased \$45.4 million to \$934.7 billion from \$980.1 million at December 31, 2014, as a \$255.0 million repurchase agreement matured and \$22.5 million was repaid and the remaining \$232.5 million was renewed. In addition, there were \$52.8 million one-month short-term repurchase agreements outstanding at December 31, 2014 compared to \$30.0 million outstanding at December 31, 2015.

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 \$332.5 million at December 31, 2015 and \$334.3 million at December 31, 2014. These advances mature from January 2016 through July 2020.

Stockholders' Equity

At December 31, 2015, the Company's total stockholders' equity was \$897.1 million, a 4.8% decrease when compared to \$942.2 million at December 31, 2014. This decline in stockholders' equity reflects decreases in retained earnings of \$31.9 million and in treasury stock of \$8.3 million, which in turn reflects the net loss, dividends declared during the year, and common stock repurchases. Book value per share was \$16.67 at December 31, 2015 compared to \$17.40 at December 31, 2014.

From December 31, 2014 to 2015, tangible common equity to total assets decreased to 8.98% from 9.14%, Tier 1 Leverage Capital Ratio increased to 11.18% from 10.61%, Tier 1 Risk-Based Capital Ratio decreased to 15.99% from 16.02%, and Total Risk-Based Capital Ratio decreased to 17.29% from 17.57%. Common Equity Tier 1 Capital Ratio under the new capital rules was 12.14% as of December 31, 2015.

New Capital Rules to Implement Basel III Capital Requirements

In July 2013, the Board of Governors of the Federal Reserve System (the “Board”), the Office of the Comptroller of the Currency (the “OCC”) and the FDIC (together with the Board and the OCC, the “Agencies”) approved new rules (“New Capital Rules”) to establish a revised comprehensive regulatory capital framework for all U.S. banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision’s (the “Basel Committee”) December 2010 final capital framework referred to as “Basel III” for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Bank, as compared to the prior U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee’s 1988 “Basel I” capital accords, with a more risk-sensitive approach based, in part, on the “standardized approach” in the Basel Committee’s 2004 “Basel II” capital accords. In addition, the New Capital Rules implement certain provisions of Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the Agencies’ rules. The New Capital Rules became effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. Among other matters, the New Capital Rules: (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to

existing regulations. Under the New Capital Rules, for most banking organizations, including the Company, the most common form of Additional Tier 1 capital is noncumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;
- 8.0% total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The New Capital Rules also introduce a new 2.5% "capital conservation buffer", composed entirely of CET1, on top of the three minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, the Company and the Bank will be required to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition (as noted above), under the current general risk-based capital rules, the effects of AOCI items included in shareholders' equity (for example, mark-to-market adjustments to the value of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approach banking organizations may make a one-time permanent election to continue to exclude these items. The Company and the Bank made the election to continue to exclude these items in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolio, concurrently with the first filing of the Company's and the Bank's periodic regulatory reports in 2015. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out, in the case of bank holding companies that had \$15 billion or more in total consolidated assets as of December 31, 2009. Therefore, the Company is permitted to continue to include its existing trust preferred securities as Tier 1 capital.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to the Bank, the New Capital Rules revise the “prompt corrective action” (“PCA”) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category.

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, and resulting in higher risk weights for a variety of asset classes.

The following are the consolidated capital ratios of the Company under the New Capital Rules at December 31, 2015 and under the previous capital rules at December 31, 2014:

TABLE 16 — CAPITAL, DIVIDENDS AND STOCK DATA

	December 31,		Variance %
	2015	2014	
	(Dollars in thousands, except per share data)		
Capital data:			
Stockholders' equity	\$ 897,077	\$ 942,197	-4.8%
Regulatory Capital Ratios data:			
Common equity tier 1 capital ratio	12.14%	N/A	N/A
Minimum common equity tier 1 capital ratio required	4.50%	N/A	N/A
Actual common equity tier 1 capital	\$ 594,482	N/A	N/A
Minimum common equity tier 1 capital required	\$ 220,344	N/A	N/A
Excess over regulatory requirement	\$ 374,138	N/A	N/A
Risk-weighted assets	\$ 4,896,539	N/A	N/A
Tier 1 risk-based capital ratio	15.99%	16.02%	-0.2%
Minimum tier 1 risk-based capital ratio required	6.00%	4.00%	
Actual tier 1 risk-based capital	\$ 782,912	\$ 776,525	0.8%
Minimum tier 1 risk-based capital required	\$ 293,792	\$ 193,886	51.5%
Excess over regulatory requirement	\$ 489,120	\$ 582,639	-16.1%
Risk-weighted assets	\$ 4,896,539	\$ 4,847,150	1.0%
Total risk-based capital ratio	17.29%	17.57%	-1.6%
Minimum total risk-based capital ratio required	8.00%	8.00%	
Actual total risk-based capital	\$ 846,748	\$ 851,437	-0.6%
Minimum total risk-based capital required	\$ 391,723	\$ 387,772	1.0%
Excess over regulatory requirement	\$ 455,025	\$ 463,665	-1.9%
Risk-weighted assets	\$ 4,896,539	\$ 4,847,150	1.0%
Leverage capital ratio	11.18%	10.61%	5.4%
Minimum leverage capital ratio required	4.00%	4.00%	
Actual tier 1 capital	\$ 782,912	\$ 776,525	0.8%
Minimum tier 1 capital required	\$ 280,009	\$ 292,738	-4.3%
Excess over regulatory requirement	\$ 502,903	\$ 483,787	4.0%
Tangible common equity to total assets	8.98%	9.14%	-1.8%
Tangible common equity to risk-weighted assets	13.02%	14.04%	-7.3%
Total equity to total assets	12.64%	12.65%	-0.1%
Total equity to risk-weighted assets	18.32%	19.44%	-5.8%
Stock data:			
Outstanding common shares	43,867,909	44,613,615	-1.7%
Book value per common share	\$ 16.67	\$ 17.40	-4.2%
Tangible book value per common share	\$ 14.53	\$ 15.25	-4.7%
Market price at end of period	\$ 7.32	\$ 16.65	-56.0%
Market capitalization at end of period	\$ 321,113	\$ 742,817	-56.8%

Year Ended December 31,

	2015		2014	Variance %		2013
Common dividend data:						
Cash dividends declared	\$ 15,932	\$	15,286	4.2%	\$	11,875
Cash dividends declared per share	\$ 0.36	\$	0.34	5.9%	\$	0.26
Payout ratio	-97.30%		22.67%	-529.2%		15.03%
Dividend yield	4.92%		2.04%	141.2%		1.50%
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The following table presents a reconciliation of the Company's total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2015, 2014 and 2013:

	2015	December 31, 2014		2013
	(In thousands, except share or per share information)			
Total stockholders' equity	\$ 897,077	\$ 942,197	\$	884,913
Preferred stock	(176,000)	(176,000)		(176,000)
Preferred stock issuance costs	10,130	10,130		10,130
Goodwill	(86,069)	(86,069)		(86,069)
Core deposit intangible	(5,294)	(6,463)		(7,804)
Customer relationship intangible	(2,544)	(3,280)		(4,108)
Total tangible common equity	\$ 637,300	\$ 680,515	\$	621,062
Total assets	7,099,149	7,449,109		8,158,015
Goodwill	(86,069)	(86,069)		(86,069)
Core deposit intangible	(5,294)	(6,463)		(7,804)
Customer relationship intangible	(2,544)	(3,280)		(4,108)
Total tangible assets	\$ 7,005,242	\$ 7,353,297	\$	8,060,034
Tangible common equity to tangible assets	9.10%	9.25%		7.71%
Common shares outstanding at end of period	43,867,909	44,613,615		45,676,922
Tangible book value per common share	\$ 14.53	\$ 15.25	\$	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.

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 following table presents the Company's capital adequacy information under the New Capital Rules:

	December 31 2015	
	(Dollars in thousands)	
Risk-based capital:		
Common equity tier 1 capital	\$	594,482
Additional tier 1 capital		188,430
Tier 1 capital		782,912
Additional Tier 2 capital		63,836
Total risk-based capital	\$	846,748
Risk-weighted assets:		
Balance sheet items	\$	4,742,113
Off-balance sheet items		154,426
Total risk-weighted assets	\$	4,896,539
Ratios:		
Common equity tier 1 capital (minimum required - 4.5%)		12.14%
Tier 1 capital (minimum required - 6%)		15.99%
Total capital (minimum required - 8%)		17.29%
Leverage ratio		11.18%
Equity to assets		12.64%
Tangible common equity to assets		8.98%

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 December 31, 2015 and 2014:

	December 31,		Variance
	2015	2014	%
	(Dollars in thousands)		
Oriental Bank Regulatory Capital Ratios:			
Common Equity Tier 1 Capital to Risk-Weighted Assets	15.40%	N/A	N/A
Actual common equity tier 1 capital	\$ 751,886	N/A	N/A
Minimum capital requirement (4.5%)	\$ 219,762	N/A	N/A
Minimum to be well capitalized (6.5%)	\$ 317,434	N/A	N/A
Tier 1 Capital to Risk-Weighted Assets	15.40%	15.45%	-0.3%
Actual tier 1 risk-based capital	\$ 751,886	\$ 746,524	0.7%
Minimum capital requirement (6%)	\$ 293,016	\$ 193,222	51.6%
Minimum to be well capitalized (8%)	\$ 390,688	\$ 289,833	34.8%
Total Capital to Risk-Weighted Assets	16.70%	16.99%	-1.7%
Actual total risk-based capital	\$ 815,458	\$ 820,884	-0.7%
Minimum capital requirement (8%)	\$ 390,688	\$ 386,444	1.1%
Minimum to be well capitalized (10%)	\$ 488,360	\$ 483,055	1.1%
Total Tier 1 Capital to Average Total Assets	10.80%	10.26%	5.3%

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Actual tier 1 capital	\$	751,886	\$	746,177	0.8%
Minimum capital requirement (4%)	\$	278,399	\$	290,879	-4.3%
Minimum to be well capitalized (5%)	\$	347,999	\$	363,599	-4.3%

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At December 31, 2015 and 2014, the Company's market capitalization for its outstanding common stock was \$321.1 million (\$7.32 per share) and \$742.8 million (\$16.65 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:

		High	Price		Low		Cash Dividend Per share
2015							
December 31, 2015	\$	10.52		\$	6.39	\$	0.06
September 30, 2015	\$	10.20		\$	6.63	\$	0.10
June 30, 2015	\$	17.04		\$	10.67	\$	0.10
March 31, 2015	\$	17.70		\$	14.88	\$	0.10
2014							
December 31, 2014	\$	16.76		\$	14.35	\$	0.10
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

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 \$7.7 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. During 2015 the Company purchased 803,985 shares under this program for a total of \$8.9 million, at an average price of \$11.10 per share. There were no repurchases during 2014.

The number of shares that may yet be purchased under the \$70 million program is estimated at 1,056,128 and was calculated by dividing the remaining balance of \$7.7 million by \$7.32 (closing price of the Company common stock at December 31, 2015). The Company did not purchase any shares of its common stock other than through its publicly announced stock repurchase program during 2015 and 2014.

Contractual Obligations and Commercial Commitments

As disclosed in the notes to the Company's consolidated financial statements, the Company has certain obligations and commitments to make future payments under contracts. At December 31, 2015, the aggregate contractual obligations and commercial commitments, excluding accrued interests and unamortized premiums (discounts), are as follows:

	Total	Payments Due by Period			
		Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
CONTRACTUAL OBLIGATIONS:					
		(In thousands)			
Securities sold under agreements to repurchase	\$ 932,500	\$ 432,500	\$ 500,000	\$ -	\$ -
Advances from FHLB	332,114	262,982	59,267	9,865	-
Subordinated capital notes	102,000	67,000	-	-	35,000
Other term notes	1,734	-	-	-	1,734
Annual rental commitments under noncancelable operating leases	45,350	7,755	19,743	5,455	12,397
Certificates of deposits	1,673,025	975,602	631,312	66,111	-
Total	\$ 3,086,723	\$ 1,745,839	\$ 1,210,322	\$ 81,431	\$ 49,131

Loan commitments, which represent unused lines of credit and letters of credit provided to customers, increased to \$607.1 million and \$1.5 million, respectively, for 2015, as compared to \$493.2 million and \$885 thousand, respectively, at December 31, 2014. Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates, bear variable interest rate and may require payment of a fee. Since the commitments may expire unexercised, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein (except for certain non-GAAP measures as previously indicated) have been prepared in accordance with GAAP which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services since such prices are affected by inflation.

QUARTERLY FINANCIAL DATA

The following is a summary of the quarterly results of operations:

TABLE 17 — SELECTED QUARTERLY FINANCIAL DATA:

	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	Total 2015
EARNINGS DATA:					
(In thousands, except per share data)					
Interest income	\$ 107,001	\$ 99,413	\$ 107,247	\$ 92,907	\$ 406,568
Interest expense	17,366	17,121	17,424	17,285	69,196
Net interest income	89,635	82,292	89,823	75,622	337,372
Provision for loan and lease losses	42,193	15,539	51,579	52,190	161,501
Net interest income after provision for loan and lease losses	47,442	66,753	38,244	23,432	175,871
Non-interest income	6,881	(4,656)	35,977	14,270	52,472
Non-interest expenses	56,332	64,437	69,090	58,542	248,401
Income before taxes	(2,009)	(2,340)	5,131	(20,840)	(20,058)
Income tax expense (benefit)	979	769	562	(19,864)	(17,554)
Net (loss) income	(2,988)	(3,109)	4,569	(976)	(2,504)
Less: dividends on preferred stock	(3,465)	(3,466)	(3,465)	(3,466)	(13,862)
(Loss) income available to common shareholders	\$ (6,453)	\$ (6,575)	\$ 1,104	\$ (4,442)	\$ (16,366)
PER SHARE DATA:					
Basic	\$ (0.14)	\$ (0.15)	\$ 0.03	\$ (0.10)	\$ (0.37)
Diluted	\$ (0.14)	\$ (0.15)	\$ 0.03	\$ (0.10)	\$ (0.37)

	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	Total 2014
EARNINGS DATA:					
(In thousands, except per share data)					
Interest income	\$ 123,074	\$ 125,900	\$ 120,301	\$ 115,982	\$ 485,257
Interest expense	19,676	19,822	18,430	18,854	76,782
Net interest income	103,398	106,078	101,871	97,128	408,475
Provision for loan and lease losses	11,691	14,815	17,257	16,877	60,640
Total provision for loan and lease losses, net	11,691	14,815	17,257	16,877	60,640
Net interest income after provision for loan	91,707	91,263	84,614	80,251	347,835

and lease losses					
Non-interest income	5,229	507	2,491	9,096	17,323
Non-interest expenses	61,404	59,848	59,575	61,898	242,725
Income before taxes	35,532	31,922	27,530	27,449	122,433
Income tax expense	11,785	10,613	7,998	6,856	37,252
Net income	23,747	21,309	19,532	20,593	85,181
Less: dividends on preferred stock	(3,465)	(3,466)	(3,465)	(3,466)	(13,862)
Income available to common shareholders	\$ 20,282	\$ 17,843	\$ 16,067	\$ 17,127	\$ 71,319
PER SHARE DATA:					
Basic	\$ 0.45	\$ 0.40	\$ 0.36	\$ 0.38	\$ 1.58
Diluted	\$ 0.42	\$ 0.38	\$ 0.34	\$ 0.36	\$ 1.50
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ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Background

The Company's risk management policies are established by its Board of Directors (the "Board") and implemented by management through the adoption of a risk management program, which is overseen and monitored by the Chief Risk Officer and the Risk Management 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 executing 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 quarterly 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 five-year time horizon, assuming certain gradual upward and downward interest rate movements, achieved during a twelve-month period. Instantaneous interest rate movements are also modeled. 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 December 31, 2015 for the most likely scenario, assuming a one-year time horizon:

	Net Interest Income Risk (one year projection)			
	Static Balance Sheet		Growing Simulation	
<u>Change in interest rate</u>	Amount Change	Percent Change	Amount Change	Percent Change
	(Dollars in thousands)			
+ 200 Basis points	\$ 5,479	2.13%	\$ 4,174	1.66%
+ 100 Basis points	\$ 3,042	1.18%	\$ 2,393	0.95%
- 50 Basis points	\$ (1,582)	-0.61%	\$ (1,130)	-0.45%

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 December 31, 2015.

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 10 to the accompanying 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 \$6.4 million (notional amount of \$263.3 million) was recognized at December 31, 2015 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 December 31, 2015, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of \$2.1 million (notional amounts of \$16.3 million), and the mirror-image interest rate swaps in which the Company entered into represented a derivative liability of \$2.1 million (notional amounts of \$16.3 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 December 31, 2015, 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 \$1.1 million (notional amounts of \$3.4 million) and the options sold to customers embedded in the certificates of deposit represented a liability of \$1.0 million (notional amount of \$3.2 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 December 31, 2015, the Company had \$263.3 million in interest rate swaps at an average rate of 2.6% designated as cash flow hedges for \$263.3 million in advances from the FHLB-NY that repriced 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 ten years, due to a shrinking population, a protracted economic recession, a housing sector that remains under pressure, the Puerto Rico government's fiscal and liquidity crisis, and the recent credit or payment default on certain Puerto Rico government bonds, with additional defaults expected if the Puerto Rico government is unable to restructure its debts and/or access the capital markets to place new debt or refinance its upcoming maturities. Also, the Company's banking subsidiary has an outstanding \$190.3 million credit facility to PREPA that is classified as substandard and on non-accrual status, which now stands at \$137.0 million, net of allowances. The Company recorded a \$53.3 million loss provision for such credit facility in 2015.

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 external wholesale funding sources. As part of its efforts to reduce its cost of deposits, the Company increased its brokered deposits by 26.4% in 2015. As of December 31, 2015, the Company had \$932.5 million in repurchase agreements, excluding accrued interest, and \$783.0 million in brokered deposits, including \$71.6 million in money market accounts.

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.

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 December 31, 2015, the Company had approximately \$526.2 million in unrestricted cash and cash equivalents, \$477.9 million in investment securities that are not pledged as collateral, \$770.6 million in borrowing capacity at the FHLB-NY.

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 risks, 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 Regulatory Compliance Director who reports to the Deputy General Counsel and the BSA Officer who reports to the Chief Risk Officer. The Regulatory Compliance Director is responsible for the oversight of regulatory compliance and implementation of a company-wide compliance program, except for the Bank Secrecy Act/Anti-Money Laundering compliance program, which is overseen and implemented by the BSA Officer.

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, fiscal 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 and its Puerto Rico government securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**OFG Bancorp****FORM 10-K****FINANCIAL DATA INDEX**

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OFG Bancorp

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and stockholders of OFG Bancorp:

The management of OFG Bancorp (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, and for the assessment of internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As called for by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. Management made its assessment using the criteria set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Criteria").

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2015 based on the COSO Criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2015, has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report dated March 14, 2016.

By: */s/ José Rafael Fernández*
José Rafael Fernández
President and Chief Executive Officer

By: */s/ Ganesh Kumar*
Ganesh Kumar
Executive Vice President and Chief Financial Officer

Date: March 14, 2016

Date: March 14, 2016

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

OFG Bancorp:

We have audited the accompanying consolidated statements of financial condition of OFG Bancorp and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OFG Bancorp and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), OFG Bancorp and its subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Juan, Puerto Rico

March 14, 2016

Stamp No. E196956 of the Puerto Rico

Society of Certified Public Accountants

was affixed to the record copy of this report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

OFG Bancorp:

We have audited OFG Bancorp and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, OFG Bancorp and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of OFG Bancorp and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated March 14, 2016, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Juan, Puerto Rico

March 14, 2016

Stamp No. E196955 of the Puerto Rico

Society of Certified Public Accountants

was affixed to the record copy of this report.

OFG BANCORP

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2015 AND 2014

ASSETS

Cash and cash equivalents:

Cash and due from banks
 Money market investments

Total cash and cash equivalents

Restricted cash

Investments:

Trading securities, at fair value, with amortized cost of \$667 (December 31, 2014 - \$2,419)
 Investment securities available-for-sale, at fair value, with amortized cost of \$955,646 (December 31, 2014 - \$1,187,679)
 Investment securities held-to-maturity, at amortized cost, with fair value of \$614,679 (December 31, 2014 - \$164,154)
 Federal Home Loan Bank (FHLB) stock, at cost
 Other investments

Total investments

Loans:

Mortgage loans held-for-sale, at lower of cost or fair value
 Loans held for investment, net of allowance for loan and lease losses of \$234,131 (December 31, 2014 - \$133,762)

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 24)

Stockholders' equity:

Preferred stock; 10,000,000 shares authorized;

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

issued and outstanding, (December 31, 2014 - 1,340,000 shares; 1,380,000 shares; and 960,000 shares)

\$25 liquidation value

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

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

43,867,909 shares outstanding (December 31, 2014 - 52,625,869; 44,613,615)

Additional paid-in capital

Legal surplus

Retained earnings

Treasury stock, at cost, 8,757,960 shares (December 31, 2014 - 8,012,254 shares)

Accumulated other comprehensive income, net of tax of \$1,182 (December 31, 2014 \$447)

Total stockholders' equity

Total liabilities and stockholders' equity

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	Year Ended December 31		
	2015	2014	2013
	(In thousands, except per share data)		
Interest income:			
Loans	\$ 367,622	\$ 435,553	\$ 443,817
Mortgage-backed securities	35,338	44,836	40,817
Investment securities and other	3,608	4,868	8,317
Total interest income	406,568	485,257	492,951
Interest expense:			
Deposits	27,034	33,954	40,817
Securities sold under agreements to repurchase	29,567	29,654	29,654
Advances from FHLB and other borrowings	9,072	9,185	8,317
Subordinated capital notes	3,523	3,989	5,117
Total interest expense	69,196	76,782	83,905
Net interest income	337,372	408,475	409,046
Provision for loan and lease losses, net	161,501	60,640	72,817
Net interest income after provision for loan and lease losses	175,871	347,835	336,229
Non-interest income:			
Banking service revenue	41,466	40,712	44,817
Wealth management revenue	29,040	29,855	30,817
Mortgage banking activities	6,128	7,381	10,817
Total banking and financial service revenues	76,634	77,948	86,451
Other-than-temporary impairment losses on investment securities	(4,662)	-	-
Portion of losses recognized in other comprehensive (loss) income, before taxes	3,172	-	-
Net impairment losses recognized	(1,490)	-	-
FDIC shared-loss expense, net	(42,808)	(65,756)	(69,817)
Reimbursement from FDIC shared-loss coverage in sale of loans and foreclosed real estate	20,000	-	-
Net gain (loss) on:			
Sale of securities	2,572	4,366	-
Derivatives	(190)	(608)	(1,817)
Early extinguishment of debt	-	-	1,817
Other non-interest (loss) income	(2,246)	1,373	-
Total non-interest income, net	52,472	17,323	17,000
Non-interest expense:			
Compensation and employee benefits	79,172	85,283	91,817
Professional and service fees	16,217	15,996	21,817
Occupancy and equipment	34,186	34,710	34,817
Insurance	9,567	8,830	8,317
Electronic banking charges	21,893	19,081	16,817
Information technology expenses	5,648	6,019	10,817
Advertising, business promotion, and strategic initiatives	6,452	7,014	7,817

Merger and restructuring charges	-	-	17
Foreclosure, repossession and other real estate expenses	37,522	25,125	16
Loan servicing and clearing expenses	9,075	7,567	7
Taxes, other than payroll and income taxes	9,460	14,409	15
Communication	3,086	3,430	3
Printing, postage, stationary and supplies	2,575	2,533	3
Director and investor relations	1,091	1,106	1
Other	12,457	11,622	8
Total non-interest expense	248,401	242,725	264
(Loss) income before income taxes	(20,058)	122,433	89
Income tax (benefit) expense	(17,554)	37,252	(8,
Net (loss) income	(2,504)	85,181	98
Less: dividends on preferred stock	(13,862)	(13,862)	(13,
Net (loss) income available to common shareholders	\$ (16,366)	\$ 71,319	\$ 84
(Loss) earnings per common share:			
Basic	\$ (0.37)	\$ 1.58	\$
Diluted	\$ (0.37)	\$ 1.50	\$
Average common shares outstanding and equivalents	51,455	52,326	53
Cash dividends per share of common stock	\$ 0.36	\$ 0.34	\$

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Net (loss) income	\$ (2,504)	\$ 85,181	\$ 98,446
Other comprehensive (loss) income before tax:			
Unrealized gain (loss) on securities available-for-sale	(8,814)	19,843	(62,080)
Realized gain on investment securities included in net (loss) income	(2,572)	(4,366)	-
Other-than-temporary impairment on investment securities included in net income	1,490	-	-
Unrealized gain on cash flow hedges	4,278	2,322	6,758
Other comprehensive (loss) income before taxes	(5,618)	17,799	(55,322)
Income tax effect	(96)	(1,279)	2,633
Other comprehensive (loss) income after taxes	(5,714)	16,520	(52,689)
Comprehensive (loss) income	\$ (8,218)	\$ 101,701	\$ 45,757

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Preferred stock:			
Balance at beginning of year	\$ 176,000	\$ 176,000	\$ 176,000
Balance at end of year	176,000	176,000	176,000
Common stock:			
Balance at beginning of year	52,626	52,707	52,671
Exercised stock options	-	55	36
Reclassification to treasury stock	-	(136)	-
Balance at end of year	52,626	52,626	52,707
Additional paid-in capital:			
Balance at beginning of year	539,311	538,071	537,453
Stock-based compensation expense	1,637	1,036	1,823
Exercised stock options	-	591	399
Lapsed restricted stock units	(436)	(387)	(1,563)
Preferred stock issuance cost	-	-	(16)
Common stock issuance cost	-	-	(25)
Balance at end of year	540,512	539,311	538,071
Legal surplus:			
Balance at beginning of year	70,467	61,957	52,143
Transfer from retained earnings	(32)	8,510	9,814
Balance at end of year	70,435	70,467	61,957
Retained earnings:			
Balance at beginning of year	181,152	133,629	70,734
Net (loss) income	(2,504)	85,181	98,446
Cash dividends declared on common stock	(15,932)	(15,286)	(11,875)
Cash dividends declared on preferred stock	(13,862)	(13,862)	(13,862)
Transfer to legal surplus	32	(8,510)	(9,814)
Balance at end of year	148,886	181,152	133,629
Treasury stock:			
Balance at beginning of year	(97,070)	(80,642)	(81,275)
Stock repurchased	(8,950)	(16,948)	-
Lapsed restricted stock units	641	384	556
Reclassification from common stock	-	136	-
Stock used to match defined contribution plan	-	-	77
Balance at end of year	(105,379)	(97,070)	(80,642)
Accumulated other comprehensive income, net of tax:			
Balance at beginning of year	19,711	3,191	55,880
Other comprehensive (loss) income, net of tax	(5,714)	16,520	(52,689)
Balance at end of year	13,997	19,711	3,191
Total stockholders' equity	\$ 897,077	\$ 942,197	\$ 884,913

The accompanying notes are an integral part of these consolidated financial statements
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OFG BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	Year Ended December 31		
	2015	2014	2013
	(In thousands)		
Cash flows from operating activities:			
Net (loss) income	\$ (2,504)	\$ 85,181	\$ 9,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Amortization of deferred loan origination fees, net of costs	3,396	2,883	1,000
Amortization of fair value premiums, net of discounts, on acquired loans	3,106	12,310	1,000
Amortization of investment securities premiums, net of accretion of discounts	12,109	3,124	1,000
Amortization of core deposit and customer relationship intangibles	1,906	2,169	1,000
Amortization of fair value premiums on acquired deposits	660	4,772	1,000
FDIC shared-loss expense, net	42,808	65,756	6,000
Other-than-temporary impairment on securities	1,490	-	1,000
Other	-	62	1,000
Depreciation and amortization of premises and equipment	11,100	10,199	1,000
Deferred income tax expense (benefit), net	(37,329)	24,155	(1,000)
Provision for loan and lease losses, net	161,501	60,640	7,000
Stock-based compensation	1,637	1,036	1,000
(Gain) loss on:			
Sale of securities	(2,572)	(4,366)	1,000
Sale of mortgage loans held-for-sale	(3,135)	(5,123)	(1,000)
Derivatives	(81)	752	1,000
Early extinguishment of debt	-	-	(1,000)
Foreclosed real estate	33,998	9,195	1,000
Sale of other repossessed assets	4,828	6,770	1,000
Sale of premises and equipment	192	(11)	1,000
Originations of loans held-for-sale	(211,352)	(176,199)	(30,000)
Proceeds from sale of loans held-for-sale	102,383	96,804	14,000
Net (increase) decrease in:			
Trading securities	1,306	275	(1,000)
Accrued interest receivable	708	(2,611)	(1,000)
Servicing assets	610	(191)	(1,000)
Other assets	(14,849)	11,738	2,000
Net increase (decrease) in:			
Accrued interest on deposits and borrowings	(250)	(1,292)	(1,000)
Accrued expenses and other liabilities	(14,584)	(33,028)	1,000
Net cash provided by operating activities	97,082	175,000	17,000
Cash flows from investing activities:			
Purchases of:			
Investment securities available-for-sale	(1,939)	(219,853)	(3,000)
Investment securities held-to-maturity	(499,317)	(166,562)	(10,000)
FHLB stock	-	(86,175)	(10,000)

Maturities and redemptions of:			
Investment securities available-for-sale	238,003	490,048	55
Investment securities held-to-maturity	39,310	3,612	
FHLB stock	386	89,456	11
Proceeds from sales of:			
Investment securities available-for-sale	103,831	214,518	14
Foreclosed real estate and other repossessed assets, including write-offs	74,940	54,639	5
Proceeds from sale of loans held-for-investment	42,110	9,378	
Premises and equipment	-	25	
Mortgage servicing rights	5,927	-	
Origination and purchase of loans, excluding loans held-for-sale	(802,572)	(739,017)	(1,17)
Principal repayment of loans, including covered loans	861,891	751,215	1,17
Reimbursements from the FDIC on shared-loss agreements	90,697	32,692	4
Additions to premises and equipment	(5,283)	(7,909)	(1)
Net change in securities purchased under agreements to resell	-	60,000	2
Net change in restricted cash	5,058	73,792	(6)
Net cash provided by investing activities	153,042	559,859	71

OFG BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 – (CONTINUED)

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash flows from financing activities:			
Net increase (decrease) in:			
Deposits	(198,052)	(450,976)	(323,899)
Short term borrowings	-	-	(92,210)
Securities sold under agreements to repurchase	(45,315)	(287,184)	(427,931)
FHLB advances, federal funds purchased, and other borrowings	(4,155)	(1,469)	(213,144)
Subordinated capital notes	1,049	1,574	(44,968)
Exercise of stock options and restricted units lapsed, net	204	643	(572)
Issuance of common stock, net	-	-	(16)
Issuance of preferred stock, net	-	-	(25)
Purchase of treasury stock	(8,950)	(16,948)	-
Termination of derivative instruments	-	-	1,108
Dividends paid on preferred stock	(13,862)	(13,862)	(13,862)
Dividends paid on common stock	(17,761)	(14,479)	(10,789)
Net cash used in financing activities	\$ (286,842)	\$ (782,701)	\$ (1,126,308)
Net change in cash and cash equivalents	(36,718)	(47,842)	(233,966)
Cash and cash equivalents at beginning of year	573,427	621,269	855,235
Cash and cash equivalents at end of year	\$ 536,709	\$ 573,427	\$ 621,269
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:			
Interest paid	\$ 67,766	\$ 81,506	\$ 98,856
Income taxes paid	\$ 13,966	\$ 7,114	\$ 378
Mortgage loans securitized into mortgage-backed securities	\$ 116,319	\$ 95,909	\$ 137,943
Transfer from loans to foreclosed real estate and other repossessed assets	\$ 67,345	\$ 85,459	\$ 89,142
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	\$ 3,445	\$ 5,202	\$ 41,780
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	\$ 156	\$ 25,801	\$ -