OFG BANCORP
Form 10-Q
May 10, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2013**

**or**

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

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

**Commission File Number 001-12647**

**OFG Bancorp**

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

45,626,596 common shares ($1.00 par value per share) outstanding as of April 30, 2013

## TABLE OF CONTENTS

## FORWARD-LOOKING STATEMENTS

The information included in this quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to the financial condition, results of operations, plans, objectives, future performance and business of OFG Bancorp, formerly known as Oriental Financial Group Inc. ("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 a "will," "would," "should," "could," "might," "can," "may," or similar expressions are generally intended to identify forward-lo statements.

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

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- the fiscal and monetary policies of the federal government and its agencies;
- a credit default by the U.S. or Puerto Rico governments or a downgrade in the credit ratings of the U.S. or Puerto Rico governments;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on the Company's businesses, business practices and cost of operations;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in Puerto Rico;
- the performance of the stock and bond markets;
- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation ("FDIC") assessments;

- possible legislative, tax or regulatory changes; and

- difficulties in integrating the acquired Puerto Rico operations of Banco Bilbao Vizcaya Argentaria, S. A. ("BBVAPR") into the Company's operations.

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

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

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**AS OF MARCH 31, 2013 AND DECEMBER 31, 2012**

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands, except share data) | |
| **ASSETS** | | |
| **Cash and cash equivalents** | | |
| Cash and due from banks | $ 548,770 | $ 855,490 |
| Money market investments | 12,676 | 13,205 |
| **Total cash and cash equivalents** | **561,446** | **868,695** |
| **Securities purchased under agreements to resell** | **60,000** | **80,000** |
| **Investments:** | | |
| Trading securities, at fair value, with amortized cost of $1,835 (December 31, 2012 - $508) | 1,787 | 495 |
| Investment securities available-for-sale, at fair value, with amortized cost of $1,948,685 (December 31, 2012 - $2,118,825) | 2,013,155 | 2,194,286 |
| Federal Home Loan Bank (FHLB) stock, at cost | 33,458 | 38,411 |
| Other investments | 66 | 73 |
| **Total investments** | **2,048,466** | **2,233,265** |
| **Loans:** | | |
| Mortgage loans held-for-sale, at lower of cost or fair value | 77,644 | 64,544 |
| Loans not covered under shared-loss agreements with the FDIC, net of allowance for loan and lease losses of $42,720 (December 31, 2012 - $39,921) | 4,757,003 | 4,722,174 |
| Loans covered under shared-loss agreements with the FDIC, net of allowance for loan and lease losses of $52,974 (December 31, 2012 - $54,124) | 379,734 | 395,307 |
| **Total loans, net** | **5,214,381** | **5,182,025** |
| **Other assets:** | | |
| FDIC shared-loss indemnification asset | 266,958 | 286,799 |
| Foreclosed real estate covered under shared-loss agreements with the FDIC | 26,528 | 22,283 |
| Foreclosed real estate not covered under shared-loss agreements with the FDIC | 54,810 | 53,164 |
| Accrued interest receivable | 20,231 | 17,554 |
| Deferred tax asset, net | 112,575 | 117,201 |
| Premises and equipment, net | 83,461 | 84,997 |
| Customers' liability on acceptances | 32,512 | 26,996 |
| Servicing assets | 11,543 | 10,795 |
| Derivative assets | 23,233 | 21,889 |
| Goodwill | 64,021 | 64,021 |
| Other assets | 122,386 | 123,684 |

| | | | | |
|---|---|---|---|---|
| **Total assets** | $ | **8,702,551** | $ | **9,193,368** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| **Deposits:** | | | | |
| Demand deposits | $ | 2,183,785 | $ | 2,447,152 |
| Savings accounts | | 892,654 | | 634,819 |
| Certificates of deposit | | 2,487,075 | | 2,607,588 |
| **Total deposits** | | **5,563,514** | | **5,689,559** |
| **Borrowings:** | | | | |
| Short term borrowings | | 60,846 | | 92,222 |
| Securities sold under agreements to repurchase | | 1,491,675 | | 1,695,247 |
| Advances from FHLB and other borrowings | | 462,906 | | 554,177 |
| Subordinated capital notes | | 98,436 | | 146,038 |
| **Total borrowings** | | **2,113,863** | | **2,487,684** |
| **Other liabilities:** | | | | |
| Derivative liabilities | | 24,024 | | 26,260 |
| Acceptances executed and outstanding | | 32,512 | | 26,996 |
| Accrued expenses and other liabilities | | 98,396 | | 99,263 |
| **Total liabilities** | | **7,832,309** | | **8,329,762** |
| **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, 2012 - 1,340,000 ; 1,380,000 ; and 960,000) $25 liquidation value | | 92,000 | | 92,000 |
| 84,000 shares of Series C issued and outstanding (December 31, 2012 - 84,000); $1,000 liquidation value | | 84,000 | | 84,000 |
| Common stock, $1 par value; 100,000,000 shares authorized; 52,670,878 shares issued; 45,621,199 shares outstanding (December 31, 2012 - 52,670,878; 45,580,281) | | 52,671 | | 52,671 |
| Additional paid-in capital | | 537,500 | | 537,453 |
| Legal surplus | | 54,128 | | 52,143 |
| Retained earnings | | 83,739 | | 70,734 |
| Treasury stock, at cost, 7,049,679 shares (December 31, 2012 - 7,090,597 shares) | | (80,847) | | (81,275) |
| Accumulated other comprehensive income, net of tax of $1,101 (December 31, 2012 - $1,802) | | 47,051 | | 55,880 |
| **Total stockholders' equity** | | **870,242** | | **863,606** |
| **Total liabilities and stockholders' equity** | $ | **8,702,551** | $ | **9,193,368** |

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

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012**

| | Quarter Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands, except per share data) | |
| **Interest income:** | | |
| Loans not covered under shared-loss agreements with the FDIC | $ 80,263 | $ 18,123 |
| Loans covered under shared-loss agreements with the FDIC | 20,229 | 21,541 |
| **Total interest income from loans** | **100,492** | **39,664** |
| Mortgage-backed securities | 10,818 | 28,063 |
| Investment securities and other | 2,318 | 2,192 |
| **Total interest income** | **113,628** | **69,919** |
| **Interest expense:** | | |
| Deposits | 10,478 | 9,123 |
| Securities sold under agreements to repurchase | 7,248 | 17,570 |
| Advances from FHLB and other borrowings | 1,660 | 3,004 |
| FDIC-guaranteed term notes | - | 909 |
| Subordinated capital notes | 1,660 | 328 |
| **Total interest expense** | **21,046** | **30,934** |
| **Net interest income** | **92,582** | **38,985** |
| Provision for non-covered loan and lease losses | 7,916 | 3,000 |
| Provision for covered loan and lease losses, net | 672 | 7,157 |
| **Total provision for loan and lease losses** | **8,588** | **10,157** |
| **Net interest income after provision for loan and lease losses** | **83,994** | **28,828** |
| **Non-interest income:** | | |
| Financial service revenue | 7,660 | 5,889 |
| Banking service revenue | 12,382 | 3,080 |
| Mortgage banking activities | 3,153 | 2,502 |
| **Total banking and financial service revenue** | **23,195** | **11,471** |
| Net amortization of FDIC shared-loss indemnification asset | (12,871) | (4,827) |
| Net gain (loss) on: | | |
| Sale of securities | - | 7,360 |
| Derivatives | (298) | - |
| Foreclosed real estate | (1,793) | (398) |
| Early extinguishment of subordinated capital notes | 1,061 | - |
| Other | (38) | (842) |
| **Total non-interest income, net** | **9,256** | **12,764** |
| | | |
| **Non-interest expense:** | | |

| | | | | |
|---|---|---|---|---|
| Compensation and employee benefits | | 23,249 | | 10,365 |
| Professional and service fees | | 9,122 | | 5,420 |
| Occupancy and equipment | | 9,216 | | 4,209 |
| Insurance | | 2,678 | | 1,820 |
| Electronic banking charges | | 3,728 | | 1,558 |
| Advertising, business promotion, and strategic initiatives | | 1,409 | | 848 |
| Merger and restructuring charges | | 5,534 | | - |
| Foreclosure, repossession and other real estate expenses | | 1,505 | | 749 |
| Loan servicing and clearing expenses | | 1,475 | | 967 |
| Taxes, other than payroll and income taxes | | 2,622 | | 1,174 |
| Communication | | 864 | | 389 |
| Printing, postage, stationary and supplies | | 1,166 | | 308 |
| Director and investor relations | | 236 | | 309 |
| Other | | 2,128 | | 886 |
| **Total non-interest expense** | | **64,932** | | **29,002** |
| **Income before income taxes** | | **28,318** | | **12,590** |
| Income tax expense | | 7,126 | | 1,937 |
| **Net income** | | **21,192** | | **10,653** |
| Less: dividends on preferred stock | | (3,465) | | (1,201) |
| **Income available to common shareholders** | **$** | **17,727** | **$** | **9,452** |
| **Earnings per common share:** | | | | |
| Basic | $ | **0.39** | **$** | **0.23** |
| Diluted | $ | **0.37** | **$** | **0.23** |
| **Average common shares outstanding and equivalents** | | **52,892** | | **41,162** |
| **Cash dividends per share of common stock** | $ | **0.06** | **$** | **0.06** |

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

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012**

| | Quarter ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| **Net income** | **$ 21,192** | **$ 10,653** |
| **Other comprehensive loss before tax:** | | |
| Unrealized (gain) loss on securities available-for-sale | (10,992) | 1,944 |
| Realized gain on investment securities included in net income | - | (7,360) |
| Unrealized loss (gain) on cash flow hedges | 1,462 | (2,001) |
| **Other comprehensive loss before taxes** | **(9,530)** | **(7,417)** |
| Income tax effect | 701 | 384 |
| **Other comprehensive loss after taxes** | **(8,829)** | **(7,033)** |
| **Comprehensive income** | **$ 12,363** | **$ 3,620** |

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

**OFG BANCORP**

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

**FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012**

| | Quarter Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | (In thousands) | | | |
| **Preferred stock:** | | | | |
| **Balance at beginning and end of period** | $ | **176,000** | $ | **68,000** |
| **Common stock:** | | | | |
| Balance at beginning of year | | 52,671 | | 47,809 |
| Exercised stock options | | - | | 32 |
| **Balance at end of period** | | **52,671** | | **47,841** |
| **Additional paid-in capital:** | | | | |
| Balance at beginning of year | | 537,453 | | 499,096 |
| Stock-based compensation expense | | 437 | | 366 |
| Exercised stock options | | - | | 359 |
| Lapsed restricted stock units | | (351) | | (35) |
| Common stock issuance costs | | (23) | | - |
| Preferred stock issuance costs | | (16) | | - |
| **Balance at end of period** | | **537,500** | | **499,786** |
| **Legal surplus:** | | | | |
| Balance at beginning of year | | 52,143 | | 50,178 |
| Transfer from retained earnings | | 1,985 | | 1,068 |
| **Balance at end of period** | | **54,128** | | **51,246** |
| **Retained earnings:** | | | | |
| Balance at beginning of year | | 70,734 | | 68,149 |
| Net income | | 21,192 | | 10,653 |
| Cash dividends declared on common stock | | (2,737) | | (2,442) |
| Cash dividends declared on preferred stock | | (3,465) | | (1,201) |
| Transfer to legal surplus | | (1,985) | | (1,068) |
| **Balance at end of period** | | **83,739** | | **74,091** |
| **Treasury stock:** | | | | |
| Balance at beginning of year | | (81,275) | | (74,808) |
| Stock repurchased | | - | | (7,022) |
| Lapsed restricted stock units | | 351 | | 35 |
| Stock used to match defined contribution plan | | 77 | | 23 |
| **Balance at end of period** | | **(80,847)** | | **(81,772)** |
| **Accumulated other comprehensive income, net of tax:** | | | | |
| Balance at beginning of year | | 55,880 | | 37,131 |
| Other comprehensive loss, net of tax | | (8,829) | | (7,033) |
| **Balance at end of period** | | **47,051** | | **30,098** |
| **Total stockholders' equity** | $ | **870,242** | $ | **689,290** |

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

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012**

| | Quarter Ended March 31, 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| **Cash flows from operating activities:** | | |
| Net income | $ **21,192** | $ **10,653** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of deferred loan origination fees, net of costs | 256 | 142 |
| Amortization of fair value discounts on acquired loans | 2,579 | - |
| Amortization of investment securities premiums, net of accretion of discounts | 6,200 | 11,841 |
| Amortization of core deposit and customer relationship intangibles | 644 | 36 |
| Amortization of fair value premiums on acquired deposits | 5,267 | - |
| Net amortization of FDIC shared-loss indemnification asset | 12,871 | 4,827 |
| Amortization of prepaid FDIC assessment | 860 | 1,494 |
| Other impairments on securities | 7 | 4 |
| Depreciation and amortization of premises and equipment | 3,092 | 1,210 |
| Deferred income taxes, net | 5,265 | (1,274) |
| Provision for covered and non-covered loan and lease losses, net | 8,588 | 10,157 |
| Stock-based compensation | 437 | 366 |
| (Gain) loss on: | | |
| Sale of securities | - | (7,360) |
| Sale of mortgage loans held for sale | (1,631) | (1,330) |
| Derivatives | 298 | 1 |
| Early extinguishment of subordinated capital notes | (1,061) | - |
| Foreclosed real estate | 1,793 | 398 |
| Sale of other repossessed assets | 84 | (2) |
| Sale of premises and equipment | - | (82) |
| Originations of loans held-for-sale | (68,493) | (43,144) |
| Proceeds from sale of loans held-for-sale | 29,347 | 22,906 |
| Net (increase) decrease in: | | |
| Trading securities | (1,292) | (184) |
| Accrued interest receivable | (2,677) | 1,432 |
| Servicing assets | (748) | (271) |
| Other assets | 1,446 | 11,239 |
| Net increase (decrease) in: | | |
| Accrued interest on deposits and borrowings | (391) | (627) |
| Accrued expenses and other liabilities | (2,518) | (7,409) |
| **Net cash provided by operating activities** | **21,415** | **15,023** |
| **Cash flows from investing activities:** | | |
| Purchases of: | | |

| | | |
|---|---|---|
| Investment securities available-for-sale | (1,383) | (77,910) |
| Investment securities held-to-maturity | - | (119,025) |
| FHLB stock | (3,150) | - |
| Maturities and redemptions of: | | |
| Investment securities available-for-sale | 163,940 | 164,804 |
| Investment securities held-to-maturity | - | 51,681 |
| FHLB stock | 8,103 | - |
| Proceeds from sales of: | | |
| Investment securities available-for-sale | 29,062 | 210,204 |
| Foreclosed real estate | 5,620 | 1,792 |
| Other repossessed assets | 416 | 994 |
| Premises and equipment | 155 | 101 |
| Origination and purchase of loans, excluding loans held-for-sale | (206,229) | (67,024) |
| Principal repayment of loans, including covered loans | 161,912 | 58,969 |
| Reimbursements from the FDIC on shared-loss agreements | 6,650 | 24,068 |
| Additions to premises and equipment | (1,711) | (431) |
| Net change in securities purchased under agreements to resell | 20,000 | (170,000) |
| **Net cash provided by investing activities** | **183,385** | **78,223** |

**OFG BANCORP**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)**

**FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012**

| | Quarter Ended March 31, 2013 | | Quarter Ended March 31, 2012 |
|---|---|---|---|
| | (In thousands) | | |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in: | | | |
| Deposits | (133,055) | | (124,230) |
| Short term borrowings | (31,382) | | 3,644 |
| Securities sold under agreements to repurchase | (203,636) | | - |
| FHLB advances | (91,185) | | - |
| Subordinated capital notes | (46,541) | | - |
| FDIC-guaranteed term notes | - | | (105,000) |
| Exercise of stock options | - | | 391 |
| Issuance of common stock costs | (23) | | - |
| Issuance of preferred stock costs | (16) | | - |
| Purchase of treasury stock | - | | (7,022) |
| Termination of derivative instruments | (9) | | 9 |
| Dividends paid on preferred stock | (3,465) | | (1,201) |
| Dividends paid on common stock | (2,737) | | (2,442) |
| **Net cash used in financing activities** | **(512,049)** | | **(235,851)** |
| **Net change in cash and cash equivalents** | **(307,249)** | | **(142,605)** |
| Cash and cash equivalents at beginning of period | 868,695 | | 591,487 |
| Cash and cash equivalents at end of period | **$ 561,446** | | **$ 448,882** |
| **Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:** | | | |
| Interest paid | $ 21,243 | | $ 31,683 |
| Mortgage loans securitized into mortgage-backed securities | $ 27,679 | | $ 16,619 |
| Transfer from loans to foreclosed real estate | $ 15,459 | | $ 4,143 |

**See notes to unaudited consolidated financial statements**

**OFG BANCORP**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

***Nature of Operations***

OFG Bancorp (the “Company”) is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. The Company operates through various subsidiaries including, a commercial bank, Oriental Bank (or the “Bank”), two broker-dealers, Oriental Financial Services Corp. (“Oriental Financial Services”) and OFS Securities, Inc. (“OFS’ Securities”), an insurance agency, Oriental Insurance, Inc. (“Oriental Insurance”) and a retirement plan administrator, Caribbean Pension Consultants, Inc. (“CPC”). The Company also has a special purpose entity, Oriental Financial (PR) Statutory Trust II (the “Statutory Trust II”). Through these subsidiaries and their respective divisions, the Company provides a wide range of banking and financial services such as commercial, consumer and mortgage lending, leasing, auto loans, financial planning, insurance sales, money management and investment banking and brokerage services, as well as corporate and individual trust services. On April 25, 2013, the Company changed its corporate name from Oriental Financial Group, Inc. to OFG Bancorp. Note 17 to the unaudited consolidated financial statements presents information about the Company’s business segments.

On December 18, 2012, the Company purchased from Banco Bilbao Vizcaya Argentaria, S. A. (“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”), an insurance agency, and (ii) BBVA Securities of Puerto Rico, Inc. (“BBVA Securities,” now known as “OFS 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.”.

***Basis of Presentation and Use of Estimates***

The accounting and reporting policies of the “Company conform with U.S. generally accepted accounting principles (“GAAP”) and to banking industry practices.

The unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information and should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012 (“2012 Form 10-K”). All significant intercompany balances and transactions have been eliminated in consolidation. These unaudited statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Interim period results are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications have been made to 2012 unaudited consolidated financial statements and notes to the financial statements to conform to the 2013 presentation.

***Significant Accounting Policies***

We provide a summary of our significant accounting policies in our 2012 Form 10-K under "Notes to Consolidated Financial Statements—Note 1—Summary of Significant Accounting Policies." Below we describe recent accounting changes.

**Reclassification out of Accumulated Other Comprehensive Income -** In February 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income,* which required new footnote disclosures of items reclassified from accumulated *Other Comprehensive Income* (OCI) to net income. The requirements became effective for the first quarter of 2013 and are included in Note 13 to the unaudited consolidated financial statements.

**OFG BANCORP**

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

**Testing Indefinite-Lived Intangible Assets for Impairment -** In July 2012, the FASB issued ASU No. 2012-02, *Intangibles—*

*Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. The ASU is intended to simplify the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. Some examples of intangible assets subject to the guidance include indefinite-lived trademarks, licenses and distribution rights. The ASU allows companies to perform a qualitative assessment about the likelihood of impairment of an indefinite-lived intangible asset to determine whether further impairment testing is necessary, similar in approach to the goodwill impairment test. The ASU became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Our adoption of the guidance had no effect on our unaudited consolidated financial statements.

**Offsetting Financial Assets and Liabilities -** In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The ASU is intended to enhance current disclosure requirements on offsetting financial assets and liabilities. The new disclosures enable financial statement users to compare balance sheets prepared under U.S. GAAP and IFRS, which are subject to different offsetting models. The guidance require to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosures are required irrespective of whether such instruments are presented gross or net on the balance sheet. In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, which clarify that the scope of this guidance applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amended guidance was effective for annual and interim reporting periods beginning on or after January 1, 2013, with comparative retrospective disclosures required for all periods presented. We adopted the guidance in the first quarter of 2013. Our adoption of the guidance had no effect on our financial condition, results of operations or liquidity since it impacts disclosures only. The new disclosures required by the amended guidance are included in "Note 17 – Offsetting Arrangements."

**Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income -** In February 2013, the FASB issued an amendment to enhance current disclosure requirements of reclassifications out of accumulated other comprehensive income and their corresponding effect on net income to be presented, in one place, information about significant amounts reclassified and, in some cases, cross-reference to related footnote disclosures. Previously, this information was presented in different places throughout the financial statements. The amendments require to disclose information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, requires to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in its entirety to net income, the company is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amended guidance was effective for annual and interim reporting periods beginning on or after December 15, 2012, prospectively. Our adoption of the guidance is presented on note 13 to these unaudited consolidated financial statements.

**Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution—** FASB ASU 2012-06, “Business Combinations” (Topic 805) was issued in October 2012. This update addresses the diversity in practice about how to interpret the terms “on the same basis” and “contractual limitations” when subsequently measuring an indemnification asset recognized in a government-assisted (Federal Deposit Insurance Corporation) acquisition of a financial institution that includes a loss-sharing agreement (indemnification agreement). When a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently the cash flows expected to be collected on the indemnification asset changes as a result of a change in cash flows expected to be collected on the assets subject to indemnification, the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement, that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets. The amendments in this update are effective for fiscal years and interim periods within those years, beginning on or after December 15, 2012. The adoption of this guidance did not have a material effect on the unaudited consolidated financial statements, since the Company already followed the same basis approach.

**OFG BANCORP**

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

**Presentation of Comprehensive Income**

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The ASU requires an entity to present the total of comprehensive income, the components of net income, and the components of OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. OFG Bancorp selected the two-statement approach. Under this approach, the Company is required to present components of net income and total net income in the Statement of Income. The Statement of Comprehensive Income follows the Statement of Income and includes the components of OCI and a total for OCI, along with a total for comprehensive income. The ASU removed the option of reporting OCI in the statement of changes in stockholders' equity. This ASU became effective for OFG Bancorp on January 1, 2012 and a Statement of

Comprehensive Income is included in these unaudited consolidated financial statements.

**Fair Value Measurement** — FASB ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" (Topic 820) was issued in May 2011. This update establishes common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Among the changes, additional information about the sensitivity of a fair value measurement categorized within Level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs will be required. Also, entities now will be required to categorize by level of the fair value hierarchy items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed. The amendments in this update are effective during interim and annual periods beginning after December 15, 2011, are to be applied prospectively. The Company adopted this guidance for fair value measurements.

**Repurchase Agreements** — FASB ASU 2011-03, "Reconsideration of Effective Control for Repurchase Agreements" (Topic 860) was issued in April 2011. This update removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this update. The amendments in this update are effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption was not permitted. The Company adopted this guidance for the repurchase agreements**.**

***Future Application of Accounting Standards***

**Accounting for Financial Instruments—Credit Losses -** In December 2012, the FASB issued a proposed ASU, *Financial Instruments—Credit Losses.* This proposed ASU, or exposure draft, was issued for public comment in order to allow stakeholders the opportunity to review the proposal and provide comments to the FASB, and does not constitute accounting guidance until a final ASU is issued. The exposure draft contains proposed guidance developed by the FASB with the goal of improving financial reporting about expected credit losses on loans, securities and other financial assets held by banks, financial institutions, and other public and private organizations. The exposure draft proposes a new accounting model intended to require earlier recognition of credit losses, while also providing additional transparency about credit risk. The FASB's proposed model would utilize a single "expected credit loss" measurement objective for the recognition of credit losses, replacing the multiple existing impairment models in U.S. GAAP which generally require that a loss be "incurred" before it is recognized. The FASB's proposed model represents a significant departure from existing U.S. GAAP, and may result in material changes to the Company's accounting for financial instruments. The impact of the FASB's final ASU to the Company's financial statements will be assessed when it is issued. The exposure draft does not contain a proposed effective date; this would be included in the final ASU, when issued.

**Other Potential Amendments to Current Accounting Standards -** The FASB and IASB, either jointly or separately, are currently working on several major projects, including amendments to existing accounting standards governing financial instruments, leases, consolidation and investment companies. As part of the joint financial instruments project, the FASB has issued a proposed ASU that would result in significant changes to the guidance for recognition and measurement of financial instruments, in addition to the proposed ASU that would change the accounting for credit losses on financial instruments discussed above. The FASB is also working on a joint project that would require substantially all leases to be capitalized on the balance sheet. Additionally, the FASB has issued a proposal on principal-agent considerations that would change the way the Company needs to evaluate whether to consolidate VIEs and non-VIE partnerships. Furthermore, the FASB has issued a proposed ASU that would change the criteria used to determine whether an entity is subject to the accounting and reporting requirements of an investment company. The principal-agent consolidation proposal would require all VIEs, including those that are investment companies, to be evaluated for consolidation under the same

**OFG BANCORP**

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

requirements. All of these projects may have significant impacts for the Company. Upon completion of the standards, the Company will need to reevaluate its accounting and disclosures. However, due to ongoing deliberations of the standard setters, the Company is currently unable to determine the effect of future amendments or proposals.

**OFG BANCORP**

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

**NOTE 2 – BUSINESS COMBINATIONS**

***BBVAPR Acquisition***

On December 18, 2012, the Company purchased from BBVA, all of the outstanding common stock of each of BBVAPR Holding and BBVA Securities for an aggregate purchase price of $500 million. Immediately following the closing of the BBVAPR Acquisition, the Company merged BBVAPR Bank with and into Oriental Bank, with Oriental Bank continuing as the surviving entity. The unaudited consolidated financial statements contemplate the effect of the BBVAPR Acquisition.

**Merger and Restructuring Charges**

Merger and restructuring charges are recorded in the unaudited consolidated statement of operations and include incremental costs to integrate the operations of the Company and BBVAPR. These charges represent costs associated with these one-time activities and do not represent ongoing costs of the fully integrated combined organization.

The following table presents severance and employee-related charges, systems integrations and related charges, and other merger-related charges, related to the BBVAPR Acquisition, for the quarter ended March 31, 2013:

| | Quarter ended March 31, 2013 (In thousands) | |
|---|---|---|
| Severance and employee-related charges | $ | 750 |
| Systems integrations and related charges | | 948 |
| Other-contract cancellation fee | | 3,836 |
| **Total merger and restructuring charges** | **$** | **5,534** |

**Restructuring Reserve**

Restructuring reserves are established by a charge to merger and restructuring charges, and the restructuring charges are included in the merger and restructuring charges table.

The following table presents the changes in restructuring reserves for the quarter ended March 31, 2013:

| | Quarter ended March 31, 2013 (In thousands) |
|---|---|

| | | |
|---|---|---|
| **Balance at the beginning of the period** | $ | 4,202 |
| Merger and restructuring charges | | 5,534 |
| Cash payments and other | | (3,400) |
| **Balance at the end of the period** | **$** | **6,336** |

Payments under merger and restructuring reserves associated with the BBVAPR Acquisition are expected to continue in 2013 and will be accounted under applicable accounting guidance to the cost being incurred.

**OFG BANCORP**

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

***The FDIC-Assisted Acquisition and FDIC Shared-Loss Indemnification Asset***

On April 30, 2010, the Bank acquired certain assets and assumed certain deposits and other liabilities in the FDIC-assisted acquisition of Eurobank. As part of the Purchase and Assumption Agreement between the Bank and the FDIC (the "Purchase and Assumption Agreement"), the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC covers a substantial portion of any losses on loans (and related unfunded loan commitments), foreclosed real estate and other repossessed properties.

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

The assets acquired and liabilities assumed as of April 30, 2010 were presented at their fair value. In many cases, the determination of these fair values required management to make estimates about discount rates, expected cash flows, market conditions and other future events that are highly subjective in nature and were subject to change. The fair values initially assigned to the assets acquired and liabilities assumed were preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values became available. The process was completed on April 29, 2011.

The Bank agreed to make a true-up payment, also known as clawback liability, to the FDIC on the date that is 45 days following the last day (such day, the "True-Up Measurement Date") of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of $906.0 million (or $181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or $227.5 million); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of $16.2 million and $15.5 million, net of discount, as of March 31, 2013 and December 31, 2012, respectively. This estimated liability is accounted for as a reduction of the indemnification asset. The indemnification asset represents the portion of estimated losses covered by the shared-loss agreements between the Bank and the FDIC.

The operating results of the Company for the quarters ended March 31, 2013 and 2012 include the operating results produced by the acquired assets and assumed liabilities in the FDIC-assisted acquisition.

The FDIC shared-loss indemnification asset activity for the quarters ended March 31, 2013 and 2012 is as follows:

| | Quarter Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | (In thousands) | | | |
| **Balance at beginning of period** | $ | 286,799 | $ | 392,367 |
| Shared-loss agreements reimbursements from the FDIC | | (6,650) | | (24,068) |
| Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net | | (1,822) | | 12,024 |
| Amortization of FDIC shared-loss indemnification asset, net | | (12,871) | | (4,827) |
| Incurred expenses to be reimbursed under shared-loss agreements | | 1,502 | | 2,948 |
| **Balance at end of period** | **$** | **266,958** | **$** | **378,444** |

**OFG BANCORP**

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

**NOTE 3 - INVESTMENTS**

***Money Market Investments***

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At March 31, 2013 and December 31, 2012, money market instruments included as part of cash and cash equivalents amounted to $12.7 million and $13.2 million, respectively.

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

Securities purchased under agreements to resell consist of short-term investments and are carried at the amounts at which the assets will be subsequently resold as specified in the respective agreements. At March 31, 2013 and December 31, 2012, securities purchased under agreements to resell amounted to $60.0 million and $80.0 million, respectively.

The amounts advanced under those agreements are reflected as assets in the unaudited consolidated statements of financial condition. It is the Company's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Company's right to request additional collateral based on its monitoring of the fair value of the underlying securities on a daily basis. The fair value of the collateral securities held by the Company on these transactions as of March 31, 2013 and December 31, 2012 was approximately $61.2 million and $82.1 million, respectively.

***Investment Securities***

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at March 31, 2013 and December 31, 2012 were as follows:

| | March 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
| | | | (In thousands) | | |
| **Available-for-sale** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Mortgage-backed securities** | | | | | |
| FNMA and FHLMC certificates | $ 1,492,332 | $ 60,779 | $ 1 | $ 1,553,110 | 2.99% |
| GNMA certificates | 11,977 | 927 | 7 | 12,897 | 4.87% |
| CMOs issued by US Government sponsored agencies | 268,739 | 3,554 | 685 | 271,608 | 1.82% |
| **Total mortgage-backed securities** | **1,773,048** | **65,260** | **693** | **1,837,615** | **2.83%** |
| **Investment securities** | | | | | |
| US Treasury securities | 11,499 | 1 | - | 11,500 | 0.13% |
| Obligations of US Government sponsored agencies | 18,355 | 181 | - | 18,536 | 1.33% |
| Obligations of Puerto Rico Government and | 120,969 | - | 573 | 120,396 | |
| political subdivisions | | | | | 4.43% |
| Other debt securities | 24,814 | 294 | - | 25,108 | 3.45% |
| **Total investment securities** | **175,637** | **476** | **573** | **175,540** | **3.68%** |
| **Total securities available for sale** | **$ 1,948,685** | **$ 65,736** | **$ 1,266** | **$ 2,013,155** | **2.90%** |

**OFG BANCORP**

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

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
| | | | (In thousands) | | |
| **Available-for-sale** | | | | | |
| **Mortgage-backed securities** | | | | | |
| FNMA and FHLMC certificates | $ 1,622,037 | $ 71,411 | $ 1 | $ 1,693,447 | 3.06% |
| GNMA certificates | 14,177 | 995 | 8 | 15,164 | 4.89% |
| CMOs issued by US Government sponsored agencies | 288,409 | 3,784 | 793 | 291,400 | 1.85% |
| **Total mortgage-backed securities** | **1,924,623** | **76,190** | **802** | **2,000,011** | **2.89%** |
| **Investment securities** | | | | | |
| US treasury securities | 26,498 | - | 2 | 26,496 | 0.71% |
| Obligations of US Government sponsored agencies | 21,623 | 224 | - | 21,847 | 1.35% |
| Obligations of Puerto Rico Government and | | | | | |
| political subdivisions | 120,950 | 9 | 438 | 120,521 | 3.82% |
| Other debt securities | 25,131 | 280 | - | 25,411 | 3.46% |
| **Total investment securities** | **194,202** | **513** | **440** | **194,275** | 2.99% |
| **Total securities available-for-sale** | **$ 2,118,825** | **$ 76,703** | **$ 1,242** | **$ 2,194,286** | **2.90%** |

**OFG BANCORP**

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

The amortized cost and fair value of the Company’s investment securities at March 31, 2013, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | March 31, 2013 Available-for-sale | |
|---|---|---|
| | **Amortized Cost** | **Fair Value** |
| | (In thousands) | |
| **Mortgage-backed securities** | | |
| Due after 5 to 10 years | | |
| FNMA and FHLMC certificates | $ 36,054 | $ 37,194 |
| **Total due after 5 to 10 years** | **36,054** | **37,194** |
| Due after 10 years | | |
| FNMA and FHLMC certificates | 1,456,278 | 1,515,916 |
| GNMA certificates | 11,977 | 12,897 |
| CMOs issued by US Government sponsored agencies | 268,739 | 271,608 |
| **Total due after 10 years** | **1,736,994** | **1,800,421** |
| **Total mortgage-backed securities** | **1,773,048** | **1,837,615** |
| **Investment securities** | | |
| Due in less than one year | | |
| US Treasury securities | 11,499 | 11,500 |
| **Total due in less than one year** | **11,499** | **11,500** |
| Due from 1 to 5 years | | |
| Other debt securities | 20,000 | 20,042 |
| Obligations of Puerto Rico Government and political subdivisions | 407 | 399 |
| **Total due from 1 to 5 years** | **20,407** | **20,441** |
| Due after 5 to 10 years | | |
| Obligations of Puerto Rico Government and political subdivisions | 11,410 | 11,205 |
| Obligations of US Government and sponsored agencies | 18,355 | 18,536 |
| **Total due after 5 to 10 years** | **29,765** | **29,741** |
| Due after 10 years | | |
| Obligations of Puerto Rico Government and political subdivisions | 109,152 | 108,792 |
| Other debt securities | 4,814 | 5,066 |
| **Total due after 10 years** | **113,966** | **113,858** |
| **Total investment securities** | **175,637** | **175,540** |
| **Total securities available-for-sale** | **$ 1,948,685** | **$ 2,013,155** |

15

**OFG BANCORP**

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

The BBVAPR Acquisition and the related deleverage of the investment securities portfolio that the Company completed during the second half of 2012 reduced the interest rate risk profile of the Company. During such quarter the Company did not execute any sale of securities from its portfolio other than $29.1 million of available-for-sale GNMA certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales produced a nominal gain during such period. During the quarter ended March 31, 2012, there were certain sales of available-for sale securities because the Company felt that gains could be realized and that there were good opportunities to invest the proceeds in other investment securities with attractive yields and terms that would allow the Company to continue protecting its net interest margin.

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government sponsored agency discount notes close to their maturities as alternative to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased.

For the quarter ended March 31, 2012, the Company recorded a net gain on sale of securities of $7.4 million. The tables below present the gross realized gains by category for such period:

| | Quarter Ended March 31, 2012 | | | |
|---|---|---|---|---|
| **Description** | **Sale Price** | **Book Value at Sale** | **Gross Gains** | **Gross Losses** |
| | (In thousands) | | | |
| **Sale of Securities Available-for-Sale** | | | | |
| **Mortgage-backed securities** | | | | |
| FNMA and FHLMC certificates | $ 139,834 | $ 133,839 | $ 5,995 | $ - |
| GNMA certificates | 17,438 | 17,437 | 1 | - |
| CMOs issued by US Government sponsored agencies | 19,725 | 18,372 | 1,353 | - |
| **Total mortgage-backed securities** | 176,997 | 169,648 | 7,349 | - |
| **Investment securities** | | | | |
| Obligations of U.S. Government sponsored agencies | 22,677 | 22,666 | 11 | - |
| Structured credit investments | 10,530 | 10,530 | - | - |
| **Total investment securities** | 33,207 | 33,196 | 11 | - |
| **Total** | **$ 210,204** | **$ 202,844** | **$ 7,360** | **$ -** |

**OFG BANCORP**

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

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | |
|---|---|---|---|
| | | 12 months or more | |
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities Available-for-sale** | | | |
| Obligations of Puerto Rico Government and political subdivisions | $ 1,692 | $ 34 | $ 1,658 |
| CMOs issued by US Government sponsored agencies | 2,151 | 176 | 1,975 |
| | $ **3,843** | $ **210** | $ **3,633** |

| | | Less than 12 months | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities Available-for-sale** | | | |
| CMOs issued by US Government sponsored agencies | $ 6,857 | $ 509 | $ 6,348 |
| Obligations of Puerto Rico Government and political subdivisions | 20,587 | 539 | 20,048 |
| GNMA certificates | 83 | 7 | 76 |
| FNMA and FHLMC certificates | 67 | 1 | 66 |
| | **$ 27,594** | **$ 1,056** | **$ 26,538** |

| | | TOTAL | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities Available-for-sale** | | | |
| Obligations of Puerto Rico Government and political subdivisions | $ 22,279 | $ 573 | $ 21,706 |
| CMOs issued by US Government sponsored agencies | 9,008 | 685 | 8,323 |
| FNMA and FHLMC certificates | 67 | 1 | 66 |
| GNMA certificates | 83 | 7 | 76 |
| | **$ 31,437** | **$ 1,266** | **$ 30,171** |

**OFG BANCORP**

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

| | December 31, 2012 12 months or more | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities Available-for-sale** | | | |
| Obligations of Puerto Rico Government and political subdivisions | $ 1,673 | $ 12 | $ 1,661 |
| CMOs issued by US Government sponsored agencies | 2,194 | 178 | 2,016 |
| | **$ 3,867** | **$ 190** | **$ 3,677** |

| | Less than 12 months | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities Available-for-sale** | | | |
| CMOs issued by US Government sponsored agencies | $ 10,671 | $ 615 | $ 10,056 |
| US Treasury Securities | 11,498 | 2 | 11,496 |
| Obligations of Puerto Rico Government and political subdivisions | 19,086 | 426 | 18,660 |
| GNMA certificates | 84 | 8 | 76 |
| FNMA and FHLMC certificates | 68 | 1 | 67 |
| | **$ 41,407** | **$ 1,052** | **$ 40,355** |

| | TOTAL | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Loss | Fair Value |
| | | (In thousands) | |
| **Securities Available-for-sale** | | | |
| Obligations of Puerto Rico Government and political subdivisions | $ 20,759 | $ 438 | $ 20,321 |
| CMOs issued by US Government sponsored agencies | 12,865 | 793 | 12,072 |
| US Treasury Securities | 11,498 | 2 | 11,496 |
| FNMA and FHLMC certificates | 68 | 1 | 67 |
| GNMA certificates | 84 | 8 | 76 |
| | **$ 45,274** | **$ 1,242** | **$ 44,032** |

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

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

Securities in an unrealized loss position at March 31, 2013 are mainly composed of highly liquid securities that in most cases have a large and efficient secondary market. Valuations are performed on a monthly basis. The Company's management believes that the unrealized losses of such other securities at March 31, 2013 are temporary and are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. At March 31, 2013, the Company does not have the intent to sell these investments in an unrealized loss position.

**OFG BANCORP**

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

## NOTE 4 - LOANS RECEIVABLE

The Company's loan portfolio is composed of covered loans and non-covered loans. The risks of the Eurobank FDIC-assisted acquisition acquired loans are significantly different from those loans not covered under the FDIC loss sharing agreements because of the loss protection provided by the FDIC. Accordingly, the Company presents loans subject to the loss sharing agreements as "covered loans" in the information below and loans that are not subject to FDIC loss sharing agreements as "non-covered loans." Also, loans acquired in the BBVAPR Acquisition are included as non-covered loans in the unaudited consolidated statements of financial condition. Non-covered loans are furthered segregated between originated loans, acquired loans accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium) and acquired loans accounted for under ASC 310-30 (loans acquired with deteriorated credit quality, including those by analogy).

For a summary of the accounting policy related to loans, interest recognition and allowance for loan and lease losses refer to the summary of significant accounting policies included in Note 1 to the unaudited consolidated financial statements.

**OFG BANCORP**

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

The composition of the Company's loan portfolio at March 31, 2013 and December 31, 2012 was as follows:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Loans not covered under shared-loss agreements with FDIC:** | | |
| **Originated loans and leases:** | | |
| Mortgage | $ 792,830 | $ 804,942 |
| Commercial | 450,312 | 353,930 |
| Auto and leasing | 146,689 | 50,720 |
| Consumer | 65,363 | 48,136 |
| | **1,455,194** | **1,257,728** |
| **Acquired loans:** | | |
| **Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)** | | |
| Commercial and industrial | 315,706 | 317,632 |
| Construction and commercial real estate | 19,153 | 20,337 |
| Auto | 417,649 | 457,894 |
| Consumer | 65,388 | 68,878 |
| | **817,896** | **864,741** |
| **Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)** | | |
| Commercial and industrial | 934,843 | 960,502 |
| Construction and commercial real estate | 191,521 | 198,560 |
| Mortgage | 791,537 | 810,235 |
| Auto | 506,613 | 555,510 |
| Consumer | 104,257 | 118,282 |
| | **2,528,771** | **2,643,089** |
| | **4,801,861** | **4,765,558** |
| Deferred loan fees, net | (2,138) | (3,463) |
| **Loans receivable** | **4,799,723** | **4,762,095** |
| Allowance for loan and lease losses on non-covered loans | (42,720) | (39,921) |
| **Loans receivable, net** | **4,757,003** | **4,722,174** |
| Mortgage loans held-for-sale | 77,644 | 64,544 |
| **Total loans not covered under shared-loss agreements with FDIC, net** | **4,834,647** | **4,786,718** |
| **Loans covered under shared-loss agreements with FDIC:** | | |
| Loans secured by 1-4 family residential properties | 129,472 | 128,811 |

| | | | | |
|---|---|---|---|---|
| Construction and development secured by 1-4 family residential properties | | 13,971 | | 15,969 |
| Commercial and other construction | | 278,500 | | 289,070 |
| Leasing | | 2,640 | | 7,088 |
| Consumer | | 8,125 | | 8,493 |
| **Total loans covered under shared-loss agreements with FDIC** | | **432,708** | | **449,431** |
| Allowance for loan and lease losses on covered loans | | (52,974) | | (54,124) |
| **Total loans covered under shared-loss agreements with FDIC, net** | | **379,734** | | **395,307** |
| **Total loans receivable, net** | **$** | **5,214,381** | **$** | **5,182,025** |

**OFG BANCORP**

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

***Non-covered Loans***

Originated Loans and Leases

The Company's originated loan transactions are encompassed within five portfolio segments: mortgage, commercial, consumer, auto and leasing.

The following table presents the aging of the recorded investment in gross originated loans, excluding mortgage loans held for sale, as of March 31, 2013 and December 31, 2012 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

| | March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **30-59 Days Past Due** | **60-89 Days Past Due** | **90+ Days Past Due** | **Total Past Due** | **Current** | **Total Loans** | **Loans 90+ Days Past Due and Still Accruing** |
| | (In thousands) | | | | | | |
| **Mortgage** | | | | | | | |
| Traditional (by origination year): | | | | | | | |
| Up to the year 2002 | $ 9,709 | $ 885 | $ 9,476 | $ 20,070 | $ 75,165 | $ 95,235 | $ - |
| Years 2003 and 2004 | 18,813 | 1,540 | 15,385 | 35,738 | 109,645 | 145,383 | - |
| Year 2005 | 7,391 | 892 | 7,131 | 15,414 | 62,735 | 78,149 | - |
| Year 2006 | 12,774 | 2,125 | 13,086 | 27,985 | 82,302 | 110,287 | - |
| Years 2007, 2008 | 7,090 | 569 | 7,945 | 15,604 | 102,495 | 118,099 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| and 2009 | | | | | | | |
| Years 2010, 2011, 2012 | 674 | 734 | 946 | 2,354 | 76,534 | 78,888 | - |
| and 2013 | | | | | | | |
| | 56,451 | 6,745 | 53,969 | 117,165 | 508,876 | 626,041 | - |
| Non-traditional | 3,219 | 186 | 8,968 | 12,373 | 43,375 | 55,748 | - |
| Loss mitigation program | 18,476 | 2,070 | 18,261 | 38,807 | 51,295 | 90,102 | |
| | 78,146 | 9,001 | 81,198 | 168,345 | 603,546 | 771,891 | - |
| Home equity secured personal loans | - | - | 12 | 12 | 737 | 749 | - |
| GNMA's buy-back option program | - | - | 20,190 | 20,190 | - | 20,190 | - |
| | **78,146** | **9,001** | **101,400** | **188,547** | **604,283** | **792,830** | **-** |
| **Commercial** | | | | | | | |
| Commercial secured by real estate | 2,675 | 825 | 21,126 | 24,626 | 286,409 | 311,035 | - |
| Other commercial and industrial | 546 | 23 | 2,519 | 3,088 | 136,189 | 139,277 | - |
| | **3,221** | **848** | **23,645** | **27,714** | **422,598** | **450,312** | **-** |
| **Consumer** | **475** | **205** | **341** | **1,021** | **64,342** | **65,363** | **-** |
| **Auto and leasing** | **3,008** | **305** | **72** | **3,385** | **143,304** | **146,689** | **-** |
| **Total non-covered originated loans** | **$ 84,850** | **$ 10,359** | **$ 125,458** | **$ 220,667** | **$ 1,234,527** | **$ 1,455,194** | **$ -** |

21

**OFG BANCORP**

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

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **30-59 Days Past Due** | **60-89 Days Past Due** | **90+ Days Past Due** | **Total Past Due** | **Current** | **Total Loans** | **Loans 90+ Days Past Due and Still Accruing** |
| | | | | **(In thousands)** | | | |
| **Mortgage** | | | | | | | |
| Traditional (by origination year): | | | | | | | |
| Up to the year 2002 | $ 6,906 | $ 2,116 | $ 11,363 | $ 20,385 | $ 80,883 | $ 101,268 | $ - |
| Years 2003 and 2004 | 12,048 | 5,206 | 18,162 | 35,416 | 114,446 | 149,862 | - |
| Year 2005 | 4,983 | 1,746 | 8,860 | 15,589 | 65,312 | 80,901 | - |
| Year 2006 | 9,153 | 3,525 | 15,363 | 28,041 | 85,045 | 113,086 | - |
| Years 2007, 2008 and 2009 | 2,632 | 1,682 | 8,965 | 13,279 | 108,358 | 121,637 | - |
| Years 2010, 2011 and 2012 and 2012 | 632 | 769 | 1,162 | 2,563 | 64,084 | 66,647 | - |
| | 36,354 | 15,044 | 63,875 | 115,273 | 518,128 | 633,401 | - |
| Non-traditional | 2,850 | 1,067 | 11,160 | 15,077 | 42,742 | 57,819 | - |
| Loss mitigation program | 8,933 | 4,649 | 19,989 | 33,571 | 53,739 | 87,310 | |
| | 48,137 | 20,760 | 95,024 | 163,921 | 614,609 | 778,530 | - |
| Home equity secured personal loans | - | - | 10 | 10 | 726 | 736 | - |
| GNMA's buy-back option program | - | - | 25,676 | 25,676 | - | 25,676 | - |
| | **48,137** | **20,760** | **120,710** | **189,607** | **615,335** | **804,942** | **-** |
| **Commercial** | | | | | | | |
| | 9,062 | 271 | 15,335 | 24,668 | 226,606 | 251,274 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Commercial secured by real estate | | | | | | | |
| Other commercial and industrial | 345 | 189 | 2,378 | 2,912 | 99,744 | 102,656 | - |
| | **9,407** | **460** | **17,713** | **27,580** | **326,350** | **353,930** | **-** |
| **Consumer** | **747** | **92** | **409** | **1,248** | **46,888** | **48,136** | - |
| **Auto and leasing** | **251** | **129** | **131** | **511** | **50,209** | **50,720** | **-** |
| **Total non-covered originated loans** | **$ 58,542** | **$ 21,441** | **$ 138,963** | **$ 218,946** | **$ 1,038,782** | **$ 1,257,728** | **$ -** |

22

**OFG BANCORP**

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

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

Credit cards, retail and commercial lines of credits, floor plans and performing auto loans with FICO scores over 660 acquired at a premium as part of the BBVAPR Acquisition are to be accounted for under the guidance of ASC 310-20, which requires that any contractually required loan payment receivable in excess of the Company's initial investment in the loans be accreted into interest income on a level-yield basis over the life of the loan. Loans accounted for under ASC 310-20 are placed on non-accrual status when past due in accordance with the Company's non-accrual policy, and any accretion of discount or amortization of premium is discontinued.

The following table presents the aging of the recorded investment in gross acquired loans accounted for under ASC 310-20 as of March 31, 2013 and December 31, 2012 by class of loans:

| | March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | Total Past Due | Current | Total Loans | Loans 90+ Days Past Due and Still Accruing |
| | (In thousands) | | | | | | |
| Commercial lines of credits | $ 1,211 | $ 34 | $ 153 | $ 1,398 | $ 314,308 | $ 315,706 | $ - |
| Commercial real estate | - | - | - | - | 19,153 | 19,153 | - |
| Auto | 7,096 | 1,304 | 572 | 8,972 | 408,677 | 417,649 | - |
| Consumer lines of credit and credit cards | 650 | - | 1,002 | 1,652 | 63,736 | 65,388 | - |
| **Total acquired loans accounted for under ASC 310-20** | **$ 8,957** | **$ 1,338** | **$ 1,727** | **$ 12,022** | **$ 805,874** | **$ 817,896** | **$ -** |

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | Total Past Due | Current | Total Loans | Loans 90+ Days Past Due and Still Accruing |
| | (In thousands) | | | | | | |
| Commercial lines of credits | $ 715 | $ 76 | $ 193 | $ 984 | $ 316,648 | $ 317,632 | $ - |
| Commercial real estate | 315 | - | - | 315 | 20,022 | 20,337 | - |
| Auto | 6,753 | 1,023 | 275 | 8,051 | 449,843 | 457,894 | - |
| Consumer lines of credit and credit cards | 982 | - | 1,095 | 2,077 | 66,801 | 68,878 | - |
| **Total acquired loans accounted for under ASC 310-20** | **$ 8,765** | **$ 1,099** | **$ 1,563** | **$ 11,427** | **$ 853,314** | **$ 864,741** | **$ -** |

23

**OFG BANCORP**

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

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

Loans acquired as part of the BBVAPR Acquisition, except for credit cards, retail and commercial lines of credits, floor plans and performing auto loans with FICO scores over 660 acquired at a premium, are accounted for by the Company in accordance with ASC 310-30.

The carrying amount corresponding to non-covered loans acquired with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, and covered loans in the statement of financial condition at March 31, 2013 and December 31, 2012 is as follows:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Contractual required payments receivable | $ 3,770,439 | $ 3,941,171 |
| Less: Non-accretable discount | 733,564 | 742,310 |
| Cash expected to be collected | 3,036,875 | 3,198,861 |
| Less: Accretable yield | 508,104 | 555,772 |
| Carrying amount | $ 2,528,771 | $ 2,643,089 |

The following tables describe the accretable yield and non-accretable discount activity of acquired loans accounted for under ASC 310-30 for the quarter ended March 31, 2013, excluding covered loans:

| | Quarter Ended March 31, 2013 (In thousands) | |
|---|---|---|
| **Accretable Yield Activity** | | |
| Balance at beginning of period | $ | 555,772 |
| Accretion | | (47,668) |
| Transfer from non-accretable discount | | - |
| **Balance at end of period** | **$** | **508,104** |

| | Quarter Ended March 31, 2013 (In thousands) | |
|---|---|---|
| **Non-Accretable Discount Activity** | | |
| Balance at beginning of period | $ | 742,310 |

| | | |
|---|---|---|
| Principal losses | | (8,746) |
| Transfer to accretable yield | | - |
| **Balance at end of period** | **$** | **733,564** |

**OFG BANCORP**

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

*Covered Loans*

The carrying amount of covered loans included in the consolidated statements of financial condition at March 31, 2013 and December 31, 2012 are as follows:

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | (In thousands) | | | |
| Contractual required payments receivable | $ | 821,051 | $ | 874,994 |
| Less: Non-accretable discount | | 214,236 | | 237,555 |
| Cash expected to be collected | | 606,815 | | 637,439 |
| Less: Accretable yield | | 174,107 | | 188,008 |
| Carrying amount, gross | | 432,708 | | 449,431 |
| Less: Allowance for covered loan and lease losses | | 52,974 | | 54,124 |
| **Carrying amount, net** | **$** | **379,734** | **$** | **395,307** |

The following tables describe the accretable yield and non-accretable discount activity of covered loans for the quarters ended March 31, 2013 and 2012:

| | Quarter Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | (In thousands) | | | |
| **Accretable yield activity** | | | | |
| Balance at beginning of period | $ | 188,008 | $ | 188,822 |
| Accretion | | (20,229) | | (21,541) |
| Transfer from non-accretable discount | | 6,328 | | 7,597 |
| **Balance at end of period** | **$** | **174,107** | **$** | **174,878** |

| | Quarter Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | (In thousands) | | | |
| **Non-accretable discount activity** | | | | |
| Balance at beginning of period | $ | 237,555 | $ | 412,170 |
| Principal losses | | (16,991) | | (24,793) |
| Transfer to accretable yield | | (6,328) | | (7,597) |
| **Balance at end of period** | **$** | **214,236** | **$** | **379,780** |

**OFG BANCORP**

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

*Non-accrual Loans*

The following table presents the recorded investment in loans in non-accrual status by class of loans as of March 31, 2013 and December 31, 2012:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Originated loans** | | |
| **Mortgage** | | |
| Traditional (by origination year): | | |
| Up to the year 2002 | $ 9,476 | $ 11,362 |
| Years 2003 and 2004 | 15,434 | 18,162 |
| Year 2005 | 7,131 | 8,859 |
| Year 2006 | 13,086 | 15,363 |
| Years 2007, 2008 and 2009 | 8,057 | 8,967 |
| Years 2010, 2011, 2012 and 2013 | 946 | 1,162 |
| | 54,130 | 63,875 |
| Non-traditional | 8,968 | 11,160 |
| Loss mitigation program | 36,000 | 39,957 |
| | 99,098 | 114,992 |
| Home equity secured personal loans | 12 | 10 |
| | **99,110** | **115,002** |
| **Commercial** | | |
| Commercial secured by real estate | 27,190 | 26,517 |
| Other commercial and industrial | 3,566 | 2,989 |
| | **30,756** | **29,506** |
| **Consumer** | **371** | **442** |
| **Auto and leasing** | **219** | **131** |
| **Acquired loans accounted under ASC 310-20** | | |
| Commercial lines of credit | 153 | 193 |
| Auto | 605 | 275 |
| Consumer lines of credit and credit cards | 1,001 | 1,095 |

| | | | | |
|---|---|---|---|---|
| | | **1,759** | | **1,563** |
| **Total non-accrual loans** | **$** | **132,215** | **$** | **146,644** |

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

At March 31, 2013 and December 31, 2012, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-accrual loans amounted to $48.3 million and $52.0 million, respectively.

**OFG BANCORP**

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

## NOTE 5 - ALLOWANCE FOR LOAN AND LEASE LOSSES

***Non-Covered Loans***

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors. While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Company's control.

We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition.

The following table presents the activity in our allowance for loan and lease losses on loans and related recorded investment of the associated loans in our originated loan portfolio by segment for the period indicated:

| | Quarter Ended March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Mortgage** | **Commercial** | **Consumer** | **Auto and Leasing** | **Unallocated** | **Total** |
| | | | (In thousands) | | | |
| **Allowance for loan and lease losses for non-covered originated loans:** | | | | | | |
| **Balance at beginning of period** | $ 21,092 | $ 17,072 | $ 856 | $ 533 | $ 368 | $ 39,921 |
| Charge-offs | (2,588) | (557) | | | | |