

OFG BANCORP
Form 10-Q
November 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

ITEM 1. *FINANCIAL STATEMENTS*

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2014 AND DECEMBER 31, 2013

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

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

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

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UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

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

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

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UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

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

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

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

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

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

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

Recent Accounting Developments

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

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

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

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

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

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

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

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

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

NOTE 3 – INVESTMENT SECURITIES*Money Market Investments*

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

Securities Purchased Under Agreements to Resell

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

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

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Most of the investment (\$479.0 million or 96%) with an unrealized loss position at September 30, 2014 consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

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

As of September 30, 2014, the Company applied a discounted cash flow analysis to the Puerto Rico government bonds to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of these investments was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investments, and included the following components:

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

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

The discounted cash flow analysis for the investments showed at maturity in the range of 2.509% to 15.340%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 84.660% and 97.491%). Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in the Puerto Rico government bonds and is therefore not required to recognize a credit loss as of September 30, 2014.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

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

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

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Acquired loans that are part of the non-covered portfolio, except for credit cards, retail and commercial revolving lines of credits, floor plans and performing auto loans with FICO scores over 660 acquired at a premium, are accounted for by the Company in accordance with ASC 310-30.

The carrying amount corresponding to non-covered loans acquired with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at September 30, 2014 and December 31, 2013 is as follows:

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

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

At September 30, 2014 and December 31, 2013, the Company had \$168.7 million and \$180.5 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its non-covered acquired loans accounted for under ASC 310-30. This entire amount was current at September 30, 2014.

The following tables describe the accretable yield and non-accretable discount activity of acquired loans accounted for under ASC 310-30 for the quarters and nine-month periods ended September 30, 2014 and 2013, excluding covered loans:

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

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

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

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

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

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Delinquent residential mortgage loans insured or guaranteed under applicable FHA and VA programs are placed in non-accrual when they become 18 months or more past due, since they are insured loans.

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

The Company evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans was \$226.8 million and \$28.4 million at September 30, 2014 and December 31, 2013, respectively. Impaired commercial loans at September 30, 2014 included the PREPA line of credit with an unpaid principal balance of \$200.0 million. The impaired commercial loans were measured based on the fair value of collateral or the present value of cash flows, including those identified as troubled-debt restructurings. The valuation allowance for impaired commercial loans amounted to \$1.1 million and \$1.4 million at September 30, 2014 and December 31, 2013, respectively. The total investment in impaired mortgage loans was \$91.7 million and \$84.5 million at September 30, 2014 and December 31, 2013, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to approximately \$7.9 million and \$8.7 million at September 30, 2014 and December 31, 2013, respectively.

Originated and Other Loans and Leases Held for Investment

The Company's recorded investment in non-covered commercial and mortgage loans categorized as originated and other loans and leases held for investment that were individually evaluated for impairment and the related allowance for loan and lease losses at September 30, 2014 and December 31, 2013 are as follows:

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company's recorded investment in non-covered commercial loans categorized as non-covered acquired loans accounted for under ASC 310-20 that were individually evaluated for impairment and the related allowance for loan and lease losses at September 30, 2014 and December 31, 2013 are as follows:

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

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

The Company's recorded investment in non-covered acquired loan pools accounted for under ASC 310-30 and their related allowance for non-covered loan and lease losses at September 30, 2014 and December 31, 2013 are as follows:

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The following table presents the interest recognized in non-covered commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30, for the quarters and nine-month periods ended September 30, 2014 and 2013:

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

The Company's recorded investment in covered loan pools that have recorded impairments and their related allowance for covered loan and lease losses as of September 30, 2014 and December 31, 2013 are as follows:

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

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

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

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	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
(Dollars in thousands)							
Mortgage	102	\$ 12,828	6.43%	334	\$ 13,685	5.15%	
Commercial	2	1,842	8.99%	87	1,842	4.00%	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of September 30, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of gross non-covered originated and other loans and acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of September 30, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of non-covered gross originated and other loans and acquired loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

Non-Covered Loans

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors. While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Company's control. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. Same analysis was performed for the commercial portfolio during the quarter ended June 30, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months for auto and leasing and consumer. For the commercial portfolio, a look back period of 12 months was maintained. In addition, during the quarter ended June 30, 2014, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration the current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others. These changes in the allowance for loan and

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

lease losses' look-back period for the consumer and auto and leasing portfolios, and economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

Originated and Other Loans and Leases Held for Investment

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

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

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

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

Total ending loan balance	\$ 791,106		\$ 1,217,235		\$ 175,882		\$ 542,892		\$ -		\$ 2,727,115
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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2013											
	Mortgage		Commercial		Consumer		Auto and Leasing		Unallocated		Total	
	(In thousands)											
Allowance for loan and lease losses for non-covered originated and other loans:												
Balance at beginning of period	\$	21,375	\$	17,624	\$	2,341	\$	3,641	\$	720	\$	45,701
Charge-offs		(1,758)		(2,234)		(465)		(1,305)		-		(5,762)
Recoveries		-		28		37		639		-		704
Provision for non-covered originated and other loan and lease losses		1,374		(703)		2,915		3,143		201		6,930
Balance at end of period	\$	20,991	\$	14,715	\$	4,828	\$	6,118	\$	921	\$	47,573
	Nine-Month Period Ended September 30, 2013											
	Mortgage		Commercial		Consumer		Auto and Leasing		Unallocated		Total	
	(In thousands)											
Allowance for loan and lease losses for non-covered originated and other loans:												
Balance at beginning of period	\$	21,092	\$	17,072	\$	856	\$	533	\$	368	\$	39,921
Charge-offs		(33,465)		(5,678)		(1,034)		(2,105)		-		(42,282)
Recoveries		-		291		143		855		-		1,289
Provision for non-covered originated and other loan and lease		33,364		3,030		4,863		6,835		553		48,645

losses														
Balance at end of period	\$	20,991	\$	14,715	\$	4,828	\$	6,118	\$	921	\$	47,573		

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

for non-covered acquired loans															
accounted for under ASC 310-20:															
Balance at beginning of period	\$	926	\$	-	\$	1,428	\$	-	\$	2,354					
Charge-offs		(512)		(5,442)		(4,414)		-		(10,368)					
Recoveries		65		363		1,504		-		1,932					
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		(209)		6,110		4,641		-		10,542					
Balance at end of period	\$	270	\$	1,031	\$	3,159	\$	-	\$	4,460					

	September 30, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
	(In thousands)									
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:										
Ending allowance balance attributable to loans:										
Collectively evaluated for impairment		270		1,031		3,159		-		4,460
Total ending allowance balance	\$	270	\$	1,031	\$	3,159	\$	-	\$	4,460
Loans:										
Collectively evaluated for impairment		26,984		47,284		210,808		-		285,076
Total ending loan balance	\$	26,984	\$	47,284	\$	210,808	\$	-	\$	285,076

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Quarter Ended September 30, 2014											
	Mortgage		Commercial		Construction		Consumer		Auto		Total	
	(In thousands)											
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:												
Balance at beginning of period	\$	-	\$	6,216	\$	-	\$	62	\$	-	\$	6,278
Provision(recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-30		-		3,899		-		(57)		-		3,842
Balance at end of period	\$	-	\$	10,115	\$	-	\$	5	\$	-	\$	10,120
	Nine-Month Period Ended September 30, 2014											
	Mortgage		Commercial		Construction		Consumer		Auto		Total	
	(In thousands)											
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:												
Balance at beginning of period	\$	-	\$	1,713	\$	-	\$	418	\$	732	\$	2,863
Provision (recapture) for non-covered acquired		-		8,402		-		(413)		(732)		7,257

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

For covered loans, as part of the evaluation of actual versus expected cash flows, the Company assesses on a quarterly basis the credit quality of these loans based on delinquency, severity factors and risk ratings, among other assumptions. Migration and credit quality trends are assessed at the pool level, by comparing information from the latest evaluation period through the end of the reporting period.

The changes in the allowance for loan and lease losses on covered loans for the quarters and nine-month periods ended September 30, 2014 and 2013 were as follows:

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

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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

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

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

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

Also in connection with the FDIC assisted acquisition, the Bank agreed to make a true-up payment, also known as clawback liability or clawback provision, to the FDIC on the date that is 45 days following the last day (such day, the “True-Up Measurement Date”) of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of \$906.0 million (or \$181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or \$227.5 million); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of \$21.1 million and \$18.5 million, net of discount, as of September 30, 2014 and December 31, 2013, respectively. The estimated liability is included within accrued expenses and other liabilities in the unaudited consolidated statements of financial condition.

The true-up payment obligation, also known as clawback liability, may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value. During the quarter and nine-month period ended September 30, 2014, the fair value of the true-up payment obligation increased by \$875 thousand and \$2.6 million, respectively, compared to increases of \$767 thousand and \$2.2 million for the same periods in 2013. These changes in fair value are included as change in true-up payment obligation within FDIC shared-loss expense, net in the unaudited consolidated statements of operations.

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

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

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7 — DERIVATIVES

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

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

Interest Rate Swaps

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Options Tied to Standard & Poor's 500 Stock Market Index

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

Interest rate caps

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

NOTE 8 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

NOTE 9— DEPOSITS AND RELATED INTEREST

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

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

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

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

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

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

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

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 10 — BORROWINGS

Securities Sold under Agreements to Repurchase

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

Advances from the Federal Home Loan Bank of New York

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

			Weighted-		
		Borrowing	Average		Maturity
Year of Maturity		Balance	Coupon	Settlement Date	Date
		(In thousands)			
2014	\$	25,000	0.36%	9/4/2014	10/6/2014
		50,000	0.37%	9/10/2014	10/10/2014
		100,000	0.36%	9/16/2014	10/16/2014
		25,000	0.32%	9/24/2014	10/24/2014
		25,000	0.30%	9/30/2014	10/30/2014
		39,641	0.37%	9/2/2014	10/1/2014
		264,641			
2017		4,558	1.24%	4/3/2012	