OFG BANCORP
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

Large Accelerated Filer Accelerated Filer ý Non-Accelerated Filer Smaller Reporting Company

(Do not check if a smaller reporting company)

Emerging Growth Company

If an Emerging Growth Company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

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

43,947,442 common shares ($1.00 par value per share) outstanding as of July 31, 2017

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FORWARD-LOOKING STATEMENTS

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

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

- additional credit defaults or a restructuring by the Commonwealth of Puerto Rico or any of its agencies, municipalities or instrumentalities;
- possible legislative, tax or regulatory changes;
- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in

Puerto Rico;

- competition in the financial services industry;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in interest rates, as well as the magnitude of such changes;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the industry regulations on the Company's businesses, business practices and cost of operations;
- the performance of the securities markets; and
- additional Federal Deposit Insurance Corporation ("FDIC") assessments.

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

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

ITEM 1. *FINANCIAL STATEMENTS*

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2017 AND DECEMBER 31, 2016

		June 30, 2017		December 31, 2016
		(In thousands)		
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$	470,841	$	504,833
Money market investments		6,467		5,606
Total cash and cash equivalents		**477,308**		**510,439**
Restricted cash		3,030		3,030
Investments:				
Trading securities, at fair value, with amortized cost of $667 (December 31, 2016 - $667)		294		347
Investment securities available-for-sale, at fair value, with amortized cost of $649,280 (December 31, 2016 - $749,867)		649,327		751,484
Investment securities held-to-maturity, at amortized cost, with fair value of $549,595 (December 31, 2016 - $592,763)		555,407		599,884
Federal Home Loan Bank (FHLB) stock, at cost		16,616		10,793
Other investments		3		3
Total investments		**1,221,647**		**1,362,511**
Loans:				
Loans held-for-sale, at lower of cost or fair value		47,691		12,499
Loans held for investment, net of allowance for loan and lease losses of $132,295 (December 31, 2016 - $115,937)		4,044,175		4,135,193
Total loans		**4,091,866**		**4,147,692**
Other assets:				
FDIC indemnification asset		-		14,411
Foreclosed real estate		50,223		47,520
Accrued interest receivable		19,798		20,227
Deferred tax asset, net		116,199		124,200
Premises and equipment, net		69,836		70,407
Customers' liability on acceptances		22,739		23,765
Servicing assets		9,866		9,858
Derivative assets		957		1,330
Goodwill		86,069		86,069
Other assets		66,288		80,365
Total assets	$	**6,235,826**	$	**6,501,824**

See notes to unaudited financial statements

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2017 AND DECEMBER 31, 2016 (CONTINUED)

		June 30, 2017		December 31, 2016
		(In thousands)		
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Demand deposits	$	1,844,996	$	1,939,764
Savings accounts		1,169,002		1,196,232
Time deposits		1,568,688		1,528,491
Total deposits		**4,582,686**		**4,664,487**
Borrowings:				
Securities sold under agreements to repurchase		453,492		653,756
Advances from FHLB		137,540		105,454
Subordinated capital notes		36,083		36,083
Other borrowings		177		61
Total borrowings		**627,292**		**795,354**
Other liabilities:				
Derivative liabilities		1,881		2,437
Acceptances executed and outstanding		22,739		23,765
Accrued expenses and other liabilities		62,259		95,370
Total liabilities		**5,296,857**		**5,581,413**
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, 2016 - 1,340,000 shares; 1,380,000 shares; and 960,000 shares) $25 liquidation value		92,000		92,000
84,000 shares of Series C issued and outstanding (December 31, 2016 - 84,000 shares); $1,000 liquidation value		84,000		84,000
Common stock, $1 par value; 100,000,000 shares authorized; 52,625,869 shares issued: 43,947,442 shares outstanding (December 31, 2016 - 52,625,869; 43,914,844)		52,626		52,626
Additional paid-in capital		541,005		540,948

Legal surplus		79,460		76,293
Retained earnings		194,687		177,808
Treasury stock, at cost, 8,678,427 shares (December 31, 2016 - 8,711,025 shares)		(104,502)		(104,860)
Accumulated other comprehensive (loss) income, net of tax of $569 (December 31, 2016 $983)		(307)		1,596
Total stockholders' equity		**938,969**		**920,411**
Total liabilities and stockholders' equity	$	**6,235,826**	$	**6,501,824**

See notes to unaudited financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Interest income:				
Loans	$ 77,238	$ 79,675	$ 154,888	$ 160,827
Mortgage-backed securities	7,276	7,220	14,482	16,217
Investment securities and other	1,426	1,013	2,748	2,170
Total interest income	**85,940**	**87,908**	**172,118**	**179,214**
Interest expense:				
Deposits	7,652	7,367	15,005	14,491
Securities sold under agreements to repurchase	1,734	4,258	4,979	10,358
Advances from FHLB and other borrowings	607	2,098	1,202	4,337
Subordinated capital notes	384	873	751	1,741
Total interest expense	**10,377**	**14,596**	**21,937**	**30,927**
Net interest income	**75,563**	**73,312**	**150,181**	**148,287**
Provision for loan and lease losses, net	26,536	14,445	44,190	28,234
Net interest income after provision for loan and lease losses	**49,027**	**58,867**	**105,991**	**120,053**
Non-interest income:				
Banking service revenue	10,458	10,219	21,084	20,337
Wealth management revenue	6,516	7,041	12,731	13,193
Mortgage banking activities	959	1,024	1,546	1,879
Total banking and financial service revenues	**17,933**	**18,284**	**35,361**	**35,409**
FDIC shared-loss benefit (expense), net	-	(3,420)	1,403	(7,449)
Net gain (loss) on:				
Sale of securities	6,891	211	6,891	12,207
Derivatives	22	(10)	103	(13)
Early extinguishment of debt	(80)	-	(80)	(12,000)
Other non-interest income	120	90	282	504
Total non-interest income, net	**24,886**	**15,155**	**43,960**	**28,658**

See notes to unaudited financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016 (CONTINUED)

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Non-interest expense:				
Compensation and employee benefits	19,317	18,441	39,664	38,696
Professional and service fees	3,225	2,810	6,462	5,795
Occupancy and equipment	8,690	8,107	16,057	15,929
Insurance	1,183	3,155	2,783	6,305
Electronic banking charges	5,450	4,947	10,352	10,536
Information technology expenses	2,069	1,606	4,068	3,262
Advertising, business promotion, and strategic initiatives	1,361	1,294	2,722	2,588
Loss on sale of foreclosed real estate and other repossessed assets	1,787	4,163	3,113	6,094
Loan servicing and clearing expenses	1,270	1,966	2,459	4,096
Taxes, other than payroll and income taxes	2,393	2,330	4,764	5,001
Communication	761	581	1,506	1,400
Printing, postage, stationary and supplies	665	600	1,303	1,325
Director and investor relations	274	301	554	579
Credit related expenses	2,217	2,203	4,843	4,458
Other	2,154	1,321	3,850	2,618
Total non-interest expense	**52,816**	**53,825**	**104,500**	**108,682**
Income before income taxes	**21,097**	**20,197**	**45,451**	**40,029**
Income tax expense	3,993	5,858	13,197	11,519
Net income	**17,104**	**14,339**	**32,254**	**28,510**
Less: dividends on preferred stock	(3,466)	(3,466)	(6,931)	(6,931)
Income available to common shareholders	**$ 13,638**	**$ 10,873**	**$ 25,323**	**$ 21,579**
Earnings per common share:				
Basic	**$ 0.30**	**$ 0.25**	**$ 0.58**	**$ 0.49**
Diluted	**$ 0.30**	**$ 0.25**	**$ 0.57**	**$ 0.49**
Average common shares outstanding and equivalents	**51,100**	**51,095**	**51,093**	**51,081**
Cash dividends per share of common stock	**$ 0.06**	**$ 0.06**	**$ 0.12**	**$ 0.12**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income	**$ 17,104**	**$ 14,339**	**$ 32,254**	**$ 28,510**
Other comprehensive (loss) income before tax:				
Unrealized gain on securities available-for-sale	3,454	3,719	5,319	12,364
Realized gain on investment securities included in net income	(6,891)	(211)	(6,891)	(12,207)
Unrealized (loss) gain on cash flow hedges	(102)	663	81	652
Other comprehensive (loss) income before taxes	**(3,539)**	**4,171**	**(1,491)**	**809**
Income tax effect	(116)	(650)	(412)	999
Other comprehensive (loss) income after taxes	**(3,655)**	**3,521**	**(1,903)**	**1,808**
Comprehensive income	**$ 13,449**	**$ 17,860**	**$ 30,351**	**$ 30,318**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES

IN STOCKHOLDERS' EQUITY

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Six-Month Period Ended June 30,			
	2017		2016	
	(In thousands)			
Preferred stock:				
Balance at beginning of period	$	176,000	$	176,000
Balance at end of period		**176,000**		**176,000**
Common stock:				
Balance at beginning of period		52,626		52,626
Balance at end of period		**52,626**		**52,626**
Additional paid-in capital:				
Balance at beginning of period		540,948		540,512
Stock-based compensation expense		515		698
Stock-based compensation excess tax benefit recognized in income		(100)		-
Lapsed restricted stock units		(358)		(505)
Balance at end of period		**541,005**		**540,705**
Legal surplus:				
Balance at beginning of period		76,293		70,435
Transfer from retained earnings		3,167		2,830
Balance at end of period		**79,460**		**73,265**
Retained earnings:				
Balance at beginning of period		177,808		148,886
Net income		32,254		28,510
Cash dividends declared on common stock		(5,277)		(5,272)
Cash dividends declared on preferred stock		(6,931)		(6,931)
Transfer to legal surplus		(3,167)		(2,830)
Balance at end of period		**194,687**		**162,363**
Treasury stock:				
Balance at beginning of period		(104,860)		(105,379)
Lapsed restricted stock units		358		505
Balance at end of period		**(104,502)**		**(104,874)**
Accumulated other comprehensive (loss) income, net of tax:				
Balance at beginning of period		1,596		13,997
Other comprehensive (loss) income, net of tax		(1,903)		1,808
Balance at end of period		**(307)**		**15,805**
Total stockholders' equity	**$**	**938,969**	**$**	**915,890**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Six-Month Period Ended June 30,	
	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	$ **32,254**	$ **28,510**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan origination fees, net of costs	1,455	1,977
Amortization of fair value premiums, net of discounts, on acquired loans	2	39
Amortization of investment securities premiums, net of accretion of discounts	4,362	4,356
Amortization of core deposit and customer relationship intangibles	737	839
Amortization of fair value premiums on acquired deposits	-	189
FDIC shared-loss (benefit) expense, net	(1,403)	7,449
Depreciation and amortization of premises and equipment	4,231	5,025
Deferred income tax expense, net	7,570	3,543
Provision for loan and lease losses, net	44,190	28,234
Stock-based compensation	515	698
Stock-based compensation excess tax benefit recognized in income	(100)	-
(Gain) loss on:		
Sale of securities	(6,891)	(12,207)
Sale of mortgage loans held-for-sale	(517)	(809)
Derivatives	(103)	88
Early extinguishment of debt	80	12,000
Foreclosed real estate	3,453	7,287
Sale of other repossessed assets	(153)	(1,235)
Sale of premises and equipment	-	13
Originations of loans held-for-sale	(74,806)	(90,052)
Proceeds from sale of mortgage loans held-for-sale	24,020	32,212
Net (increase) decrease in:		
Trading securities	53	(60)
Accrued interest receivable	429	628
Servicing assets	(8)	(477)
Other assets	12,493	(4,872)
Net increase (decrease) in:		
Accrued interest on deposits and borrowings	(370)	(373)
Accrued expenses and other liabilities	(45,858)	8,253
Net cash provided by operating activities	**5,635**	**31,255**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016 (CONTINUED)

	Six-Month Period Ended June 30,	
	2017	2016
	(In thousands)	
Cash flows from investing activities:		
Purchases of:		
Investment securities available-for-sale	(114,595)	(302)
Investment securities held-to-maturity	-	(51,717)
FHLB stock	(26,730)	(8,512)
Maturities and redemptions of:		
Investment securities available-for-sale	57,714	74,208
Investment securities held-to-maturity	41,920	34,304
FHLB stock	20,907	9,457
Proceeds from sales of:		
Investment securities available-for-sale	212,203	300,483
Foreclosed real estate and other repossessed assets, including write-offs	21,754	25,779
Proceeds from sale of loans held-for-sale	-	478
Premises and equipment	-	44
Origination and purchase of loans, excluding loans held-for-sale	(384,211)	(373,927)
Principal repayment of loans, including covered loans	367,834	386,477
(Repayments to) reimbursements from the FDIC on shared-loss agreements, net	(10,125)	738
Additions to premises and equipment	(3,660)	(3,077)
Net change in restricted cash	-	319
Net cash provided by investing activities	**183,011**	**394,752**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016 – (CONTINUED)

	Six-Month Period Ended June 30,			
	2017		2016	
	(In thousands)			
Cash flows from financing activities:				
Net increase (decrease) in:				
Deposits		(41,900)		(87,864)
Securities sold under agreements to repurchase		(199,466)		(320,000)
FHLB advances, federal funds purchased, and other borrowings		32,194		(25,951)
Subordinated capital notes		-		350
Dividends paid on preferred stock		(6,931)		(6,931)
Dividends paid on common stock		(5,674)		(5,272)
Net cash used in financing activities	**$**	**(221,777)**	**$**	**(445,668)**
Net change in cash and cash equivalents		**(33,131)**		**(19,661)**
Cash and cash equivalents at beginning of period		510,439		536,709
Cash and cash equivalents at end of period	**$**	**477,308**	**$**	**517,048**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:				
Interest paid	$	21,386	$	30,454
Income taxes paid	$	15	$	3,642
Mortgage loans securitized into mortgage-backed securities	$	49,648	$	53,872
Transfer from loans to foreclosed real estate and other repossessed assets	$	28,293	$	21,865
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	33,647	$	-
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	112	$	182

See notes to unaudited consolidated financial statements

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

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

On April 30, 2010, the Bank acquired certain assets and assumed certain deposits and other liabilities of Eurobank, a Puerto Rico commercial bank, in an FDIC-assisted acquisition. On February 6, 2017, the Bank and the FDIC agreed to terminate the shared-loss agreements related to the Eurobank 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

Scope of Modification Accounting. In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-09 that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU No. 2017-08 is effective for fiscal years, and interim periods, beginning after December 15, 2018, with early adoption permitted. The Company's Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, and dividend equivalents, as well as equity-based performance awards. If any change occurs in the future to the Omnibus Plan, the Company will evaluate it under this guideline.

Premium Amortization on Purchased Callable Debt Securities Receivables. In March 2017, the FASB issued ASU No. 2017-08, which requires the amortization of the premium on callable debt securities to the earliest call date. The amortization period for callable debt securities purchased at a discount would not be impacted by the ASU. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2018. The ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations. At June 30, 2017, the Company does not have callable debt securities.

Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force). In February 2017, the FASB issued ASU No. 2017-06, which intended to reduce diversity and improve the usefulness of information provided by employee benefit plans that hold interests in master trusts. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2018. The ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued ASU No. 2017-04, which simplifies the measurement of goodwill impairment. An entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2019. We are currently assessing the impact that the adoption of ASU 2017-04 will have on our consolidated financial statements and related disclosures.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Restricted Cash. In November 2016, the FASB issued ASU No. 2016-18, which amends Topic 230 (Statement of Cash Flows) and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is intended to reduce diversity in practice in how restricted cash or restricted cash equivalents are presented and classified in the statement of cash flows. ASU No. 2016-18 is effective for fiscal years, and interim periods, beginning after December 15, 2017, with early adoption permitted. The standard requires application using a retrospective transition method. The adoption of ASU No. 2016-18 will change the presentation and classification of restricted cash and restricted cash equivalents in our consolidated statements of cash flows.

Measurement of Credit Losses on Financial Instruments. In June 2016, the FASB issued ASU No. 2016-13, which includes an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. ASU No. 2016-13 is effective for fiscal years, and interim periods, beginning after December 15, 2019. While we continue to assess the impact of ASU No. 2016-13, we have developed a roadmap with time schedules in place from 2016 to implementation date. The Company is in the process of assessing the methodology and the software to be used.

Leases. In February 2016, the FASB issued ASU No. 2016-02, which requires lessees to recognize a right-of-use asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. This ASU retains the classification distinction between finance leases and operating leases. ASU No. 2016-02 is effective for fiscal years, and interim periods, beginning after December 15, 2018. We are currently assessing the impact the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition), and most industry-specific guidance. ASU No. 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). In August 2015, the FASB issued ASU No. 2015-14 to defer the effective date of ASU No. 2014-09 by one year to fiscal years beginning after December 15, 2017. ASU No. 2015-14 also permits early adoption of ASU No. 2014-09, but not before the original effective date, which was for fiscal years beginning after December 15, 2016. While the new guidance does not apply to revenue associated with loans or securities, the Company has been working to identify the customer contracts within the scope of the new guidance and assess the related revenues to determine if any accounting or internal control changes will be required for the new provisions. While the assessment is not complete, the timing of the Company’s revenue recognition is not expected to materially change. Overall, the Company does not expect the new guidance to have a material impact on its consolidated financial position or results of operations. The next phase of the Company’s implementation work will be to evaluate required disclosures to be in compliance with the standard.

Other than the accounting pronouncements disclosed above, there are no other new accounting pronouncements issued during the first quarter of 2017 that could have a material impact on the Company's financial position, operating results or financial statements disclosures.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

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

	June 30, 2017	December 31, 2016
	(In thousands)	
Cash pledged as collateral to other financial institutions to secure:		
Derivatives	$ 1,980	$ 1,980
Obligations under agreement of loans sold with recourse	1,050	1,050
	$ 3,030	**$ 3,030**

At June 30, 2017, the Bank's international banking entities, Oriental International Bank Inc. ("OIB") and Oriental Overseas, a division of the Bank, held an unencumbered certificate of deposit and other short-term highly liquid securities in the amount of $300 thousand and $325 thousand, respectively, as the legal reserve required for international banking entities under Puerto Rico law. At December 31, 2016, they held an unencumbered certificate of deposit and other short-term highly liquid securities in the amount of $300 thousand as the required legal reserve. The certificate of deposit and other securities cannot be withdrawn or sold by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions ("OCFI").

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At both June 30, 2017 and December 31, 2016, the Company had delivered approximately $2.0 million of cash as collateral for such derivatives activities.

As part of the BBVA Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At both June 30, 2017 and December 31, 2016, the Company delivered as collateral cash amounting to approximately $1.1 million.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover demand deposits. The amount of those minimum average reserve balances for the week that covered June 30, 2017 was $163.2 million (December 31, 2016 - $161.0 million). At June 30, 2017 and December 31, 2016, the Bank complied with the requirement. Cash and due from bank as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 June 30, 2017 and December 31, 2016, money market instruments included as part of cash and cash equivalents amounted to $6.5 million and $5.6 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 346,388	$ 2,102	$ 1,797	$ 346,693	2.35%
GNMA certificates	145,538	1,633	487	146,684	2.93%
CMOs issued by US government-sponsored agencies	92,622	10	1,078	91,554	1.89%
Total mortgage-backed securities	**584,548**	**3,745**	**3,362**	**584,931**	**2.42%**
Investment securities					
US Treasury securities	55,031	3	44	54,990	1.13%
Obligations of US government-sponsored agencies	3,353	-	27	3,326	1.38%
Obligations of Puerto Rico government and public instrumentalities	4,680	-	339	4,341	5.55%
Other debt securities	1,668	71	-	1,739	3.00%
Total investment securities	**64,732**	**74**	**410**	**64,396**	**1.51%**
Total securities available for sale	**$ 649,280**	**$ 3,819**	**$ 3,772**	**$ 649,327**	**2.33%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	**$ 555,407**	**$ 212**	**$ 6,024**	**$ 549,595**	**2.11%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 422,168	$ 6,354	$ 3,036	$ 425,486	2.59%
GNMA certificates	163,614	2,241	620	165,235	2.95%
CMOs issued by US government-sponsored agencies	103,990	64	2,223	101,831	1.88%
Total mortgage-backed securities	**689,772**	**8,659**	**5,879**	**692,552**	**2.57%**
Investment securities					
US Treasury securities	49,672	-	618	49,054	1.73%
Obligations of US government-sponsored agencies	3,903	-	19	3,884	1.38%
Obligations of Puerto Rico government and public instrumentalities	4,680	-	607	4,073	5.55%
Other debt securities	1,840	81	-	1,921	3.00%
Total investment securities	**60,095**	**81**	**1,244**	**58,932**	**2.04%**
Total securities available-for-sale	**$ 749,867**	**$ 8,740**	**$ 7,123**	**$ 751,484**	**2.53%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	**$ 599,884**	**$ 145**	**$ 7,266**	**$ 592,763**	**2.15%**

The amortized cost and fair value of the Company’s investment securities at June 30, 2017, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Mortgage-backed securities				
Due from 1 to 5 years				
FNMA and FHLMC certificates	$ 8,102	$ 8,185	$ -	$ -
Total due from 1 to 5 years	**8,102**	**8,185**	-	-
Due after 5 to 10 years				
CMOs issued by US government-sponsored agencies	$ 70,850	$ 70,047	$ -	$ -
FNMA and FHLMC certificates	69,364	69,403	-	-
Total due after 5 to 10 years	**140,214**	**139,450**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	$ 268,922	$ 269,105	$ 555,407	$ 549,595
GNMA certificates	145,538	146,684	-	-
CMOs issued by US government-sponsored agencies	21,772	21,507	-	-
Total due after 10 years	**436,232**	**437,296**	**555,407**	**549,595**
Total mortgage-backed securities	**584,548**	**584,931**	**555,407**	**549,595**
Investment securities				
Due less than one year				
US Treasury securities	$ 45,092	$ 45,095	$ -	$ -
Total due in less than one year	**45,092**	**45,095**	**-**	**-**
Due from 1 to 5 years				
US Treasury securities	$ 9,939	$ 9,895	$ -	$ -
Obligations of US government and sponsored agencies	3,353	3,326	-	-
Obligations of Puerto Rico government and public instrumentalities	4,680	4,341	-	-
Total due from 1 to 5 years	**17,972**	**17,562**	**-**	**-**
Due from 5 to 10 years				
Other debt securities	1,668	1,739	-	-
Total due after 5 to 10 years	**1,668**	**1,739**	**-**	**-**
Total investment securities	**64,732**	**64,396**	**-**	**-**
Total	**$ 649,280**	**$ 649,327**	**$ 555,407**	**$ 549,595**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

During the six-month period ended June 30, 2017 the Company retained securitized GNMA pools totaling $49.8 million amortized cost, at a yield of 3.15% from its own originations while during the six-month period ended June 30, 2016 that amount totaled $54.2 million, amortized cost, at a yield of 3.01%.

During the six-month period ended June 30, 2017, the Company sold $166.0 million of mortgage-backed securities and $39.3 million of US Treasury securities, and recorded a net gain on sale of securities of $6.9 million. During the six-month period ended June 30, 2016, the Company sold $277.2 million on mortgage-backed securities and $11.1 million of Puerto Rico government bonds, and recorded a net gain on sale of securities of $12.2 million.

	Six-Month Period Ended June 30, 2017			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
	(In thousands)			
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 107,510	$ 102,311	$ 5,199	$ -
GNMA certificates	65,284	63,704	1,580	-
Investment securities				
US Treasury securities	39,409	39,297	112	-
Total	**$ 212,203**	**$ 205,312**	**$ 6,891**	**$ -**

	Six-Month Period Ended June 30, 2016			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
	(In thousands)			
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 293,505	$ 277,181	$ 16,324	$ -
Investment securities				
Obligations of PR government and public instrumentalities	6,978	11,095	-	4,117
Total mortgage-backed securities	**$ 300,483**	**$ 288,276**	**$ 16,324**	**$ 4,117**

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 June 30, 2017 and December 31, 2016:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017		
		12 months or more	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 30,309	$ 342	$ 29,967
Obligations of US government and sponsored agencies	3,353	27	3,326
Obligations of Puerto Rico government and public instrumentalities	4,680	339	4,341
	$ 38,342	**$ 708**	**$ 37,634**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 6,753**	**$ 164**	**$ 6,589**

		Less than 12 months	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 61,115	$ 736	$ 60,379
FNMA and FHLMC certificates	164,473	1,797	162,676
GNMA certificates	30,437	487	29,950
US Treausury Securities	10,263	44	10,219
	$ 266,288	**$ 3,064**	**$ 263,224**
Securities held-to-maturity			
FNMA and FHLMC Certificates	**$ 471,100**	**$ 5,860**	**$ 465,240**

		Total	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 91,424	$ 1,078	$ 90,346
FNMA and FHLMC certificates	164,473	1,797	162,676
Obligations of Puerto Rico government and public instrumentalities	4,680	339	4,341
Obligations of US government and sponsored agencies	3,353	27	3,326
GNMA certificates	30,437	487	29,950

US Treausury Securities		10,263		44		10,219
	$	**304,630**	**$**	**3,772**	**$**	**300,858**
Securities held-to-maturity						
FNMA and FHLMC certificates	**$**	**477,853**	**$**	**6,024**	**$**	**471,829**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016 12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
Obligations of Puerto Rico government and public instrumentalities	$ 4,680	$ 607	$ 4,073
CMOs issued by US government-sponsored agencies	33,883	793	33,090
	$ 38,563	**$ 1,400**	**$ 37,163**

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	67,777	1,430	66,347
FNMA and FHLMC certificates	184,782	3,036	181,746
Obligations of US government and sponsored agencies	3,903	19	3,884
GNMA certificates	29,445	620	28,825
US Treausury Securities	49,172	618	48,554
	$ 335,079	**$ 5,723**	**$ 329,356**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 525,258**	**$ 7,266**	**$ 517,992**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	101,660	2,223	99,437
FNMA and FHLMC certificates	184,782	3,036	181,746
Obligations of Puerto Rico government and public instrumentalities	4,680	607	4,073
Obligations of US government and sponsored agencies	3,903	19	3,884
GNMA certificates	29,445	620	28,825
US Treausury Securities	49,172	618	48,554
	$ 373,642	**$ 7,123**	**$ 366,519**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 525,258**	**$ 7,266**	**$ 517,992**

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

Most of the investments ($777.8 million, amortized cost, or 99.4%) with an unrealized loss position at June 30, 2017 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 sole exposure to PR bond ($4.7 million, amortized cost, or 0.6%) with an unrealized loss position at June 30, 2017 consists of an obligation issued by the Puerto Rico Highways and Transportation Authority ("PRHTA") secured by a pledge of toll revenues from the Teodoro Moscoso Bridge operated through a public-private partnership. The decline in the market value of this security is mainly attributed to the significant economic and fiscal challenges that Puerto Rico is facing, which is expected to result in a significant restructuring of the government under the supervision of a federally created Fiscal Oversight Board. All other Puerto Rico government securities were sold during the first quarter of 2016. The PRHTA bond had an aggregate fair value of $4.3 million at June 30, 2017 (93% of the bond's amortized cost) and matures on July 1, 2018. The discounted cash flow analysis for the investment showed a cumulative default probability at maturity of 6.4%, thus reflecting that it is more likely than not that the bond will not default during its remaining term. Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in this Puerto Rico government bond and is, therefore, not required to recognize a credit loss as of June 30, 2017. Also, the Company’s conclusion is based on the assessment of the specific source of repayment of the outstanding bond, which continues to perform. PRHTA started principal repayments on July 1, 2014. All scheduled principal and interest payments to date have been collected. On July 1, 2017, the Company received a scheduled principal payment of $2.2 million. As a result of the aforementioned analysis, no other-than-temporary losses were recorded during the period ended June 30, 2017.

As of June 30, 2017, the Company performed a cash flow analysis of its Puerto Rico government bond to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of this investment 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 investment, and included the following components:

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

- The risk-adjusted cash flows are calculated based on a monthly default probability and recovery rate assumptions based on the credit rating of the investment. Constant monthly default rates are assumed throughout the life of the bond which is 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 the investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of the investment.

The following table presents a rollforward of credit-related impairment losses recognized in earnings for the six-month periods ended June 30, 2017 and 2016 on available-for-sale securities:

	Six-Month Period Ended June 30,			
	2017		2016	
	(In thousands)			
Balance at beginning of period	$	-	$	1,490
Reductions for securities sold during the period (realized)		-		(1,490)
Balance at end of period	$	**-**	$	**-**

NOTE 4 - LOANS

The Company's loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred to as "originated and other" loans) and loans acquired (referred to as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans. Acquired Eurobank loans were purchased subject to loss-sharing agreements with the FDIC, which were terminated on February 6, 2017.

The composition of the Company's loan portfolio at June 30, 2017 and December 31, 2016 was as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017	December 31, 2016
	(In thousands)	
Originated and other loans and leases held for investment:		
Mortgage	$ 699,290	$ 721,494
Commercial	1,270,844	1,277,866
Consumer	314,267	290,515
Auto and leasing	807,204	756,395
	3,091,605	**3,046,270**
Allowance for loan and lease losses on originated and other loans and leases	(69,666)	(59,300)
	3,021,939	**2,986,970**
Deferred loan costs, net	6,574	5,766
Total originated and other loans loans held for investment, net	**3,028,513**	**2,992,736**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	5,350	5,562
Consumer	30,233	32,862
Auto	33,661	53,026
	69,244	**91,450**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(3,348)	(4,300)
	65,896	**87,150**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	544,325	569,253
Commercial	266,002	292,564
Consumer	2,163	4,301
Auto	58,078	85,676
	870,568	**951,794**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(37,494)	(31,056)
	833,074	**920,738**
Total acquired BBVAPR loans, net	**898,970**	**1,007,888**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	70,329	73,018
Commercial	66,894	81,460
Consumer	1,256	1,372
Total acquired Eurobank loans	**138,479**	**155,850**
Allowance for loan and lease losses on Eurobank loans	(21,787)	(21,281)

Total acquired Eurobank loans, net		**116,692**		**134,569**
Total acquired loans, net		**1,015,662**		**1,142,457**
Total held for investment, net		**4,044,175**		**4,135,193**
Mortgage loans held-for-sale		14,044		12,499
Other loans held-for-sale		33,647		-
Total loans, net	**$**	**4,091,866**	**$**	**4,147,692**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Originated and Other Loans and Leases Held for Investment

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

The following tables present the aging of the recorded investment in gross originated and other loans held for investment at June 30, 2017 and December 31, 2016, by class of loans. Mortgage loans past due include delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	June 30, 2017							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
				(In thousands)				
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 193	$ 1,406	$ 2,930	$ 4,529	$ -	$ 43,252	$ 47,781	$ 168
Years 2003 and 2004	333	3,162	6,319	9,814	299	76,028	86,141	-
Year 2005	106	2,247	3,500	5,853	284	39,796	45,933	-
Year 2006	262	1,641	5,882	7,785	185	56,871	64,841	-
Years 2007, 2008 and 2009	435	1,693	8,653	10,781	38	60,375	71,194	335
Years 2010, 2011, 2012, 2013	324	1,506	6,845	8,675	-	124,191	132,866	164
Years 2014, 2015, 2016 and 2017	-	184	1,380	1,564	-	115,824	117,388	-

	1,653	11,839	35,509	49,001	806	516,337	566,144	667
Non-traditional	-	161	4,303	4,464	-	16,011	20,475	-
Loss mitigation program	11,348	7,291	13,806	32,445	2,921	67,744	103,110	1,217
	13,001	19,291	53,618	85,910	3,727	600,092	689,729	1,884
Home equity secured personal loans	-	-	-	-	-	332	332	-
GNMA's buy-back option program	-	-	9,229	9,229	-	-	9,229	-
	13,001	**19,291**	**62,847**	**95,139**	**3,727**	**600,424**	**699,290**	**1,884**
Commercial								
Commercial secured by real estate:								
Corporate	-	-	-	-	-	226,979	226,979	-
Institutional	-	-	254	254	-	46,806	47,060	-
Middle market	-	-	3,601	3,601	634	224,571	228,806	-
Retail	1,350	1,242	8,301	10,893	4,496	230,863	246,252	-
Floor plan	-	-	-	-	-	2,916	2,916	-
Real estate	-	-	-	-	-	15,783	15,783	-
	1,350	1,242	12,156	14,748	5,130	747,918	767,796	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	161,839	161,839	-
Institutional	-	-	-	-	-	128,479	128,479	-
Middle market	881	-	-	881	1,227	84,158	86,266	-
Retail	327	848	1,300	2,475	695	85,673	88,843	-
Floor plan	-	-	53	53	-	37,568	37,621	-
	1,208	848	1,353	3,409	1,922	497,717	503,048	-
	2,558	**2,090**	**13,509**	**18,157**	**7,052**	**1,245,635**	**1,270,844**	**-**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Consumer								
Credit cards	$ 442	$ 288	$ 636	$ 1,366	$ -	$ 26,308	$ 27,674	$ -
Overdrafts	29	13	20	62	-	167	229	-
Personal lines of credit	59	-	29	88	-	2,188	2,276	-
Personal loans	2,693	1,752	1,096	5,541	699	262,728	268,968	-
Cash collateral personal loans	216	3	-	219	-	14,901	15,120	-
	3,439	2,056	1,781	7,276	699	306,292	314,267	-
Auto and leasing	45,914	20,458	8,205	74,577	90	732,537	807,204	-
Total	**$ 64,912**	**$ 43,895**	**$ 86,342**	**$ 195,149**	**$ 11,568**	**$ 2,884,888**	**$ 3,091,605**	**$ 1,884**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 196	$ 2,176	$ 3,371	$ 5,743	$ -	$ 44,542	$ 50,285	$ 158
Years 2003 and 2004	156	3,872	7,272	11,300	181	79,226	90,707	-
Year 2005	-	1,952	4,306	6,258	180	43,571	50,009	-
Year 2006	506	2,905	6,261	9,672	94	59,534	69,300	-
Years 2007, 2008 and 2009	409	1,439	11,732	13,580	111	63,038	76,729	398
Years 2010, 2011, 2012, 2013	349	1,772	10,417	12,538	126	127,196	139,860	583
Years 2014, 2015 and 2016	47	123	1,357	1,527	-	106,672	108,199	-
	1,663	14,239	44,716	60,618	692	523,779	585,089	1,139
Non-traditional	-	498	4,730	5,228	-	17,631	22,859	-
Loss mitigation program	8,911	7,205	16,541	32,657	3,599	67,272	103,528	1,724
	10,574	21,942	65,987	98,503	4,291	608,682	711,476	2,863
Home equity secured personal loans	-	-	-	-	-	337	337	-
GNMA's buy-back option program	-	-	9,681	9,681	-	-	9,681	-
	10,574	**21,942**	**75,668**	**108,184**	**4,291**	**609,019**	**721,494**	**2,863**
Commercial								
Commercial secured by real estate:								

Corporate	-	-	-	-	-	242,770	242,770	-
Institutional	-	-	254	254	-	26,546	26,800	-
Middle market	-	60	3,319	3,379	1,304	230,298	234,981	-
Retail	154	350	6,594	7,098	4,638	237,992	249,728	-
Floor plan	-	-	-	-	-	2,989	2,989	-
Real estate	-	-	-	-	-	16,395	16,395	-
	154	410	10,167	10,731	5,942	756,990	773,663	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	136,438	136,438	-
Institutional	-	-	-	-	-	180,285	180,285	-
Middle market	-	-	-	-	1,278	80,355	81,633	-
Retail	930	100	969	1,999	294	71,412	73,705	-
Floor plan	8	-	61	69	-	32,073	32,142	-
	938	100	1,030	2,068	1,572	500,563	504,203	-
	1,092	**510**	**11,197**	**12,799**	**7,514**	**1,257,553**	**1,277,866**	**-**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
				(In thousands)				
Consumer								
Credit cards	$ 527	$ 283	$ 525	$ 1,335	$ -	$ 25,023	$ 26,358	$ -
Overdrafts	16	12	5	33	-	174	207	-
Personal lines of credit	41	4	32	77	-	2,327	2,404	-
Personal loans	2,474	1,489	1,081	5,044	259	240,969	246,272	-
Cash collateral personal loans	240	20	4	264	-	15,010	15,274	-
	3,298	**1,808**	**1,647**	**6,753**	**259**	**283,503**	**290,515**	**-**
Auto and leasing	**42,714**	**19,014**	**8,173**	**69,901**	**181**	**686,313**	**756,395**	**-**
Total	**$ 57,678**	**$ 43,274**	**$ 96,685**	**$ 197,637**	**$ 12,245**	**$ 2,836,388**	**$ 3,046,270**	**$ 2,863**

At June 30, 2017 and December 31, 2016, the Company had carrying balance of $132.2 million and $136.6 million, respectively, in originated and other loans held for investment granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All originated and other loans granted to the Puerto Rico government are general obligations of municipalities secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations. On June 30, 2017, the Company was opportunistic and entered into an agreement to sell a performing originated municipal loan, which was due in July 2018, for $28.8 million. The sale reduced near-term risk associated with a likely refinancing. The loan was moved to other loans held-for-sale at June 30, 2017 with a balance of $33.7 million, and included a principal payment of $4.8 million received by the Company in July 1, 2017. The sale transaction settled in July 5, 2017. In addition, on July 1, 2017, the Company received $3.7 million principal payments from the remaining municipal loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Loans

Acquired loans were initially measured at fair value and subsequently accounted for under either ASC 310-30 or ASC 310-20 (Non-refundable fees and Other Costs). We have acquired loans in two acquisitions, BBVAPR and Eurobank.

Acquired BBVAPR 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 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. Acquired BBVAPR loans 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 BBVAPR loans accounted for under ASC 310-20 as of June 30, 2017 and December 31, 2016, by class of loans:

	June 30, 2017							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							

Commercial								
Commercial secured by real estate								
Retail	$ 28	$ -	$ 98	$ 126	$ -	$ -	$ 126	$ -
Floor plan	-	-	959	959	-	1,148	2,107	-
	28	-	1,057	1,085	-	1,148	2,233	-
Other commercial and industrial								
Retail	50	32	45	127	-	2,988	3,115	-
Floor plan	-	-	2	2	-	-	2	-
	50	32	47	129	-	2,988	3,117	-
	78	**32**	**1,104**	**1,214**	**-**	**4,136**	**5,350**	**-**
Consumer								
Credit cards	676	203	489	1,368	-	26,206	27,574	-
Personal loans	133	10	47	190	-	2,469	2,659	-
	809	**213**	**536**	**1,558**	**-**	**28,675**	**30,233**	**-**
Auto	**2,435**	**1,231**	**325**	**3,991**	**-**	**29,670**	**33,661**	**-**
Total	**$ 3,322**	**$ 1,476**	**$ 1,965**	**$ 6,763**	**$ -**	**$ 62,481**	**$ 69,244**	**$ -**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Commercial								
Commercial secured by real estate								
Retail	$ 33	$ -	$ 110	$ 143	$ -	$ -	$ 143	$ -
Floor plan	-	-	219	219	929	1,242	2,390	-
	33	-	329	362	929	1,242	2,533	-
Other commercial and industrial								
Retail	97	34	121	252	-	2,775	3,027	-
Floor plan	-	-	2	2	-	-	2	-
	97	34	123	254	-	2,775	3,029	-
	130	**34**	**452**	**616**	**929**	**4,017**	**5,562**	**-**
Consumer								
Credit cards	736	369	708	1,813	-	28,280	30,093	-
Personal loans	48	14	120	182	-	2,587	2,769	-
	784	**383**	**828**	**1,995**	**-**	**30,867**	**32,862**	**-**
Auto	**3,652**	**1,355**	**517**	**5,524**	**15**	**47,487**	**53,026**	**-**
Total	**$ 4,566**	**$ 1,772**	**$ 1,797**	**$ 8,135**	**$ 944**	**$ 82,371**	**$ 91,450**	**$ -**

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

Acquired BBVAPR loans, 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 acquired BBVAPR loans with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at June 30, 2017 and December 31, 2016 is as follows:

		June 30, 2017		December 31, 2016
		(In thousands)		
Contractual required payments receivable:	$	1,569,855	$	1,669,602
Less: Non-accretable discount		366,762		363,107
Cash expected to be collected		1,203,093		1,306,495
Less: Accretable yield		332,525		354,701
Carrying amount, gross		870,568		951,794
Less: allowance for loan and lease losses		37,494		31,056
Carrying amount, net	**$**	**833,074**	**$**	**920,738**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At June 30, 2017 and December 31, 2016, the Company had $66.6 million and $66.2 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its acquired BBVAPR loans accounted for under ASC 310-30. These loans are primarily secured municipal general obligations and a $10.6 million participation in a loan to the Puerto Rico Housing Finance Authority ("PRHFA") legally required to be repaid from abandoned or unclaimed funds at financial institutions that revert to the government under a Puerto Rico escheat law. Such loan defaulted on an annual principal payment in the third quarter of 2016. On July 1, 2017, the Company received $5.2 million principal payments from acquired BBVAPR loans to municipalities.

The following tables describe the accretable yield and non-accretable discount activity of acquired BBVAPR loans accounted for under ASC 310-30 for the quarters and six-month periods ended June 30, 2017, and 2016:

	Quarter Ended June 30, 2017				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of period	$ 276,817	$ 46,902	$ 6,583	$ 3,058	$ 333,360
Accretion	(7,694)	(4,513)	(1,776)	(556)	(14,539)
Change in expected cash flows	1	15,993	98	50	16,142
Transfer (to) from non-accretable discount	1,024	(2,344)	(52)	(1,066)	(2,438)
Balance at end of period	**$ 270,148**	**$ 56,038**	**$ 4,853**	**$ 1,486**	**$ 332,525**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 309,993	$ 14,803	$ 22,564	$ 18,159	$ 365,519
Change in actual and expected losses	(2,465)	(280)	1,344	206	(1,195)
Transfer from (to) accretable yield	(1,024)	2,344	52	1,066	2,438
Balance at end of period	**$ 306,504**	**$ 16,867**	**$ 23,960**	**$ 19,431**	**$ 366,762**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2017				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of period	$ 292,115	$ 50,366	$ 8,538	$ 3,682	$ 354,701
Accretion	(15,584)	(9,494)	(3,923)	(1,158)	(30,159)
Change in expected cash flows	2	16,191	150	86	16,429
Transfer (to) from non-accretable discount	(6,385)	(1,025)	88	(1,124)	(8,446)
Balance at end of period	**$ 270,148**	**$ 56,038**	**$ 4,853**	**$ 1,486**	**$ 332,525**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 305,615	$ 16,965	$ 22,407	$ 18,120	$ 363,107
Change in actual and expected losses	(5,496)	(1,123)	1,641	187	(4,791)
Transfer from (to) accretable yield	6,385	1,025	(88)	1,124	8,446
Balance at end of period	**$ 306,504**	**$ 16,867**	**$ 23,960**	**$ 19,431**	**$ 366,762**

	Quarter Ended June 30, 2016				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of period	$ 260,557	$ 57,258	$ 17,587	$ 5,261	$ 340,663
Accretion	(8,294)	(6,579)	(3,616)	(870)	(19,359)
Change in actual and expected losses	-	2,654	630	(1)	3,283
Transfer from (to) non-accretable discount	31,560	(1,026)	(498)	495	30,531
Balance at end of period	**$ 283,823**	**$ 52,307**	**$ 14,103**	**$ 4,885**	**$ 355,118**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 370,155	$ 18,148	$ 21,938	$ 18,735	$ 428,976
Change in actual and expected losses	(2,442)	(1,173)	(315)	(15)	(3,945)
	(31,560)	1,026	498	(495)	(30,531)

Transfer (to) from accretable yield										
Balance at end of period	**$**	**336,153**	**$**	**18,001**	**$**	**22,121**	**$**	**18,225**	**$**	**394,500**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2016				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of period	$ 268,794	$ 65,026	$ 21,578	$ 6,290	$ 361,688
Accretion	(16,601)	(14,287)	(7,827)	(1,808)	(40,523)
Change in actual and expected losses	-	2,982	631	(1)	3,612
Transfer (to) from non-accretable discount	31,630	(1,414)	(279)	404	30,341
Balance at end of period	**$ 283,823**	**$ 52,307**	**$ 14,103**	**$ 4,885**	**$ 355,118**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 374,772	$ 18,545	$ 22,039	$ 18,834	$ 434,190
Change in actual and expected losses	(6,989)	(1,958)	(197)	(205)	(9,349)
Transfer from (to) accretable yield	(31,630)	1,414	279	(404)	(30,341)
Balance at end of period	**$ 336,153**	**$ 18,001**	**$ 22,121**	**$ 18,225**	**$ 394,500**

Acquired Eurobank Loans

The carrying amount of acquired Eurobank loans at June 30, 2017 and December 31, 2016 is as follows:

	June 30 2017	December 31 2016
	(In thousands)	
Contractual required payments receivable:	$ 201,564	$ 232,698
Less: Non-accretable discount	9,010	12,340
Cash expected to be collected	192,554	220,358
Less: Accretable yield	54,075	64,508
Carrying amount, gross	138,479	155,850
Less: Allowance for loan and lease losses	21,787	21,281
Carrying amount, net	**$ 116,692**	**$ 134,569**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables describe the accretable yield and non-accretable discount activity of acquired Eurobank loans for the quarters and six-month periods ended June 30, 2017, and 2016:

	Quarter Ended June 30, 2017					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 44,697	12,743	1,871	-	-	59,311
Accretion	(1,923)	(4,061)	(5)	(11)	(37)	(6,037)
Change in expected cash flows	19	543	6	(22)	74	620
Transfer from (to) non-accretable discount	219	(68)	34	33	(37)	181
Balance at end of period	**$ 43,012**	**$ 9,157**	**$ 1,906**	**$ -**	**$ -**	**$ 54,075**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 7,426	2,471	333	-	6	10,236
Change in actual and expected losses	(520)	(529)	-	33	(29)	(1,045)
Transfer from (to) accretable yield	(219)	68	(34)	(33)	37	(181)
Balance at end of period	**$ 6,687**	**$ 2,010**	**$ 299**	**$ -**	**$ 14**	**$ 9,010**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2017					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 45,839	$ 16,475	$ 2,194	$ -	$ -	$ 64,508
Accretion	(3,827)	(8,571)	(43)	(11)	(195)	(12,647)
Change in expected cash flows	100	1,321	43	(165)	384	1,683
Transfer from (to) non-accretable discount	900	(68)	(288)	176	(189)	531
Balance at end of period	**$ 43,012**	**$ 9,157**	**$ 1,906**	**$ -**	**$ -**	**$ 54,075**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 8,441	$ 3,880	$ 11	$ -	$ 8	$ 12,340
Change in actual and expected losses	(854)	(1,938)	-	176	(183)	(2,799)
Transfer from (to) accretable yield	(900)	68	288	(176)	189	(531)
Balance at end of period	**$ 6,687**	**$ 2,010**	**$ 299**	**$ -**	**$ 14**	**$ 9,010**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 50,787	$ 33,203	$ 2,237	-	$ -	$ 86,227
Accretion	(2,263)	(4,528)	(33)	2	(76)	(6,898)
Change in actual and expected losses	(198)	1,619	-	(77)	81	1,425
Transfer from (to) non-accretable discount	10	(1,152)	-	75	(5)	(1,072)
Balance at end of period	**$ 48,336**	**$ 29,142**	**$ 2,204**	**$ -**	**$ -**	**$ 79,682**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 12,703	$ -	$ -	$ -	$ -	$ 12,703
Change in actual and expected losses	(1,138)	(1,152)	-	75	(5)	(2,220)
Transfer (to) from accretable yield	(10)	1,152	-	(75)	5	1,072
Balance at end of period	**$ 11,555**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 11,555**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2016					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 51,954	$ 26,970	$ 2,255	$ -	$ 3,213	$ 84,392
Accretion	(4,529)	(8,623)	(47)	2	(1,261)	(14,458)
Change in expected cash flows	786	12,712	(23)	(77)	(1,947)	11,451
Transfer from (to) non-accretable discount	125	(1,917)	19	75	(5)	(1,703)
Balance at end of period	**$ 48,336**	**$ 29,142**	**$ 2,204**	**$ -**	**$ -**	**$ 79,682**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 12,869	$ -	$ -	$ -	$ 8,287	$ 21,156
Change in actual and expected cash flows	(1,189)	(1,917)	19	75	(8,292)	(11,304)
Transfer (to) from accretable yield	(125)	1,917	(19)	(75)	5	1,703
Balance at end of period	**$ 11,555**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 11,555**

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NOTES TO 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 June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(In thousands)	
Originated and other loans and leases held for investment		
Mortgage		
Traditional (by origination year):		
Up to the year 2002	$ 2,824	$ 3,336
Years 2003 and 2004	6,809	7,668
Year 2005	3,890	4,487
Year 2006	6,067	6,746
Years 2007, 2008 and 2009	8,633	11,526
Years 2010, 2011, 2012, 2013	6,680	10,089
Years 2014, 2015, 2016 and 2017	1,380	1,404
	36,283	45,256
Non-traditional	4,303	4,730
Loss mitigation program	18,082	20,744
	58,668	**70,730**
Commercial		
Commercial secured by real estate		
Institutional	254	-
Middle market	4,236	4,682
Retail	14,239	11,561
	18,729	16,243
Other commercial and industrial		
Middle market	2,108	1,278
Retail	2,629	1,950
Floor plan	53	61
	4,790	3,289
	23,519	**19,532**
Consumer		
Credit cards	636	525
Overdrafts	20	-
Personal lines of credit	29	32
Personal loans	1,999	1,420
Cash collateral personal loans	3	4

		2,687		**1,981**
Auto and leasing		**8,295**		**9,052**
Total non-accrual originated loans	$	**93,169**	$	**101,295**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017	December 31, 2016
	(In thousands)	
Acquired BBVAPR loans accounted for under ASC 310-20		
Commercial		
Commercial secured by real estate		
Retail	$ 127	$ 143
Floor plan	959	1,149
	1,086	1,292
Other commercial and industrial		
Retail	45	121
Floor plan	2	2
	47	123
	1,133	**1,415**
Consumer		
Credit cards	489	708
Personal loans	47	120
	536	**828**
Auto	**325**	**552**
Total non-accrual acquired BBVAPR loans accounted for under ASC 310-20	**1,994**	**2,795**
Total non-accrual loans	**$ 95,163**	**$ 104,090**

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 or are accounted under the cost recovery method.

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

At June 30, 2017 and December 31, 2016, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $98.7 million and $98.1 million, respectively, as they are performing under their new terms.

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NOTES TO 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 that were individually evaluated for impairment was $58.1 million and $54.3 million at June 30, 2017 and December 31, 2016, respectively. The impairments on these 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 allowance for loan and lease losses for these impaired commercial loans amounted to $1.9 million and $1.8 million at June 30, 2017 and December 31, 2016, respectively. The total investment in impaired mortgage loans that were individually evaluated for impairment was $87.0 million and $91.6 million at June 30, 2017 and December 31, 2016, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The allowance for loan losses for these impaired mortgage loans amounted to $8.6 million and $7.8 million at June 30, 2017 and December 31, 2016, respectively.

Originated and Other Loans and Leases Held for Investment

The Company's recorded investment in 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 June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
		(In thousands)		
Impaired loans with specific allowance:				
Commercial	$ 21,475	$ 19,486	$ 1,940	10%
Residential impaired and troubled-debt restructuring	95,821	87,042	8,630	10%
Impaired loans with no specific allowance:				
Commercial	44,367	37,842	N/A	0%
Total investment in impaired loans	**$ 161,663**	**$ 144,370**	**$ 10,570**	**7%**

	December 31, 2016			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance:				
Commercial	$ 13,183	$ 11,698	$ 1,626	14%
Residential impaired and troubled-debt restructuring	100,101	91,650	7,761	8%
Impaired loans with no specific allowance				
Commercial	49,038	41,441	N/A	0%
Total investment in impaired loans	**$ 162,322**	**$ 144,789**	**$ 9,387**	**6%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company's recorded investment in acquired BBVAPR commercial loans accounted for under ASC 310-20 that were individually evaluated for impairment and the related allowance for loan and lease losses at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ -	$ -	$ -	0%
Impaired loans with no specific allowance				
Commercial	$ 926	$ 761	N/A	0%
Total investment in impaired loans	**$ 926**	**$ 761**	**$ -**	**0%**

	December 31, 2016			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 944	$ 929	$ 141	15%
Impaired loans with no specific allowance				
Commercial	$ 240	$ 221	N/A	0%
Total investment in impaired loans	**$ 1,184**	**$ 1,150**	**$ 141**	**12%**

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

The Company's recorded investment in acquired BBVAPR loan pools accounted for under ASC 310-30 that have recorded impairments and their related allowance for loan and lease losses at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance:				
Mortgage	$ 567,845	$ 544,326	$ 4,141	1%
Commercial	224,838	217,495	25,614	12%
Auto	58,132	58,078	7,739	13%
Total investment in impaired loan pools	**$ 850,815**	**$ 819,899**	**$ 37,494**	5%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31 , 2016			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance:				
Mortgage	$ 595,757	$ 569,250	$ 2,682	0%
Commercial	199,092	195,528	23,452	12%
Auto	92,797	85,676	4,922	6%
Total investment in impaired loan pools	**$ 887,646**	**$ 850,454**	**$ 31,056**	4%

The tables above only present information with respect to acquired BBVAPR loan pools accounted for under ASC 310-30 if there is a recorded impairment to such loan pools and a specific allowance for loan losses.

Acquired Eurobank Loans

The Company's recorded investment in acquired Eurobank loan pools that have recorded impairments and their related allowance for loan and lease losses as of June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance:				
Loans secured by 1-4 family residential properties	$ 83,293	$ 70,329	$ 13,651	19%
Commercial	56,193	53,389	8,131	15%
Consumer	14	1,256	5	0%
Total investment in impaired loan pools	**$ 139,500**	**$ 124,974**	**$ 21,787**	17%

December 31, 2016

	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance				
Loans secured by 1-4 family residential properties	$ 88,017	$ 73,018	$ 11,947	16%
Commercial	81,992	72,140	9,328	13%
Consumer	29	1,372	6	0%
Total investment in impaired loan pools	**$ 170,038**	**$ 146,530**	**$ 21,281**	15%

The tables above only present information with respect to acquired Eurobank loan pools accounted for under ASC 310-30 if there is a recorded impairment to such loan pools and a specific allowance for loan losses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the interest recognized in commercial and mortgage loans that were individually evaluated for impairment, which excludes loans accounted for under ASC 310-30, for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30,			
	2017		2016	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Originated and other loans held for investment:				
Impaired loans with specific allowance				
Commercial	$ 193	$ 14,908	$ 75	$ 194,759
Residential troubled-debt restructuring	723	87,615	791	91,007
Impaired loans with no specific allowance				
Commercial	383	44,528	149	29,579
	1,299	**147,051**	**1,015**	**315,345**
Acquired loans accounted for under ASC 310-20:				
Impaired loans with specific allowance				
Commercial	-	-	-	-
Impaired loans with no specific allowance				
Commercial	-	763	15	789
Total interest income from impaired loans	**$ 1,299**	**$ 147,814**	**$ 1,030**	**$ 316,134**

	Six-Month Period Ended June 30,			
	2017		2016	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Originated and other loans held for investment:				

Impaired loans with specific allowance								
Commercial	$	385	$	13,859	$	150	$	195,777
Residential troubled-debt restructuring		1,427		88,579		1,591		90,650
Impaired loans with no specific allowance								
Commercial		766		44,211		298		31,603
Total interest income from impaired loans	**$**	**2,578**	**$**	**146,649**	**$**	**2,039**	**$**	**318,030**
Acquired loans accounted for under ASC 310-20:								
Impaired loans with specific allowance								
Commercial	$	-	$	-	$	-	$	-
Impaired loans with no specific allowance								
Commercial		-		840		30		628
Total interest income from impaired loans	**$**	**2,578**	**$**	**147,489**	**$**	**2,069**	**$**	**318,658**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

The following tables present the troubled-debt restructurings in all loan portfolios during the quarters and six-month periods ended June 30, 2017 and 2016.

	Quarter Ended June 30, 2017						
	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	27	$ 3,349	6.00%	382	$ 3,313	4.21%	367
Commercial	9	2,155	5.96%	55	2,155	5.12%	68
Consumer	37	477	12.83%	65	477	10.87%	68
Auto	4	66	6.39%	61	66	12.91%	37

	Six-Month Period Ended June 30, 2017						
	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	59	$ 7,353	6.29%	387	$ 7,328	4.26%	378
Commercial	18	3,373	6.44%	55	3,374	5.41%	67
Consumer	62	869	11.98%	65	907	10.62%	70
Auto	7	111	7.41%	67	113	12.48%	38

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016						
	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	19	$ 2,670	5.69%	372	$ 2,670	4.54%	494
Commercial	6	668	6.65%	65	668	5.91%	86
Consumer	26	364	12.73%	75	372	10.20%	70

	Six-Month Period Ended June 30, 2016						
	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	52	$ 6,628	5.90%	365	$ 7,525	4.73%	493
Commercial	8	1,323	6.73%	53	1,324	6.31%	61
Consumer	47	556	13.27%	75	603	10.56%	71

The following table presents troubled-debt restructurings for which there was a payment default during the twelve month periods ended June 30, 2017 and 2016:

	Twelve Month Period Ended June 30,					
	2017			2016		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
	(Dollars in thousands)					
Mortgage	22	$	2,293	84	$	9,869
Commercial	5	$	563	-	$	-
Consumer	17	$	156	7	$	134
Auto	-	$	-	1	$	17

Credit Quality Indicators

The Company categorizes 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.

As of June 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of gross originated and other loans and BBVAPR acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017					
		Risk Ratings				
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
			(In thousands)			
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 226,979	$ 210,369	$ 14,640	$ -	$ -	$ 1,970
Institutional	47,060	34,882	-	10,675	-	1,503
Middle market	228,806	189,754	9,624	3,640	-	25,788
Retail	246,252	215,629	8,796	4,891	-	16,936
Floor plan	2,916	2,916	-	-	-	-
Real estate	15,783	15,783	-	-	-	-
	767,796	669,333	33,060	19,206	-	46,197
Other commercial and industrial:						
Corporate	161,839	161,839	-	-	-	-
Institutional	128,479	128,479	-	-	-	-
Middle market	86,266	67,119	11,266	124	-	7,757
Retail	88,843	83,331	837	1,301	-	3,374
Floor plan	37,621	34,328	3,240	53	-	-
	503,048	475,096	15,343	1,478	-	11,131
Total	1,270,844	1,144,429	48,403	20,684	-	57,328
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	126	-	-	126	-	-
Floor plan	2,107	850	298	198	-	761
	2,233	850	298	324	-	761
Other commercial and						

industrial:						
Retail	3,115	3,109	-	6	-	-
Floor plan	2	-	-	2	-	-
	3,117	3,109	-	8	-	-
Total	5,350	3,959	298	332	-	761
Total	**$ 1,276,194**	**$ 1,148,388**	**$ 48,701**	**$ 21,016**	**$ -**	**$ 58,089**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016 Risk Ratings					
	Balance Outstanding	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Individually Measured for Impairment**
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 242,770	$ 226,768	$ 16,002	$ -	$ -	$ -
Institutional	26,800	16,067	9,090	-	-	1,643
Middle market	234,981	194,913	9,437	514	-	30,117
Retail	249,728	221,687	7,860	4,318	-	15,863
Floor plan	2,989	2,989	-	-	-	-
Real estate	16,395	16,395	-	-	-	-
	773,663	678,819	42,389	4,832	-	47,623
Other commercial and industrial:						
Corporate	136,438	136,438	-	-	-	-
Institutional	180,285	180,185	100	-	-	-
Middle market	81,633	63,556	16,150	149	-	1,778
Retail	73,705	68,529	731	740	-	3,705
Floor plan	32,142	29,267	2,814	28	-	33
	504,203	477,975	19,795	917	-	5,516
Total	1,277,866	1,156,794	62,184	5,749	-	53,139
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	143	-	-	143	-	-
Floor plan	2,390	905	337	-	-	1,148
	2,533	905	337	143	-	1,148
Other commercial and						

industrial:											
Retail		3,027		3,014		-		13		-	-
Floor plan		2		-		-		-		-	2
		3,029		3,014		-		13		-	2
Total		5,562		3,919		337		156		-	1,150
Total	**$**	**1,283,428**	**$**	**1,160,713**	**$**	**62,521**	**$**	**5,905**	**$**	**-**	**$ 54,289**

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of June 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of gross originated and other loans and acquired BBVAPR loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017							
		Delinquency						
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 47,781	$ 42,873	$ -	$ 1,346	$ 372	$ 585	$ 1,972	$ 633
Years 2003 and 2004	86,141	75,434	-	3,023	744	3,103	2,077	1,760
Year 2005	45,933	39,918	-	2,247	591	1,421	1,257	499
Year 2006	64,841	55,454	-	1,523	972	1,585	2,852	2,455
Years 2007, 2008 and 2009	71,194	59,629	-	1,447	524	1,462	5,325	2,807
Years 2010, 2011, 2012 2013	132,866	123,813	242	1,427	340	1,251	3,279	2,514
Years 2014, 2015, 2016 and 2017	117,388	115,824	-	184	122	432	665	161
	566,144	512,945	242	11,197	3,665	9,839	17,427	10,829
Non-traditional	20,475	16,009	-	161	29	895	3,381	-
Loss mitigation program	103,110	17,823	1,640	2,512	471	958	3,493	76,213
	689,729	546,777	1,882	13,870	4,165	11,692	24,301	87,042
Home equity secured personal loans	332	332	-	-	-	-	-	-
	9,229	-	-	-	1,383	3,776	4,070	-

GNMA's buy-back option program								
	699,290	**547,109**	**1,882**	**13,870**	**5,548**	**15,468**	**28,371**	**87,042**
Consumer								
Credit cards	27,674	26,308	442	288	234	402	-	-
Overdrafts	229	167	29	13	5	13	2	-
Unsecured personal lines of credit	2,276	2,188	59	-	-	29	-	-
Unsecured personal loans	268,968	263,427	2,693	1,752	1,083	13	-	-
Cash collateral personal loans	15,120	14,901	216	3	-	-	-	-
	314,267	**306,991**	**3,439**	**2,056**	**1,322**	**457**	**2**	**-**
Auto and Leasing	**807,204**	**732,627**	**45,914**	**20,458**	**6,181**	**2,006**	**18**	**-**
	1,820,761	**1,586,727**	**51,235**	**36,384**	**13,051**	**17,931**	**28,391**	**87,042**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	27,574	26,206	676	203	181	308	-	-
Personal loans	2,659	2,469	133	10	5	42	-	-
	30,233	**28,675**	**809**	**213**	**186**	**350**	**-**	**-**
Auto	**33,661**	**29,670**	**2,435**	**1,231**	**260**	**65**	**-**	**-**
	63,894	**58,345**	**3,244**	**1,444**	**446**	**415**	**-**	**-**
Total	**$ 1,884,655**	**$ 1,645,072**	**$ 54,479**	**$ 37,828**	**$ 13,497**	**$ 18,346**	**$ 28,391**	**$ 87,042**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016							
	Delinquency							
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 50,285	$ 44,248	$ -	$ 2,095	$ 368	$ 1,315	$ 1,552	$ 707
Years 2003 and 2004	90,707	78,501	-	3,712	1,767	2,675	2,100	1,952
Year 2005	50,009	43,177	-	1,952	561	1,024	2,181	1,114
Year 2006	69,300	57,271	82	2,397	353	2,210	3,410	3,577
Years 2007, 2008 and 2009	76,729	61,547	83	1,439	865	2,330	6,459	4,006
Years 2010, 2011, 2012 2013	139,860	127,375	60	1,451	1,459	1,667	3,584	4,264
Year 2014, 2015 and 2016	108,199	106,672	-	123	386	210	761	47
	585,089	518,791	225	13,169	5,759	11,431	20,047	15,667
Non-traditional	22,859	17,631	-	498	366	1,263	3,101	-
Loss mitigation program	103,528	17,814	2,304	1,681	388	1,599	3,759	75,983
	711,476	554,236	2,529	15,348	6,513	14,293	26,907	91,650
Home equity secured personal loans	337	337	-	-	-	-	-	-
GNMA's buy-back	9,681	-	-	-	2,440	3,141	4,100	-

option program	**721,494**	**554,573**	**2,529**	**15,348**	**8,953**	**17,434**	**31,007**	**91,650**
Consumer								
Credit cards	26,358	25,023	527	283	191	334	-	-
Overdrafts	207	174	16	12	1	4	-	-
Unsecured personal lines of credit	2,404	2,327	41	4	3	25	4	-
Unsecured personal loans	246,272	241,227	2,474	1,489	1,074	8	-	-
Cash collateral personal loans	15,274	15,010	240	20	4	-	-	-
	290,515	**283,761**	**3,298**	**1,808**	**1,273**	**371**	**4**	**-**
Auto and Leasing	**756,395**	**686,493**	**42,714**	**19,014**	**6,253**	**1,921**	**-**	**-**
	1,768,404	**1,524,827**	**48,541**	**36,170**	**16,479**	**19,726**	**31,011**	**91,650**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	30,093	28,281	736	369	227	480	-	-
Personal loans	2,769	2,587	48	14	21	99	-	-
	32,862	**30,868**	**784**	**383**	**248**	**579**	**-**	**-**
Auto	**53,026**	**47,503**	**3,652**	**1,355**	**415**	**101**	**-**	**-**
	85,888	**78,371**	**4,436**	**1,738**	**663**	**680**	**-**	**-**
Total	**$ 1,854,292**	**$ 1,603,198**	**$ 52,977**	**$ 37,908**	**$ 17,142**	**$ 20,406**	**$ 31,011**	**$ 91,650**

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NOTES TO 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 June 30, 2017 and December 31, 2016 was as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Allowance for loans and lease losses:		
Originated and other loans and leases held for investment:		
Mortgage	$ 18,664	$ 17,344
Commercial	17,279	8,995
Consumer	14,981	13,067
Auto and leasing	18,742	19,463
Unallocated	-	431
Total allowance for originated and other loans and lease losses	**69,666**	**59,300**
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	41	169
Consumer	2,623	3,028
Auto	684	1,103
	3,348	**4,300**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	4,141	2,682
Commercial	25,614	23,452
Auto	7,739	4,922
	37,494	**31,056**
Total allowance for acquired BBVAPR loans and lease losses	**40,842**	**35,356**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	13,651	11,947
Commercial	8,131	9,328
Consumer	5	6
Total allowance for acquired Eurobank loan and lease losses	**21,787**	**21,281**
Total allowance for loan and lease losses	**$ 132,295**	**$ 115,937**

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Allowance for Originated and Other Loan and Lease Losses Held for Investment

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

	Quarter Ended June 30, 2017					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 18,578	$ 9,888	$ 13,394	$ 18,621	$ 2	$ 60,483
Charge-offs	(2,162)	(4,841)	(4,012)	(7,775)	-	(18,790)
Recoveries	63	136	780	4,176	-	5,155
Provision for originated and other loans and lease losses	2,185	12,096	4,819	3,720	(2)	22,818
Balance at end of period	**$ 18,664**	**$ 17,279**	**$ 14,981**	**$ 18,742**	**$ -**	**$ 69,666**

	Six-Month Period Ended June 30, 2017					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 17,344	$ 8,995	$ 13,067	$ 19,463	$ 431	$ 59,300
Charge-offs	(4,541)	(5,697)	(7,368)	(15,339)	-	(32,945)
Recoveries	119	226	945	7,470	-	8,760
Provision for originated and other loans and lease losses	5,742	13,755	8,337	7,148	(431)	34,551
Balance at end of period	**$ 18,664**	**$ 17,279**	**$ 14,981**	**$ 18,742**	**$ -**	**$ 69,666**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 8,630	$ 1,940	$ -	$ -	$ -	$ 10,570
Collectively evaluated for impairment	10,034	15,339	14,981	18,742	-	59,096
Total ending allowance balance	**$ 18,664**	**$ 17,279**	**$ 14,981**	**$ 18,742**	**$ -**	**$ 69,666**
Loans:						
Individually evaluated for impairment	$ 87,042	$ 57,328	$ -	$ -	$ -	$ 144,370
Collectively evaluated for impairment	612,248	1,213,516	314,267	807,204	-	2,947,235
Total ending loan balance	**$ 699,290**	**$ 1,270,844**	**$ 314,267**	**$ 807,204**	**$ -**	**$ 3,091,605**

	Quarter Ended June 30, 2016					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 18,784	$ 64,206	$ 11,414	$ 18,716	$ 118	$ 113,238
Charge-offs	(1,374)	(833)	(2,811)	(8,100)	-	(13,118)
Recoveries	36	228	133	3,243	-	3,640
	1,091	(457)	3,035	5,400	(17)	9,052

Provision (recapture) for originated and other loan and lease losses						
Balance at end of period	**$ 18,537**	**$ 63,144**	**$ 11,771**	**$ 19,259**	**$ 101**	**$ 112,812**

	Six-Month Period Ended June 30, 2016					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 18,352	$ 64,791	$ 11,197	$ 18,261	$ 25	$ 112,626
Charge-offs	(3,036)	(1,844)	(5,138)	(16,462)	-	(26,480)
Recoveries	181	316	235	6,222	-	6,954
Provision (recapture) for originated and other loan and lease losses	3,040	(119)	5,477	11,238	76	19,712
Balance at end of period	**$ 18,537**	**$ 63,144**	**$ 11,771**	**$ 19,259**	**$ 101**	**$ 112,812**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 7,761	$ 1,626	$ -	$ -	$ -	$ 9,387
Collectively evaluated for impairment	9,583	7,369	13,067	19,463	431	49,913
Total ending allowance balance	**$ 17,344**	**$ 8,995**	**$ 13,067**	**$ 19,463**	**$ 431**	**$ 59,300**
Loans:						
Individually evaluated for impairment	$ 91,650	$ 53,139	$ -	$ -	$ -	$ 144,789
Collectively evaluated for impairment	629,844	1,224,727	290,515	756,395	-	2,901,481
Total ending loan balance	**$ 721,494**	**$ 1,277,866**	**$ 290,515**	**$ 756,395**	**$ -**	**$ 3,046,270**

Allowance for BBVAPR Acquired Loan Losses

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 BBVAPR acquired loan portfolio accounted for under ASC 310-20, for the periods indicated:

	Quarter Ended June 30, 2017			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of period	$ 183	$ 2,591	$ 841	$ 3,615
Charge-offs	(126)	(771)	(205)	(1,102)
Recoveries	2	295	597	894
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	(18)	508	(549)	(59)
Balance at end of period	**$ 41**	**$ 2,623**	**$ 684**	**$ 3,348**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2017			
	Commercial	**Consumer**	**Auto**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 169	$ 3,028	$ 1,103	$ 4,300
Charge-offs	(132)	(1,656)	(483)	(2,271)
Recoveries	3	359	1,049	1,411
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	1	892	(985)	(92)
Balance at end of year	**$ 41**	**$ 2,623**	**$ 684**	**$ 3,348**

	June 30, 2017			
	Commercial	**Consumer**	**Auto**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Ending allowance balance attributable to loans:				
Collectively evaluated for impairment	41	2,623	684	3,348
Total ending allowance balance	**$ 41**	**$ 2,623**	**$ 684**	**$ 3,348**
Loans:				
Individually evaluated for impairment	$ 761	$ -	$ -	$ 761
Collectively evaluated for impairment	4,589	30,233	33,661	68,483

Total ending loan balance	**$**	**5,350**	**$**	**30,233**	**$**	**33,661**	**$**	**69,244**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016			
	Commercial	**Consumer**	**Auto**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of period	$ 23	$ 3,243	$ 1,727	$ 4,993
Charge-offs	(12)	(1,013)	(571)	(1,596)
Recoveries	8	88	446	542
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	2	684	(138)	548
Balance at end of period	**$ 21**	**$ 3,002**	**$ 1,464**	**$ 4,487**

	Six-Month Period Ended June 30, 2016			
	Commercial	**Consumer**	**Auto**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 26	$ 3,429	$ 2,087	$ 5,542
Charge-offs	(19)	(1,825)	(1,308)	(3,152)
Recoveries	40	169	1,044	1,253
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	(26)	1,229	(359)	844
Balance at end of period	**$ 21**	**$ 3,002**	**$ 1,464**	**$ 4,487**

	December 31, 2016			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 141	$ -	$ -	$ 141
Collectively evaluated for impairment	28	3,028	1,103	4,159
Total ending allowance balance	**$ 169**	**$ 3,028**	**$ 1,103**	**$ 4,300**
Loans:				
Individually evaluated for impairment	$ 1,150	$ -	$ -	$ 1,150
Collectively evaluated for impairment	4,412	32,862	53,026	90,300
Total ending loan balance	**$ 5,562**	**$ 32,862**	**$ 53,026**	**$ 91,450**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Quarter Ended June 30, 2017			
	Mortgage	**Commercial**	**Auto**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:				
Balance at beginning of period	$ 3,573	$ 23,528	$ 7,829	$ 34,930
Provision for BBVAPR loans and lease losses accounted for under ASC 310-30	630	2,735	-	3,365
Allowance de-recognition	(62)	(649)	(90)	(801)
Balance at end of period	**$ 4,141**	**$ 25,614**	**$ 7,739**	**$ 37,494**

	Six-Month Period Ended June 30, 2017			
	Mortgage	**Commercial**	**Auto**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:				
Balance at beginning of period	$ 2,682	$ 23,452	$ 4,922	$ 31,056
Provision (recapture) for BBVAPR loans and lease losses accounted for	1,552	2,958	3,186	7,696

under ASC 310-30								
Allowance de-recognition		(93)		(796)		(369)		(1,258)
Balance at end of period	**$**	**4,141**	**$**	**25,614**	**$**	**7,739**	**$**	**37,494**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016			
	Mortgage	Commercial	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:				
Balance at beginning of period	$ 1,762	$ 20,430	$ 5,555	$ 27,747
Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	(163)	3,977	-	3,814
Loan pools fully charged-off	(14)	-	(202)	(216)
Allowance de-recognition	-	(8,544)	-	(8,544)
Balance at end of period	**$ 1,585**	**$ 15,863**	**$ 5,353**	**$ 22,801**

	Six-Month Period Ended June 30, 2016			
	Mortgage	Commercial	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:				
Balance at beginning of period	$ 1,678	$ 21,245	$ 2,862	$ 25,785
Provision for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	(79)	3,228	2,693	5,842
Loan pools fully charged-off	(14)	(66)	(202)	(282)
Allowance de-recogntion	-	(8,544)	-	(8,544)
Balance at end of period	**$ 1,585**	**$ 15,863**	**$ 5,353**	**$ 22,801**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Allowance for Acquired Eurobank Loan Losses

The changes in the allowance for loan and lease losses on acquired Eurobank loans for the quarters and six-month periods ended June 30, 2017 and 2016 were as follows:

	Quarter Ended June 30, 2017			
	Loans Secured by 1-4 Family Residential Properties	Commercial	Consumer	Total
	(In thousands)			
Allowance for loan and lease losses for acquired Eurobank loans:				
Balance at beginning of period	$ 14,168	$ 7,833	$ 5	$ 22,006
Provision for (recapture) acquired Eurobank loans and lease losses, net	474	(62)	-	412
Allowance de-recognition	(991)	360	-	(631)
Balance at end of period	**$ 13,651**	**$ 8,131**	**$ 5**	**$ 21,787**

	Six-Month Period Ended June 30, 2017			
	Loans Secured by 1-4 Family Residential Properties	Commercial	Consumer	Total
	(In thousands)			
Allowance for loan and lease losses for acquired Eurobank loans:				
Balance at beginning of period	$ 11,947	$ 9,328	$ 6	$ 21,281
Provision for (recapture) acquired Eurobank loans and lease losses, net	2,872	$ (840)	-	2,032
Allowance de-recognition	(1,168)	(357)	(1)	(1,526)
Balance at end of period	**$ 13,651**	**$ 8,131**	**$ 5**	**$ 21,787**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016			
	Loans secured by 1-4 Family Residential Properties	**Commercial**	**Consumer**	**Total**
	(In thousands)			
Allowance for loan and lease losses for acquired Eurobank loans:				
Balance at beginning of period	$ 23,961	$ 68,089	$ 243	$ 92,293
Provision for (recapture) acquired Eurobank loan and lease losses, net	237	801	(7)	1,031
Loan pools fully charged-off	951	-	-	951
Allowance de-recognition	(14,133)	(57,794)	(232)	(72,159)
Balance at end of period	**$ 11,016**	**$ 11,096**	**$ 4**	**$ 22,116**

	Six-Month Period Ended June 30, 2016			
	Loans secured by 1-4 Family Residential Properties	**Commercial**	**Consumer**	**Total**
	(In thousands)			
Allowance for loan and lease losses for Eurobank loans:				
Balance at beginning of period	$ 22,570	$ 67,365	$ 243	$ 90,178
Provision for (recapture) acquired Eurobank loan and lease losses, net	184	1,659	(7)	1,836
FDIC shared-loss portion of provision for covered loan and lease losses, net	2,395	-	-	2,395
Loan pools fully charged-off	-	(134)	-	(134)
Allowance de-recognition	(14,133)	(57,794)	(232)	(72,159)
Balance at end of period	**$ 11,016**	**$ 11,096**	**$ 4**	**$ 22,116**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6- FDIC INDEMNIFICATION ASSET, TRUE-UP PAYMENT OBLIGATION, AND FDIC SHARED-LOSS EXPENSE

On February 6, 2017, the Bank and the FDIC agreed to terminate the single family and commercial shared-loss agreements related to the FDIC assisted acquisition of Eurobank on April 30, 2010. As part of the loss share termination transaction, the Bank made a payment of $10.1 million to the FDIC and recorded a net benefit of $1.4 million. Such termination payment took into account the anticipated reimbursements over the life of the shared-loss agreements and the true-up payment liability of the Bank anticipated at the end of the ten year term of the single family shared-loss agreement. All rights and obligations of the parties under the shared-loss agreements terminated as of the closing date of the agreement.

Pursuant to the terms of the shared-loss agreements, the FDIC would reimburse the Bank for 80% of all qualifying losses with respect to assets covered by such agreements, and the Bank would reimburse the FDIC for 80% of qualifying recoveries with respect to losses for which the FDIC reimbursed the Bank. The single family shared-loss agreement provided for FDIC loss sharing and the Bank’s reimbursement to the FDIC to last for ten years, and the commercial shared-loss agreement provided for FDIC loss sharing and the Bank’s reimbursement to the FDIC to last for five years, with additional recovery sharing for three years thereafter.

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	**2016**	**2017**	**2016**
		(In thousands)		
FDIC indemnification asset:				
Balance at beginning of period	$ -	$ 20,923	$ 14,411	$ 22,599
Shared-loss agreements reimbursements from the FDIC	-	(332)	-	(737)
Increase in expected credit losses to be covered under shared-loss agreements, net	-	951	-	2,395
FDIC indemnification asset benefit (expense)	-	(1,405)	1,403	(4,269)
Net expenses incurred under shared-loss agreements	-	(1,711)	-	(1,562)
Shared-loss termination settlement	-	-	(15,814)	-
Balance at end of period	**$ -**	**$ 18,426**	**$ -**	**$ 18,426**

True-up payment obligation:								
Balance at beginning of period	$	-	$	25,235	$	26,786	$	24,658
Change in true-up payment obligation		-		537		-		1,114
Shared-loss termination settlement		-		-		(26,786)		-
Balance at end of period	**$**	**-**	**$**	**25,772**	**$**	**-**	**$**	**25,772**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company recognized an FDIC shared-loss (benefit) expense, net in the consolidated statements of operations, which consists of the following, for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2016
	(In thousands)			
FDIC indemnification asset expense (benefit)	$ -	$ 1,405	$ (1,403)	$ 4,269
Change in true-up payment obligation	-	537	-	1,114
Reimbursement to FDIC for recoveries	-	1,478	-	2,066
Total FDIC shared-loss expense (benefit), net	**$ -**	**$ 3,420**	**$ (1,403)**	**$ 7,449**

NOTE 7 — DERIVATIVES

The following table presents the Company's derivative assets and liabilities at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(In thousands)	
Derivative assets:		
Interest rate swaps not designated as hedges	$ 893	$ 1,187
Interest rate caps	64	143
	$ 957	**$ 1,330**
Derivative liabilities:		
Interest rate swaps designated as cash flow hedges	923	1,004
Interest rate swaps not designated as hedges	893	1,187
Interest rate caps	65	139
Other	-	107
	$ 1,881	**$ 2,437**

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 the cash flow hedges is recognized in other comprehensive income (loss) and is subsequently reclassified into operations 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 (loss) related to these interest rate swaps to operations in the next twelve months.

The following table shows a summary of these swaps and their terms at June 30, 2017:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
Interest Rate Swaps	$ 35,856	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$ 35,856					

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

An accumulated unrealized loss of $923 thousand and $1.0 million was recognized in accumulated other comprehensive income (loss) related to the valuation of these swaps at June 30, 2017 and December 31, 2016, respectively, and the related liability is being reflected in the consolidated statements of financial condition.

At June 30, 2017 and December 31, 2016, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $893 thousand and $1.2 million, respectively, and were included as part of derivative assets in the consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At June 30, 2017 and December 31, 2016, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $893 thousand and $1.2 million, respectively, and were included as part of derivative liabilities in the 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 June 30, 2017:

Type		Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
Interest Rate Swaps - Derivatives Offered to Clients	$	12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**12,500**				
Interest Rate Swaps - Mirror Image Derivatives	$	12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**12,500**				

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. As of June 30, 2017 and December 31, 2016, the outstanding total notional amount of interest rate caps was $135.6 million and $136.1 million, respectively.

At June 30, 2017 and December 31, 2016, the interest rate caps sold to clients represented a liability of $65 thousand and $139 thousand, respectively, and were included as part of derivative liabilities in the consolidated statements of financial condition. At June 30, 2017 and December 31, 2016, the interest rate caps purchased as mirror-images represented an asset of $64 thousand and $143 thousand, respectively, and were included as part of derivative assets in the consolidated statements of financial condition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at June 30, 2017 and December 31, 2016 consists of the following:

		June 30, 2017		December 31, 2016
		(In thousands)		
Loans, excluding acquired loans	$	16,835	$	16,706
Investments		2,963		3,521
	$	**19,798**	**$**	**20,227**

Other assets at June 30, 2017 and December 31, 2016 consist of the following:

		June 30, 2017		December 31, 2016
		(In thousands)		
Prepaid expenses	$	17,117	$	17,096
Other repossessed assets		3,225		3,224
Core deposit and customer relationship intangibles		5,424		6,160
Mortgage tax credits		6,277		6,277
Investment in Statutory Trust		1,083		1,083
Accounts receivable and other assets		33,162		46,525
	$	**66,288**	**$**	**80,365**

Prepaid expenses amounting to $17.1 million at both June 30, 2017 and December 31, 2016, include prepaid municipal, property and income taxes aggregating to $11.7 million and $12.5 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 June 30, 2017 and December 31, 2016 this core deposit intangible amounted to $3.8 million and $4.3 million, respectively. In addition, the Company recorded a customer relationship intangible representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition. At June 30, 2017 and December 31, 2016, this customer relationship intangible amounted to $1.6 million and $1.9 million, respectively.

Other repossessed assets totaled $3.2 million at June 30, 2017 and December 31, 2016, respectively, include repossessed automobiles amounting to $3.0 million, respectively, which are recorded at their net realizable value.

At June 30, 2017 and December 31, 2016, tax credits for the Company totaled $6.3 million for both periods. These tax credits do not have an expiration date.

NOTE 9— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of June 30, 2017 and December 31, 2016 consist of the following:

	June 30, 2017	December 31, 2016
	(In thousands)	
Non-interest bearing demand deposits	$ 845,375	$ 848,502
Interest-bearing savings and demand deposits	2,115,290	2,219,452
Individual retirement accounts	238,345	265,754
Retail certificates of deposit	607,910	563,965
Institutional certificates of deposit	206,855	190,419
Total core deposits	**4,013,775**	**4,088,092**
Brokered deposits	568,911	576,395
Total deposits	$ **4,582,686**	$ **4,664,487**

Brokered deposits include $515.6 million in certificates of deposits and $53.3 million in money market accounts at June 30, 2017, and $508.4 million in certificates of deposits and $68.0 million in money market accounts at December 31, 2016.

The weighted average interest rate of the Company’s deposits was 0.65% and 0.62% at June 30, 2017 and December 31, 2016 respectively. Interest expense for the quarters and six-month periods ended June 30, 2017 and 2016 was as follows:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Demand and savings deposits	$ 2,939	$ 3,184	$ 5,848	$ 6,026
Certificates of deposit	4,713	4,183	9,157	8,465
	$ 7,652	**$ 7,367**	**$ 15,005**	**$ 14,491**

At December 31, 2016, demand and interest-bearing deposits and certificates of deposit included uncollateralized deposits of Puerto Rico Cash & Money Market Fund, Inc. ("the Fund”), which amounted to $15.3 million, with a weighted average rate of 0.77%. On April 3, 2017, the Fund was liquidated in anticipation of its dissolution.

At June 30, 2017 and December 31, 2016, time deposits in denominations of $250 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $360.9 million and $344.0 million, respectively. Such amounts include public funds time deposits from various Puerto Rico government municipalities, agencies, and corporations of $16.8 million and $2.1 million at a weighted average rate of 0.63% and 0.50% at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017 and December 31, 2016, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $123.3 million and $170.7 million, respectively. These public funds were collateralized with commercial loans amounting to $215.8 million and $209.2 million at June 30, 2017 and December 31, 2016, respectively.

Excluding accrued interest of approximately $1.9 million, the scheduled maturities of certificates of deposit at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Within one year:		
Three (3) months or less	$ 262,406	$ 277,621
Over 3 months through 1 year	590,861	534,548
	853,267	**812,169**
Over 1 through 2 years	444,176	488,440
Over 2 through 3 years	195,287	154,545
Over 3 through 4 years	38,872	29,701
Over 4 through 5 years	35,145	41,949
	$ 1,566,747	**$ 1,526,804**

The table of scheduled maturities of certificates of deposits above includes brokered-deposits and individual retirement accounts.

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans amounted to $761 thousand and $575 thousand as of June 30, 2017 and December 31, 2016, respectively.

NOTE 10 — BORROWINGS AND RELATED INTEREST

Securities Sold under Agreements to Repurchase

At June 30, 2017, 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. The purpose of these transactions is to provide financing for the Company’s securities portfolio.

At June 30, 2017 and December 31, 2016, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $642 thousand and $1.5 million, respectively, were as follows:

	June 30, 2017		December 31, 2016	
	Borrowing Balance	Fair Value of Underlying Collateral	Borrowing Balance	Fair Value of Underlying Collateral
	(In thousands)			
Nomura	$ 37,001	$ 38,900	$ -	$ -
PR Cash and Money Market Fund	-	-	70,010	74,538
JP Morgan Chase Bank NA	239,781	257,976	350,219	376,674
Federal Home Loan Bank	110,000	115,881	-	-
Credit Suisse Securities (USA) LLC	-	-	232,000	249,286
Goldman SachsCredit Suisse Securities (USA) LLC	66,068	70,653	-	-
Total	**$ 452,850**	**$ 483,410**	**$ 652,229**	**$ 700,498**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of the Company's repurchase agreements and their terms, excluding accrued interest in the amount of $642 thousand, at June 30, 2017:

Year of Maturity		Borrowing Balance (In thousands)	Weighted-Average Coupon	Settlement Date	Maturity Date
2017	$	37,001	1.65%	6/27/2017	7/3/2017
		57,281	1.55%	6/28/2017	7/5/2017
		66,068	1.50%	6/28/2017	7/7/2017
2018		182,500	1.42%	12/10/2012	4/29/2018
2019		50,000	1.72%	3/2/2017	9/3/2019
2020		60,000	1.85%	3/2/2017	3/2/2020
	$	**452,850**	**1.56%**		

All the repurchase agreements referred above with maturity up to the date of this report were renewed by the Company.

A repurchase agreement in the original amount of $500 million with an original term of ten years was modified in February 2016 to terminate, before maturity, $268.0 million of this repurchase agreement at a cost of $12.0 million, included as a loss on early extinguishment of debt in the consolidated statements of operations. The remaining balance of this repurchase agreement of $232.0 million matured on March 2, 2017. At June 30, 2017, repurchase agreement in the original amount of $25.0 million and $75.0 million, respectively, with original term of June 2019 and December 2019, respectively, were terminated before maturity at a cost of $80 thousand, included as a loss on early extinguishment of debt in consolidated statement of operations.

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 June 30, 2017 and December 31, 2016. There was no cash collateral at June 30, 2017 and December 31, 2016.

	June 30, 2017	
		Market Value of Underlying Collateral
Weighted	FNMA and	

	Repurchase Liability	Average Rate	FHLMC Certificates	GNMA Certificates	US Treasury Treasury Notes	Total
			(Dollars in thousands)			
Less than 90 days	$ 160,350	1.57%	$ 170,851	$ -	$ -	$ 170,851
Over 90 days	292,500	1.56%	312,467	92	-	312,559
Total	**$ 452,850**	**1.56%**	**$ 483,318**	**$ 92**	**$ -**	**$ 483,410**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2016					
			Market Value of Underlying Collateral			
	Repurchase Liability	Weighted Average Rate	FNMA and FHLMC Certificates	GNMA Certificates	US Treasury Treasury Notes	Total
	(Dollars in thousands)					
Less than 90 days	$ 349,729	$ 3.35%	248,288	$ 75,536	$ 48,954	$ 372,778
Over 90 days	302,500	1.44%	327,627	93	-	327,720
Total	**$ 652,229**	**2.47%**	**$ 575,915**	**$ 75,629**	**48,954**	**700,498**

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 June 30, 2017 and December 31, 2016, these advances were secured by mortgage and commercial loans amounting to $1.3 billion and $1.4 billion, respectively. Also, at June 30, 2017 and December 31, 2016, the Company had an additional borrowing capacity with the FHLB-NY of $935.5 million and $1.2 billion, respectively. At June 30, 2017 and December 31, 2016, the weighted average remaining maturity of FHLB's advances was 5.2 months and 10.6 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 June 30, 2017.

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $308 thousand, at June 30, 2017:

Year of Maturity	Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
	(In thousands)			
2017	$ 35,856	1.20%	6/1/2017	7/3/2017
	37,000	1.24%	6/30/2017	7/3/2017
	72,856			
2018	30,000	2.19%	1/16/2013	1/16/2018

		25,000	2.18%	1/16/2013	1/16/2018
		55,000			
2020		9,376	2.59%	7/19/2013	7/20/2020
	$	**137,232**	**1.70%**		

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

Subordinated Capital Notes

Subordinated capital notes amounted to $36.1 million at June 30, 2017 and December 31, 2016, for both periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 11 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

The following table presents the potential effect of rights of set-off associated with the Company's recognized financial assets and liabilities at June 30, 2017 and December 31, 2016:

	June 30, 2017					
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	$ 957	$ -	$ 957	$ 2,027	$ -	$ (1,070)

	December 31, 2016				
			Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amounts Offset in the	Net amount of Assets Presented in Statement		Cash	

	Gross Amount of Recognized Assets		Statement of Financial Condition		of Financial Condition		Financial Instruments		Collateral Received		Net Amount
					(In thousands)						
Derivatives	$	**1,330**	$	**-**	$	**1,330**	$	**2,003**	$	**-**	$	**(673)**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2017											
							Gross Amounts Not Offset in the Statement of Financial Condition					
	Gross Amount of Recognized Liabilities		Gross Amounts Offset in the Statement of Financial Condition		Net Amount of Liabilities Presented in Statement of Financial Condition		Financial Instruments		Cash Collateral Provided		Net Amount	
	(In thousands)											
Derivatives	$	1,881	$	-	$	1,881	$	-	$	1,980	$	(99)
Securities sold under agreements to repurchase		452,850		-		452,850		483,410		-		(30,560)
Total	**$**	**454,731**	**$**	**-**	**$**	**454,731**	**$**	**483,410**	**$**	**1,980**	**$**	**(30,659)**

	December 31, 2016											
							Gross Amounts Not Offset in the Statement of Financial Condition					
	Gross Amount of Recognized Liabilities		Gross Amounts Offset in the Statement of Financial Condition		Net Amount of Liabilities Presented in Statement of Financial Condition		Financial Instruments		Cash Collateral Provided		Net Amount	
	(In thousands)											
Derivatives	$	2,437	$	-	$	2,437	$	-	$	1,980	$	457
Securities sold under agreements to repurchase		652,229		-		652,229		700,498		-		(48,269)
Total	**$**	**654,666**	**$**	**-**	**$**	**654,666**	**$**	**700,498**	**$**	**1,980**	**$**	**(47,812)**

NOTE 12 — INCOME TAXES

At June 30, 2017 and December 31, 2016, the Company’s net deferred tax asset amounted to $116.2 million and $124.2 million, respectively. In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax asset are deductible, management believes it is more likely than not that the Company will realize the deferred tax asset, net of the existing valuation allowances recorded at June 30, 2017 and December 31, 2016. The amount of the deferred tax asset that is considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

At June 30, 2017 and December 31, 2016, Oriental International Bank Inc. (“OIB”), the Bank’s international banking entity subsidiary, had $6 thousand and $109 thousand, respectively, in income tax effect of unrecognized gain on available-for-sale securities included in other comprehensive income. Following the change in OIB’s applicable tax rate from 5% to 0% as a result of a Puerto Rico law adopted in 2011, this remaining tax balance will flow through income as these securities are repaid or sold in future periods. During the quarters ended June 30, 2017 and 2016, $95 thousand and $8 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income (loss) into income tax provision. During the six-month period ended June 30, 2017 and 2016, $103 thousand and $16 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income (loss) into income tax provision.

The Company classifies unrecognized tax benefits in other liabilities. These gross unrecognized tax benefits would affect the effective tax rate if realized. At June 30, 2017 the amount of unrecognized tax benefits was $2.1 million (December 31, 2016 - $2.0 million). The Company had accrued $80 thousand at June 30, 2017 (December 31, 2016 - $229 thousand) for the payment of interest and penalties relating to unrecognized tax benefits.

The Company is subject to the dispositions of the 2011 Puerto Rico Internal Revenue Code, as amended (the "Code"). The Code imposes a maximum corporate tax rate of 39%. The Company maintained a lower effective tax rate for the six-month periods ended June 30, 2017 and 2016 of 29.0% and 28.8%, respectively.

Income tax expense for the quarters ended June 30, 2017 and 2016 was $4.0 million and $5.9 million, respectively. Income tax expense for the six-month periods ended June 30, 2017 and 2016 was $13.2 million and $11.5 million, respectively.

NOTE 13 — REGULATORY CAPITAL REQUIREMENTS

Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and Puerto Rico banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Pursuant to the Dodd-Frank Act, federal banking regulators adopted capital rules that became effective January 1, 2015 for the Company and the Bank (subject to certain phase-in periods through January 1, 2019) and that replaced their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules. Among other matters, the new capital rules: (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to prior regulations. The current capital rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, and resulting in higher risk weights for a variety of asset classes.

Pursuant to the current capital rules, the minimum capital ratios requirements are as follows:

4.5% CET1 to risk-weighted assets;

6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;

8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and

4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

As of June 30, 2017 and December 31, 2016, the Company and the Bank met all capital adequacy requirements to which they are subject. As of June 30, 2017 and December 31, 2016, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the tables presented below.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's and the Bank's actual capital amounts and ratios as of June 30, 2017 and December 31, 2016 are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Company Ratios						
As of June 30, 2017						
Total capital to risk-weighted assets	$ 896,927	**20.42%**	$ 351,306	**8.00%**	$ 439,132	**10.00%**
Tier 1 capital to risk-weighted assets	$ 840,704	**19.14%**	$ 263,479	**6.00%**	$ 351,306	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 643,607	**14.66%**	$ 197,609	**4.50%**	$ 285,436	**6.50%**
Tier 1 capital to average total assets	$ 840,704	**13.69%**	$ 245,577	**4.00%**	$ 306,971	**5.00%**
As of December 31, 2016						
Total capital to risk-weighted assets	$ 876,657	**19.62%**	$ 357,404	**8.00%**	$ 446,756	**10.00%**
Tier 1 capital to risk-weighted assets	$ 819,662	**18.35%**	$ 268,053	**6.00%**	$ 357,404	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 627,733	**14.05%**	$ 201,040	**4.50%**	$ 290,391	**6.50%**
Tier 1 capital to average total assets	$ 819,662	**12.99%**	$ 252,344	**4.00%**	$ 315,430	**5.00%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Bank Ratios						
As of June 30, 2017						
Total capital to risk-weighted assets	$ 887,024	**20.20%**	$ 351,244	**8.00%**	$ 439,055	**10.00%**
Tier 1 capital to risk-weighted assets	$ 831,012	**18.93%**	$ 263,433	**6.00%**	$ 351,244	**8.00%**
	$ 831,012	**18.93%**	$ 197,575	**4.50%**	$ 285,386	**6.50%**

Common equity tier 1 capital to risk-weighted assets								
Tier 1 capital to average total assets	$	831,012	**13.59%**	$	244,618	**4.00%**	$	305,773	**5.00%**
<u>As of December 31, 2016</u>									
Total capital to risk-weighted assets	$	857,259	**19.23%**	$	356,596	**8.00%**	$	445,745	**10.00%**
Tier 1 capital to risk-weighted assets	$	800,544	**17.96%**	$	267,447	**6.00%**	$	356,596	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$	800,544	**17.96%**	$	200,585	**4.50%**	$	289,734	**6.50%**
Tier 1 capital to average total assets	$	800,544	**12.75%**	$	251,200	**4.00%**	$	314,000	**5.00%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 – STOCKHOLDERS' EQUITY

Additional Paid-in Capital

Additional paid-in capital represents contributed capital in excess of par value of common and preferred stock net of the costs of issuance. As of both periods, June 30, 2017 and December 31, 2016 accumulated issuance costs charged against additional paid in capital amounted to $13.6 million and $10.1 million for preferred and common stock, respectively.

Legal Surplus

The Puerto Rico Banking Act requires that a minimum of 10% of the Bank's net income or loss for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid in capital on common and preferred stock. At June 30, 2017 and December 31, 2016, the Bank's legal surplus amounted to $79.5 million and $76.3 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

Treasury Stock

Under the Company's current stock repurchase program it is authorized to purchase in the open market up $7.7 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by the Company as treasury shares. During the six-month periods ended June 30, 2017 and 2016, the Company did not purchase any shares under the program.

At June 30, 2017 the number of shares that may yet be purchased under the $70 million program is estimated at 773,085 and was calculated by dividing the remaining balance of $7.7 million by $10.00 (closing price of the Company common stock at June 30, 2017).

The activity in connection with common shares held in treasury by the Company for the six-month periods ended June 30, 2017 and 2016 is set forth below:

	Six-Month Period Ended June 30,			
	2017		2016	
	Shares	Dollar Amount	Shares	Dollar Amount
	(In thousands, except shares data)			
Beginning of period	8,711,025	$ 104,860	8,757,960	$ 105,379
Common shares used upon lapse of restricted stock units	(32,598)	(358)	(45,810)	(505)
End of period	**8,678,427**	**$ 104,502**	**8,712,150**	**$ 104,874**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income taxes, as of June 30, 2017 and December 31, 2016 consisted of:

	June 30, 2017	December 31, 2016
	(In thousands)	
Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	$ 47	$ 1,617
Income tax effect of unrealized gain on securities available-for-sale	209	592
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	256	2,209
Unrealized loss on cash flow hedges	(923)	(1,004)
Income tax effect of unrealized loss on cash flow hedges	360	391
Net unrealized loss on cash flow hedges	(563)	(613)
Accumulated other comprehensive (loss) income, net of income taxes	**$ (307)**	**$ 1,596**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30,					
	2017			2016		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive income
	(In thousands)					
Beginning balance	$ 3,850	$ (502)	$ 3,348	$ 15,089	$ (2,805)	$ 12,284
Other comprehensive loss before reclassifications	(3,618)	(189)	(3,807)	3,060	(949)	2,111
Amounts reclassified out of accumulated other comprehensive income (loss)	24	128	152	(64)	1,474	1,410
Other comprehensive income (loss)	(3,594)	(61)	(3,655)	2,996	525	3,521
Ending balance	**$ 256**	**$ (563)**	**$ (307)**	**$ 18,085**	**$ (2,280)**	**$ 15,805**

	Six-Month Period Ended June 30,					
	2017			2016		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive income
	(In thousands)					
Beginning balance	$ 2,209	(613)	1,596	16,924	(2,927)	13,997
Other comprehensive income (loss) before reclassifications	(1,911)	(227)	(2,138)	(1,266)	(2,406)	(3,672)
Amounts reclassified out of accumulated other comprehensive income (loss)	(42)	277	235	2,427	3,053	5,480
Other comprehensive income (loss)	(1,953)	50	(1,903)	1,161	647	1,808
Ending balance	**$ 256**	**$ (563)**	**$ (307)**	**$ 18,085**	**$ (2,280)**	**$ 15,805**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents reclassifications out of accumulated other comprehensive income for the quarters and six-month periods ended June 30, 2017 and 2016:

	Amount reclassified out of accumulated other comprehensive (loss) income		Affected Line Item in Consolidated Statement of Operations
	Quarter Ended June 30,		
	2017	2016	
	(In thousands)		
Cash flow hedges:			
Interest-rate contracts	$ 128	$ 1,354	Net interest expense
Tax effect from increase in capital gains tax rate	-	120	Income tax expense
Available-for-sale securities:			
Residual tax effect from OIB's change in applicable tax rate	95	8	Income tax expense
Tax effect from increase in capital gains tax rate	(71)	(72)	Income tax expense
	$ 152	**$ 1,410**	

	Amount reclassified out of accumulated other comprehensive (loss) income		Affected Line Item in Consolidated Statement of Operations
	Six-Month Period Ended June 30,		
	2017	2016	
	(In thousands)		
Cash flow hedges:			
Interest-rate contracts	$ 277	$ 2,804	Net interest expense
Tax effect from increase in capital gains tax rate	-	249	Income tax expense
Available-for-sale securities:			
Other-than-temporary impairment losses on investment securities	-	2,557	Net impairment losses recognized in earnings
Residual tax effect from OIB's change in applicable tax rate	103	16	Income tax expense
Tax effect from increase in capital gains tax rate	(145)	(146)	Income tax expense
	$ 235	**$ 5,480**	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for the quarters and six-month periods ended June 30, 2017 and 2016 is as follows:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Net income	$ 17,104	$ 14,339	$ 32,254	$ 28,510
Less: Dividends on preferred stock				
Non-convertible preferred stock (Series A, B, and D)	(1,629)	(1,629)	(3,256)	(3,256)
Convertible preferred stock (Series C)	(1,837)	(1,837)	(3,675)	(3,675)
Income available to common shareholders	**$ 13,638**	**$ 10,873**	**$ 25,323**	**$ 21,579**
Effect of assumed conversion of the convertible preferred stock	1,837	1,837	3,675	3,675
Income available to common shareholders assuming conversion	$ **15,475**	$ **12,710**	$ **28,998**	$ **25,254**
Weighted average common shares and share equivalents:				
Average common shares outstanding	43,947	43,914	43,931	43,906
Effect of dilutive securities:				
Average potential common shares-options	15	43	24	37
Average potential common shares-assuming conversion of convertible preferred stock	7,138	7,138	7,138	7,138
Total weighted average common shares outstanding and equivalents	**51,100**	**51,095**	**51,093**	**51,081**
	$ 0.30	**$ 0.25**	**$ 0.58**	**$ 0.49**

Earnings per common share - basic								
Earnings per common share - diluted	**$**	**0.30**	**$**	**0.25**	**$**	**0.57**	**$**	**0.49**

In computing diluted earnings per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at June 30, 2017, with a conversion rate, subject to certain conditions, of 86.4225 shares of common stock per share, were included as average potential common shares from the date they were issued and outstanding. Moreover, in computing diluted earnings per common share, the dividends declared during the quarters and six-month periods ended June 30, 2017 and 2016 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended June 30, 2017 and 2016, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 967,041 and 957,743, respectively. For the six-month period ended June 30, 2017 and 2016, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 890,472 and 957,783, respectively.

NOTE 17 – GUARANTEES

At June 30, 2017 and December 31, 2016 , the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $13.4 million and $4.0 million, respectively.

As a result of the BBVAPR Acquisition, the Company assumed a liability for residential mortgage loans sold subject to credit recourse, pursuant to FNMA's residential mortgage loan sales and securitization programs. At June 30, 2017 and December 31, 2016, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $6.6 million and $20.1 million, respectively.

The following table shows the changes in the Company's liability for estimated losses from these credit recourse agreements, included in the consolidated statements of financial condition during the quarters and six-month periods ended June 30, 2017 and 2016.

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Balance at beginning of period	$ 570	$ 181	$ 710	$ 439
Net (charge-offs/terminations) recoveries	(111)	(19)	(251)	(277)
Balance at end of period	**$ 459**	**$ 162**	**$ 459**	**$ 162**

The estimated losses to be absorbed under the credit recourse arrangements were recorded as a liability when the credit recourse was assumed, and are updated on a quarterly basis. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 120 days delinquent, in which case the Company is obligated to repurchase the loan. The recourse obligation will be fully extinguished before the end of 2017.

If a borrower defaults, pursuant to the credit recourse provided, the Company is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Company would be required to make under the recourse arrangements is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarters ended June 30, 2017 and 2016, the Company repurchased approximately $66 thousand and $83 thousand, respectively of unpaid principal balance in mortgage loans subject to the credit recourse provisions. During the six-month periods ended June 30, 2017 and 2016, the Company repurchased approximately $107 thousand and $288 thousand, respectively of unpaid principal balance in mortgage loans subject to the credit recourse provisions. If a borrower defaults, the

Company has rights to the underlying collateral securing the mortgage loan. The Company suffers losses on these mortgage loans when the proceeds from a foreclosure sale of the collateral property are less than the outstanding principal balance of the loan, any uncollected interest advanced, and the costs of holding and disposing the related property. At June 30, 2017, the Company's liability for estimated credit losses related to loans sold with credit recourse amounted to $459 thousand (December 31, 2016– $710 thousand).

When the Company sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Company's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under such mortgage backed securities programs, quality review procedures are performed by the Company to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Company may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. During the quarter ended June 30, 2017, the Company repurchased $1.4 million (June 30, 2016 – $817 thousand) of unpaid principal balance in mortgage loans, excluding mortgage loans subject to credit recourse provision referred above. During both the six-month periods ended June 30, 2017 and June 30, 2016, the Company repurchased $2.3 million of unpaid principal balance in mortgage loans, excluding mortgage loans subject to credit recourse provision referred before.

During the quarters ended June 30, 2017 and 2016, the Company recognized $254 thousand and $92 thousand, respectively, in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $283 thousand and $329 thousand, respectively, from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties. During the six-month periods ended June 30, 2017 and 2016, the Company recognized $354 thousand and $111 thousand, respectively, in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $590 thousand and $830 thousand, respectively, from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including the FHLMC, require the Company to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At June 30, 2017, the Company serviced $845.7 million in mortgage loans for third-parties. The Company generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Company must absorb the cost of the funds it advances during the time the advance is outstanding. The Company must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Company would not receive any future servicing income with respect to that loan. At June 30, 2017, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately $366 thousand (December 31, 2016 - $334 thousand). To the extent the mortgage loans underlying the Company's servicing portfolio experience increased delinquencies, the Company would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

NOTE 18— COMMITMENTS AND CONTINGENCIES

Loan Commitments

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

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

Credit-related financial instruments at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Commitments to extend credit	$ 434,051	$ 492,885
Commercial letters of credit	1,501	2,721

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

At June 30, 2017 and December 31, 2016, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused commitments does not necessarily represent future cash requirements. These lines of credit had a reserve of $667 thousand at June 30, 2017 and December 31, 2016.

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

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, at June 30, 2017 and December 31, 2016, is as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Standby letters of credit and financial guarantees	$ 13,420	$ 4,041
Loans sold with recourse	6,640	20,126

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

Lease Commitments

The Company has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the quarters ended June 30, 2017 and 2016, amounted to $2.5 million and $2.3 million, respectively. For the six-month periods ended June 30, 2017 and 2016, rent expense amounted to $4.5 million and $4.4 million, respectively, and is included in the "occupancy and equipment" caption in the unaudited consolidated statements of operations. Future rental commitments under leases in effect at June 30, 2017, exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

Year Ending December 31,		**Minimum Rent (In thousands)**
2017	$	3,665
2018		6,969
2019		6,928
2020		6,201
2021		5,371
Thereafter		7,881
	$	**37,015**

Contingencies

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

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

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

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value measurement framework under U.S. Generally Accepted Accounting Principles ("GAAP").

Fair Value Measurement

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

Money market investments

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

Investment securities

The fair value of investment securities is based on quoted market prices, when available, or market prices provided by Interactive Data Corporation ("IDC"), and independent, well-recognized pricing company. Such securities are classified as Level 1 or Level 2 depending on the basis for determining fair value. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument, and such securities are classified as Level 3. At June 30, 2017 and December 31, 2016, the Company did not have investment securities classified as Level 3.

Derivative instruments

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

Certain other derivative instruments with limited market activity are valued using externally developed models that consider unobservable market parameters. Based on their valuation methodology, derivative instruments are classified as Level 2 or Level 3. In the past, the Company offered its customers certificates of deposit with an option tied to the performance of the S&P Index and used equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value was obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options was linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology used an average rate option or a cash-settled option whose payoff was based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which were uncertain and required a degree of judgment, included primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage. At June 30, 2017 and December 31, 2016, there were no options tied to the S&P Index outstanding.

Servicing assets

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

Impaired Loans

Impaired loans are carried at the present value of expected future cash flows using the loan's existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value described in ASC 820-10 and would generally result in a higher value than the exit-price approach. For loans measured using the estimated fair value of collateral less costs to sell, fair value is generally determined based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC 310-10-35 less disposition costs. Currently, the associated loans considered impaired are classified as Level 3.

Foreclosed real estate

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other repossessed assets

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

Assets and liabilities measured at fair value on a recurring and non-recurring basis are summarized below:

	June 30, 2017 Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 649,327	$ -	$ 649,327
Trading securities	-	294	-	294
Money market investments	6,467	-	-	6,467
Derivative assets	-	957	-	957
Servicing assets	-	-	9,866	9,866
Derivative liabilities	-	(1,881)	-	(1,881)
	$ 6,467	**$ 648,697**	**$ 9,866**	**$ 665,030**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 58,089	$ 58,089
Foreclosed real estate	-	-	50,223	50,223
Other repossessed assets	-	-	3,225	3,225
	$ -	**$ -**	**$ 111,537**	**$ 111,537**

	December 31, 2016 Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 751,484	$ -	$ 751,484

Trading securities		-		347		-		347
Money market investments		5,606		-		-		5,606
Derivative assets		-		1,330		-		1,330
Servicing assets		-		-		9,858		9,858
Derivative liabilities		-		(2,437)		-		(2,437)
	$	**5,606**	**$**	**750,724**	**$**	**9,858**	**$**	**766,188**
Non-recurring fair value measurements:								
Impaired commercial loans	$	-	$	-	$	54,289	$	54,289
Foreclosed real estate		-		-		47,520		47,520
Other repossessed assets		-		-		3,224		3,224
	$	**-**	**$**	**-**	**$**	**105,033**	**$**	**105,033**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30, 2017			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
		(In thousands)		
Balance at beginning of period	$ -	$ 9,688	$ -	$ 9,688
New instruments acquired	-	540	-	540
Principal repayments	-	(164)	-	(164)
Changes in fair value of servicing assets	-	(198)	-	(198)
Balance at end of period	**$ -**	**$ 9,866**	**$ -**	**$ 9,866**

	Six-Month Period Ended June 30, 2017			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
		(In thousands)		
Balance at beginning of period	$ -	$ 9,858	$ -	$ 9,858
New instruments acquired	-	1,074	-	1,074
Principal repayments	-	(326)	-	(326)
Changes in fair value of servicing assets	-	(740)	-	(740)
Balance at end of period	**$ -**	**$ 9,866**	**$ -**	**$ 9,866**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2016			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
		(In thousands)		
Balance at beginning of period	$ 772	$ 7,819	$ (746)	$ 7,845
Gains (losses) included in earnings	(585)	-	557	(28)
New instruments acquired	-	717	-	717
Principal repayments	-	(121)	-	(121)
Amortization	-	-	8	8
Changes in fair value of servicing assets	-	(483)	-	(483)
Balance at end of period	$ **187**	$ **7,932**	$ **(181)**	$ **7,938**

	Six-Month Period Ended June 30, 2016			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
		(In thousands)		
Balance at beginning of period	$ 1,171	$ 7,455	$ (1,095)	$ 7,531
Gains (losses) included in earnings	(984)	-	886	(98)
New instruments acquired	-	1,275	-	1,275
Principal repayments	-	(225)	-	(225)
Amortization	-	-	28	28
Changes in fair value of servicing assets	-	(573)	-	(573)
Balance at end of period	$ **187**	$ **7,932**	$ **(181)**	$ **7,938**

During the quarters and six-month periods ended June 30, 2017 and 2016, there were purchases and sales of assets and liabilities measured at fair value on a recurring basis. There were no transfers into and out of Level 1 and Level 2 fair value measurements during such periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents quantitative information for all assets and liabilities measured at fair value on a recurring and non-recurring basis using significant unobservable inputs (Level 3) at June 30, 2017:

	June 30, 2017				
	Fair Value (In thousands)		Valuation Technique	Unobservable Input	Range
Servicing assets	$	9,866	Cash flow valuation	Constant prepayment rate	4.18% - 9.07%
				Discount rate	10.00% - 12.00%
Collateral dependant impaired loans	$	25,242	Fair value of property or collateral	Appraised value less disposition costs	22.20% - 36.20%
Other non-collateral dependant impaired loans	$	32,847	Cash flow valuation	Discount rate	4.15% - 10.50%
Foreclosed real estate	$	50,223	Fair value of property or collateral	Appraised value less disposition costs	22.20% - 36.20%
Other repossessed assets	$	3,225	Fair value of property or collateral	Estimated net realizable value less disposition costs	32.00% - 68.00%

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

Fair Value of Financial Instruments

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

The estimated fair value is subjective in nature, involves uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect these fair value estimates. The fair value estimates do not take into consideration the value of future business and the value of assets and liabilities that are not financial instruments. Other significant tangible and intangible assets that are not considered financial instruments are the value of long-term customer relationships of retail deposits, and premises and equipment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The estimated fair value and carrying value of the Company's financial instruments at June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Level 1				
Financial Assets:				
Cash and cash equivalents	$ 477,308	$ 477,308	$ 510,439	$ 510,439
Restricted cash	$ 3,030	$ 3,030	$ 3,030	$ 3,030
Level 2				
Financial Assets:				
Trading securities	$ 294	$ 294	$ 347	$ 347
Investment securities available-for-sale	$ 649,327	$ 649,327	$ 751,484	$ 751,484
Investment securities held-to-maturity	$ 549,595	$ 555,407	$ 592,763	$ 599,884
Federal Home Loan Bank (FHLB) stock	$ 16,616	$ 16,616	$ 10,793	$ 10,793
Other investments	$ 3	$ 3	$ 3	$ 3
Derivative assets	$ 957	$ 957	$ 1,330	$ 1,330
Financial Liabilities:				
Derivative liabilities	$ 1,881	$ 1,881	$ 2,437	$ 2,437
Level 3				
Financial Assets:				
Total loans (including loans held-for-sale)	$ 3,955,910	$ 4,091,866	$ 3,917,340	$ 4,147,692
FDIC indemnification asset	$ -	$ -	$ 8,669	$ 14,411
Accrued interest receivable	$ 19,798	$ 19,798	$ 20,227	$ 20,227
Servicing assets	$ 9,866	$ 9,866	$ 9,858	$ 9,858
Accounts receivable and other assets	$ 33,162	$ 33,162	$ 46,525	$ 46,525
Financial Liabilities:				
Deposits	$ 4,560,586	$ 4,582,686	$ 4,644,629	$ 4,664,487
Securities sold under agreements to repurchase	$ 451,933	$ 453,492	$ 651,898	$ 653,756
Advances from FHLB	$ 138,002	$ 137,540	$ 106,422	$ 105,454
Other borrowings	$ 177	$ 177	$ 61	$ 61
Subordinated capital notes	$ 31,743	$ 36,083	$ 30,230	$ 36,083
Accrued expenses and other liabilities	$ 62,259	$ 62,259	$ 95,370	$ 95,370

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following methods and assumptions were used to estimate the fair values of significant financial instruments at June 30, 2017 and December 31, 2016:

- Cash and cash equivalents (including money market investments and time deposits with other banks), restricted cash, accrued interest receivable, accounts receivable and other assets and accrued expenses and other liabilities have been valued at the carrying amounts reflected in the consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

- Investments in FHLB-NY stock are valued at their redemption value.

- The fair value of investment securities, including trading securities and other investments, is based on quoted market prices, when available or prices provided from contracted pricing providers, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument.

- The fair value of the FDIC indemnification asset represented the present value of the net estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit assumptions on estimated cash flows for each covered asset and the loss sharing percentages. The FDIC shared-loss agreements were terminated on February 6, 2017. Such termination takes into account the anticipated reimbursements over the life of the shared-loss agreements and the true-up payment liability of the Bank anticipated at the end of the ten year term of the single family shared-loss agreement. Therefore, at June 30, 2017, the Company had no FDIC indemnification asset.

- The fair value of servicing asset is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions.

- The fair values of the derivative instruments are provided by valuation experts and counterparties. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters. In the past, the Company offered its customers certificates of deposit with an option tied to the performance of the S&P Index and used equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value was obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options was linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology used an average rate option or a cash-settled option whose payoff was based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which were uncertain and required a degree of judgment, included primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage. At June 30, 2017, there were no options tied to S&P Index outstanding.

- Fair value of derivative liabilities, which include interest rate swaps and forward-settlement swaps, are based on the net discounted value of the contractual projected cash flows of both the pay-fixed receive-variable legs of the contracts. The projected cash flows are based on the forward yield curve, and discounted using current estimated market rates.

- The fair value of the loan portfolio (including loans held-for-sale) is estimated by segregating by type, such as mortgage, commercial, consumer, auto and leasing. Each loan segment is further segmented into fixed and adjustable interest rates and by performing and non-performing categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for prepayment estimates (voluntary and involuntary), if any, using estimated current market discount rates that reflect the credit and interest rate risk inherent in the loan. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate. Non-performing loans have been valued at the carrying amounts.

- The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is based on the discounted value of the contractual cash flows, using estimated current market discount rates for deposits of similar remaining maturities.

- The fair value of long-term borrowings, which include securities sold under agreements to repurchase, advances from FHLB, and subordinated capital notes is based on the discounted value of the contractual cash flows using current estimated market discount rates for borrowings with similar terms, remaining maturities and put dates.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 20 – BUSINESS SEGMENTS

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

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

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

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Following are the results of operations and the selected financial information by operating segment for the quarters and six-month periods ended June 30, 2017 and 2016:

	Quarter Ended June 30, 2017					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 77,019	$ 18	$ 8,903	$ 85,940	$ -	$ **85,940**
Interest expense	(6,820)	-	(3,557)	(10,377)	-	**(10,377)**
Net interest income	70,199	18	5,346	75,563	-	75,563
Provision for loan and lease losses	(26,526)	-	(10)	(26,536)	-	**(26,536)**
Non-interest income	11,776	6,329	6,781	24,886	-	**24,886**
Non-interest expenses	(47,402)	(4,100)	(1,314)	(52,816)	-	**(52,816)**
Intersegment revenue	346	-	71	417	(417)	**-**
Intersegment expenses	(71)	(254)	(92)	(417)	417	**-**
Income before income taxes	**$ 8,322**	**$ 1,993**	**$ 10,782**	**$ 21,097**	**$ -**	**$ 21,097**
Total assets	**$ 5,490,287**	**$ 22,531**	**$ 1,692,603**	**$ 7,205,421**	**(969,595)**	**$ 6,235,826**

	Quarter Ended June 30, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 79,675	$ 16	$ 8,217	$ 87,908	$ -	$ **87,908**
Interest expense	(7,300)	-	(7,296)	(14,596)	-	**(14,596)**
Net interest income	72,375	16	921	73,312	**-**	**73,312**
Provision for loan and lease losses	(14,445)	-	-	(14,445)	-	**(14,445)**

Non-interest income		8,214		6,910		31		15,155		-		**15,155**
Non-interest expenses		(47,097)		(4,908)		(1,820)		(53,825)		-		**(53,825)**
Intersegment revenue		389		-		49		438		(438)		-
Intersegment expenses		(49)		(286)		(103)		(438)		438		-
Income before income taxes	**$**	**19,387**	**$**	**1,732**	**$**	**(922)**	**$**	**20,197**	**$**	**-**	**$**	**20,197**
Total assets	**$**	**5,829,987**	**$**	**19,054**	**$**	**1,800,838**	**$**	**7,649,879**		**(937,283)**	**$**	**6,712,596**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2017					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
			(In thousands)			
Interest income	$ 154,592	$ 30	$ 17,496	$ 172,118	$ -	$ **172,118**
Interest expense	(13,634)	-	(8,303)	(21,937)	-	**(21,937)**
Net interest income	140,958	30	9,193	150,181	-	150,181
Provision for loan and lease losses, net	(44,168)	-	(22)	(44,190)	-	**(44,190)**
Non-interest income, net	25,003	12,257	6,700	43,960	-	**43,960**
Non-interest expenses	(93,456)	(8,320)	(2,724)	(104,500)	-	**(104,500)**
Intersegment revenue	810	-	142	952	(952)	**-**
Intersegment expenses	(142)	(565)	(245)	(952)	952	**-**
Income before income taxes	**$ 29,005**	**$ 3,402**	**$ 13,044**	**$ 45,451**	**$ -**	**$ 45,451**
Total assets	**$ 5,490,287**	**$ 22,531**	**$ 1,692,603**	**$ 7,205,421**	**$ (969,595)**	**$ 6,235,826**

	Six-Month Period Ended June 30, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
			(In thousands)			
Interest income	$ 160,827	$ 34	$ 18,353	$ 179,214	$ -	$ **179,214**
Interest expense	(14,107)	-	(16,820)	(30,927)	-	**(30,927)**
Net interest income	146,720	34	1,533	148,287	-	148,287
Provision for loan and lease losses, net	(28,234)	-	-	(28,234)	-	**(28,234)**
Non-interest income, net	16,009	12,930	(281)	28,658	-	**28,658**
Non-interest expenses	(97,786)	(7,853)	(3,043)	(108,682)	-	**(108,682)**
Intersegment revenue	787	-	149	936	(936)	**-**
Intersegment expenses	(149)	(577)	(210)	(936)	936	**-**
Income (loss) before income taxes	**$ 37,347**	**$ 4,534**	**$ (1,852)**	**$ 40,029**	**$ -**	**$ 40,029**
Total assets	**$ 5,829,987**	**$ 19,054**	**$ 1,800,838**	**$ 7,649,879**	**$ (937,283)**	**$ 6,712,596**

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

INTRODUCTION

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the Company's consolidated financial statements and related notes. This discussion and analysis contains forward-looking statements. Please see "Forward-Looking Statements" and the risk factors set forth in our Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K"), for discussion of the uncertainties, risks and assumptions associated with these statements.

The Company is a publicly-owned financial holding company that provides a full range of banking and financial services through its subsidiaries, including commercial, consumer, auto and mortgage lending; checking and savings accounts; financial planning, insurance and securities brokerage services; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Wealth Management, and Treasury, and distinguishes itself based on quality service. The Company has 48 branches in Puerto Rico and a subsidiary in Boca Raton, Florida. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in "Note 1—Summary of Significant Accounting Policies" of our 2016 Form 10-K.

In the "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" section of our 2016 Form 10-K, we identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition:

- Loans and lease receivables
- Allowance for loan and lease losses
- Financial instruments

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed its judgments and assumptions with the Audit Committee of our Board of Directors. There have been no material changes in the methods used to formulate these critical accounting estimates from those discussed in our 2016 Form 10-K.

OVERVIEW OF FINANCIAL PERFORMANCE

SELECTED FINANCIAL DATA

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	2016	Variance %	2017	2016	Variance %
EARNINGS DATA:	(In thousands, except per share data)					
Interest income	$ 85,940	$ 87,908	-2.2%	$ 172,118	$ 179,214	-4.0%
Interest expense	10,377	14,596	-28.9%	21,937	30,927	-29.1%
Net interest income	**75,563**	**73,312**	**3.1%**	**150,181**	**148,287**	**1.3%**
Provision for loan and lease losses, net	26,536	14,445	83.7%	44,190	28,234	56.5%
Net interest income after provision for loan and lease losses	**49,027**	**58,867**	**-16.7%**	**105,991**	**120,053**	**-11.7%**
Non-interest income	24,886	15,155	64.2%	43,960	28,658	53.4%
Non-interest expenses	52,816	53,825	-1.9%	104,500	108,682	-3.8%
Income before taxes	**21,097**	**20,197**	**4.5%**	**45,451**	**40,029**	**13.5%**
Income tax expense	3,993	5,858	-31.8%	13,197	11,519	14.6%
Net income	**17,104**	**14,339**	**19.3%**	**32,254**	**28,510**	**13.1%**
Less: dividends on preferred stock	(3,466)	(3,467)	0.0%	(6,931)	(6,931)	**0.0%**
Income available to common shareholders	**$ 13,638**	**$ 10,872**	**25.4%**	**$ 25,323**	**$ 21,579**	**17.4%**
PER SHARE DATA:						
Basic	**$ 0.30**	**$ 0.25**	**20.0%**	**$ 0.58**	**$ 0.49**	**18.4%**
Diluted	**$ 0.30**	**$ 0.25**	**20.0%**	**$ 0.57**	**$ 0.49**	**16.3%**
Average common shares outstanding	**43,947**	**43,914**	**0.1%**	**43,931**	**43,906**	**0.1%**
Average common shares outstanding and equivalents	**51,100**	**51,095**	**0.0%**	**51,093**	**51,081**	**0.0%**
Cash dividends declared per common share	**$ 0.06**	**$ 0.06**	**0.0%**	**$ 0.12**	**$ 0.12**	**0.0%**
Cash dividends declared on common shares	**$ 2,640**	**$ 2,639**	**0.0%**	**$ 5,277**	**$ 5,272**	**0.1%**
PERFORMANCE RATIOS:						
Return on average assets (ROA)	**1.09%**	**0.85%**	**28.2%**	**1.02%**	**0.83%**	**22.9%**
Return on average tangible common equity	**8.01%**	**6.70%**	**19.6%**	**7.51%**	**6.69%**	**12.3%**
Return on average common equity (ROE)	**7.06%**	**5.86%**	**20.5%**	**6.61%**	**5.85%**	**13.0%**
Equity-to-assets ratio	**15.06%**	**13.64%**	**10.4%**	**15.06%**	**13.64%**	**10.4%**

Efficiency ratio	**56.49%**	**58.76%**	**-3.9%**	**56.32%**	**59.16%**	**-4.8%**
Interest rate spread	**5.10%**	**4.55%**	**12.1%**	**5.07%**	**4.60%**	**10.2%**
Interest rate margin	**5.18%**	**4.65%**	**11.4%**	**5.14%**	**4.68%**	**9.8%**

SELECTED FINANCIAL DATA - (Continued)

		June 30, 2017		December 31, 2016	Variance %
PERIOD END BALANCES AND CAPITAL RATIOS:		**(In thousands, except per share data)**			
Investments and loans					
Investment securities	$	1,221,647	$	1,362,511	-10.3%
Loans and leases, net		4,091,866		4,147,692	-1.3%
Total investments and loans	**$**	**5,313,513**	**$**	**5,510,203**	**-3.6%**
Deposits and borrowings					
Deposits	$	4,582,686	$	4,664,487	-1.8%
Securities sold under agreements to repurchase		453,492		653,756	-30.6%
Other borrowings		173,800		141,598	22.7%
Total deposits and borrowings	**$**	**5,209,978**	**$**	**5,459,841**	**-4.6%**
Stockholders’ equity					
Preferred stock	$	176,000	$	176,000	0.0%
Common stock		52,626		52,626	0.0%
Additional paid-in capital		541,005		540,948	0.0%
Legal surplus		79,460		76,293	4.2%
Retained earnings		194,687		177,808	9.5%
Treasury stock, at cost		(104,502)		(104,860)	0.3%
Accumulated other comprehensive (loss) income		(307)		1,596	-119.2%
Total stockholders' equity	**$**	**938,969**	**$**	**920,411**	**2.0%**
Per share data					
Book value per common share	**$**	**17.59**	**$**	**17.18**	**2.4%**
Tangible book value per common share	**$**	**15.51**	**$**	**15.08**	**2.9%**
Market price at end of period	**$**	**10.00**	**$**	**13.10**	**-23.7%**
Capital ratios					
Leverage capital		**13.69%**		**12.99%**	**5.4%**
Common equity Tier 1 capital ratio		**14.66%**		**14.05%**	**4.3%**
Tier 1 risk-based capital		**19.14%**		**18.35%**	**4.3%**
Total risk-based capital		**20.42%**		**19.62%**	**4.1%**
Financial assets managed					
Trust assets managed	$	2,943,559	$	2,850,494	3.3%
Broker-dealer assets gathered	$	2,275,589	$	2,350,718	-3.2%

FINANCIAL HIGHLIGHTS OF THE SECOND QUARTER OF 2017

- **Net income available to shareholders increased.** The Company reported $13.6 million, or $0.30 per share fully diluted, compared to $11.7 million, or $0.26 per share fully diluted, in the first quarter of 2017 and $10.9 million, or $0.25 per share fully diluted, in the year ago quarter.

- **Puerto Rico municipality exposure reduced.** The Company opportunistically sold a $38.0 million performing term loan with a municipality, resulting in a $4.3 million pre-tax loss. The sale reduced its exposure to this sector by approximately 27% from March 31, 2017, to $140.8 million after scheduled principal payments in July.

- **Balance sheet de-levered further.** The Company unwound a 1.48% $100.0 million repurchase agreement, in line with its strategy to reduce borrowings. Related to this, the Company sold $166.0 million of mortgage backed securities. These transactions resulted in a tax-advantaged gain of $6.9 million.

- **Effective tax rate optimized.** The Company now forecasts its 2017 effective tax rate to be 29.15% as compared to its previously stated 38% estimate. The new rate is similar to its 2016 rate and resulted in a $2.1 million beneficial adjustment to estimated income tax in the second quarter of 2017.

- **Net interest margin (NIM) improved.** Due to a significant reduction in the cost of borrowings and higher yields on variable rate commercial loans and on cash, NIM increased 8 basis points from the first quarter of 2017 to 5.18%.

- **Credit quality and major performance ratios remained solid.** The non-performing loan and total delinquency rates fell to the lowest levels in the last five quarters. Return on average assets was 1.09%, return on average tangible common stockholders' equity was 8.01%, and the efficiency ratio was 56.49%.

- **Capital buildup continued.** All major capital metrics advanced compared to the preceding and year ago quarters. Tangible book value per common share at $15.51 was up 1.2% and 3.7%, respectively, while tangible common equity ratio at 11.09% was up 43 and 117 basis points, respectively

ANALYSIS OF RESULTS OF OPERATIONS

The following tables show major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the quarters and six-month periods ended June 30, 2017 and 2016:

TABLE 1 - ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE QUARTERS ENDED JUNE 30, 2017 AND 2016

	Interest		Average rate		Average balance	
	June 2017	**June 2016**	**June 2017**	**June 2016**	**June 2017**	**June 2016**
			(Dollars in thousands)			
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 85,940**	**$ 87,908**	**5.89%**	**5.57%**	**$ 5,848,525**	**$ 6,328,161**
Tax equivalent adjustment	1,302	1,422	0.09%	0.09%	-	-
Interest-earning assets - tax equivalent	**87,242**	**89,330**	**5.98%**	**5.66%**	**5,848,525**	**6,328,161**
Interest-bearing liabilities	10,377	14,596	0.79%	1.02%	5,293,848	5,751,529
Tax equivalent net interest income / spread	**76,865**	**74,734**	**5.19%**	**4.64%**	**554,677**	**576,632**
Tax equivalent interest rate margin			**5.27%**	**4.74%**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	7,746	7,621	2.33%	2.33%	1,334,938	1,311,468
Interest bearing cash and money market investments	956	612	1.00%	0.48%	384,037	512,916
Total investments	**8,702**	**8,233**	**2.03%**	**1.81%**	**1,718,975**	**1,824,384**
Non-acquired loans						
Mortgage	9,411	9,851	5.40%	5.31%	698,782	743,516
Commercial	16,688	15,824	5.33%	4.43%	1,256,827	1,433,944
Consumer	8,075	6,548	11.06%	10.68%	292,739	246,003
Auto and leasing	19,275	16,885	9.63%	9.59%	803,201	706,107
Total non-acquired loans	**53,449**	**49,108**	**7.03%**	**6.29%**	**3,051,549**	**3,129,570**
Acquired loans:						
Acquired BBVAPR						
Mortgage	7,694	8,294	5.66%	5.52%	545,490	602,184
Commercial	4,517	6,572	7.31%	7.69%	247,815	342,752
Consumer	2,847	3,173	18.93%	18.19%	60,317	69,949
Auto	2,694	5,605	11.27%	10.44%	95,857	215,321
Total acquired BBVAPR loans	**17,752**	**23,644**	**7.50%**	**7.71%**	**949,479**	**1,230,206**
Acquired Eurobank	**6,037**	**6,923**	**18.84%**	**19.29%**	**128,522**	**144,001**
Total loans	**77,238**	**79,675**	**7.50%**	**7.10%**	**4,129,550**	**4,503,777**
Total interest earning assets	**85,940**	**87,908**	**5.89%**	**5.57%**	**5,848,525**	**6,328,161**

	Interest		Average rate		Average balance	
	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016
			(Dollars in thousands)			
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	1,051	1,518	0.39%	0.51%	1,080,135	1,195,895
Savings and money market	1,485	1,308	0.52%	0.48%	1,151,650	1,103,808
Individual retirement accounts	380	464	0.63%	0.69%	242,009	269,417
Retail certificates of deposits	1,769	1,474	1.24%	1.26%	571,266	468,750
Total core deposits	**4,685**	**4,764**	**0.62%**	**0.63%**	**3,045,060**	**3,037,870**
Institutional deposits	653	620	1.17%	1.02%	223,788	243,592
Brokered deposits	2,084	1,816	1.45%	1.19%	575,642	612,137
Total wholesale deposits	**2,737**	**2,436**	**1.39%**	**1.14%**	**799,430**	**855,729**
	7,422	7,200	0.77%	0.74%	3,844,490	3,893,599
Non-interest bearing deposits	-	-	0.00%	0.00%	835,026	810,177
Deposits fair value premium amortization	-	(91)	0.00%	0.00%	-	-
Core deposit intangible amortization	230	258	0.00%	0.00%	-	-
Total deposits	**7,652**	**7,367**	**0.66%**	**0.63%**	**4,679,516**	**4,703,776**
Borrowings:						
Securities sold under agreements to repurchase	1,734	4,258	1.47%	2.72%	472,338	627,693
Advances from FHLB and other borrowings	607	2,098	2.30%	2.65%	105,911	317,191
Subordinated capital notes	384	873	4.27%	3.40%	36,083	102,869
Total borrowings	**2,725**	**7,229**	**1.78%**	**2.77%**	**614,332**	**1,047,753**
Total interest bearing liabilities	**10,377**	**14,596**	**0.79%**	**1.02%**	**5,293,848**	**5,751,529**
Net interest income / spread	**$ 75,563**	**$ 73,312**	**5.10%**	**4.55%**		
Interest rate margin			**5.18%**	**4.65%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 554,677**	**$ 576,632**
Average interest-earning assets to average					**110.48%**	**110.03%**

interest-bearing liabilities ratio

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
		(In thousands)	
Interest Income:			
Investments	$ (476)	$ 945	$ 469
Loans	(7,363)	4,926	(2,437)
Total interest income	**(7,839)**	**5,871**	**(1,968)**
Interest Expense:			
Deposits	(38)	323	285
Repurchase agreements	(1,054)	(1,470)	(2,524)
Other borrowings	(1,967)	(13)	(1,980)
Total interest expense	**(3,059)**	**(1,160)**	**(4,219)**
Net Interest Income	**$ (4,780)**	**$ 7,031**	**$ 2,251**

TABLE 1A - ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Interest		Average rate		Average balance	
	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 172,118**	**$ 179,214**	5.90%	5.66%	**$ 5,887,429**	**$ 6,352,229**
Tax equivalent adjustment	1,422	2,588	0.05%	0.08%	-	-
Interest-earning assets - tax equivalent	**173,540**	**181,802**	5.95%	5.74%	**5,887,429**	**6,352,229**
Interest-bearing liabilities	21,937	30,927	0.83%	1.06%	5,346,194	5,861,471
Tax equivalent net interest income / spread	**151,603**	**150,875**	5.12%	4.68%	**541,235**	**490,758**
Tax equivalent interest rate margin			5.19%	4.76%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	15,415	17,110	**2.31%**	**2.49%**	1,347,160	1,380,489
Trading securities	14	19	**8.50%**	**12.33%**	332	309
Interest bearing cash and money market investments	1,801	1,258	**0.89%**	**0.50%**	407,442	507,817
Total investments	**17,230**	**18,387**	**1.98%**	**1.95%**	**1,754,934**	**1,888,615**
Non-acquired loans						
Mortgage	18,932	19,456	5.41%	5.20%	705,167	749,904
Commercial	32,685	31,238	5.27%	4.38%	1,251,179	1,429,638
Consumer	15,722	12,734	11.08%	10.63%	286,149	240,251
Auto and leasing	38,065	33,595	9.70%	9.69%	791,008	695,071
Total non-acquired loans	**105,404**	**97,023**	7.01%	6.25%	**3,033,503**	**3,114,864**
Acquired loans:						
Acquired BBVAPR						
Mortgage	15,585	16,601	5.69%	5.57%	552,177	597,212
Commercial	9,500	14,268	7.56%	8.73%	253,286	327,810
Consumer	5,779	6,276	19.04%	18.20%	61,207	69,164
Auto	5,973	12,175	11.27%	11.52%	106,895	211,986
Total acquired BBVAPR loans	**36,837**	**49,320**	7.63%	8.20%	**973,566**	**1,206,172**
Acquired Eurobank	**12,647**	**14,484**	**20.33%**	20.37%	**125,425**	**142,578**
Total loans	**154,888**	**160,827**	**7.56%**	7.23%	**4,132,494**	**4,463,614**
Total interest earning assets	**172,118**	**179,214**	**5.90%**	5.66%	**5,887,428**	**6,352,229**

	Interest		Average rate		Average balance	
	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	$ 2,092	$ 2,600	0.39%	0.44%	$ 1,086,228	$ 1,173,975
Savings and money market	2,966	2,706	0.52%	0.49%	1,157,811	1,109,680
Individual retirement accounts	806	966	0.66%	0.72%	247,785	268,238
Retail certificates of deposits	3,418	2,813	1.24%	1.27%	556,568	443,371
Total core deposits	**9,282**	**9,085**	**0.65%**	**0.61%**	**3,048,392**	**2,995,264**
Institutional deposits	1,294	1,274	1.16%	1.00%	223,991	256,699
Brokered deposits	3,969	3,804	1.39%	1.13%	575,098	673,231
Total wholesale deposits	**5,263**	**5,078**	**1.33%**	**1.10%**	**799,089**	**929,930**
	14,545	**14,163**	**0.76%**	**0.72%**	**3,847,481**	**3,925,194**
Non-interest bearing deposits	-	-	0.00%	0.00%	833,852	$ 792,564
Deposits fair value premium amortization	-	(189)	0.00%	0.00%	-	-
Core deposit intangible amortization	460	517	0.00%	0.00%	-	-
Total deposits	**15,005**	**14,491**	**0.65%**	**0.62%**	**4,681,333**	**4,717,758**
Borrowings:						
Securities sold under agreements to repurchase	4,979	10,358	1.92%	2.91%	523,272	713,653
Advances from FHLB and other borrowings	1,202	4,337	2.30%	2.66%	105,506	327,278
Subordinated capital notes	751	1,741	4.20%	3.40%	36,083	102,782
Total borrowings	**6,932**	**16,436**	**2.10%**	**2.88%**	**664,861**	**1,143,713**
Total interest bearing liabilities	**21,937**	**30,927**	**0.83%**	**1.06%**	**5,346,194**	**5,861,471**
Net interest income / spread	**$ 150,181**	**$ 148,287**	**5.07%**	**4.60%**		
Interest rate margin			**5.14%**	**4.68%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 541,235**	**$ 490,759**
Average interest-earning assets to average interest-bearing liabilities ratio					**110.12%**	**108.37%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
	(In thousands)		
Interest Income:			
Investments	$ (1,301)	$ 144	$ (1,157)
Loans	(12,374)	6,435	(5,939)
Total interest income	(13,675)	6,579	(7,096)
Interest Expense:			
Deposits	(112)	626	514
Repurchase agreements	(2,763)	(2,616)	(5,379)
Other borrowings	(4,077)	(48)	(4,125)
Total interest expense	(6,952)	(2,038)	(8,990)
Net Interest Income	**$** (6,723)	**$** 8,617	**$** 1,894

Net Interest Income

Net interest income is a function of the difference between rates earned on the Company's interest-earning assets and rates paid on its interest-bearing liabilities (interest rate spread) and the relative amounts of its interest earning assets and interest-bearing liabilities (interest rate margin). The Company constantly monitors the composition and re-pricing of its assets and liabilities to maintain its net interest income at adequate levels.

Comparison for the quarters ended June 30, 2017 and 2016

Table 1 above shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the quarters ended June 30, 2017 and 2016.

Net interest income of $75.6 million increased 3.1%, or $2.3 million, from $73.3 million, reflecting a decrease in interest expenses of 28.9%, or $4.2 million, partially offset by a decrease in interest income of 2.2%, or $2.0 million.

The decrease in interest expenses was primarily a result of the repayment at maturity of (i) a $232.0 million 4.78% repurchase agreement in March 2017 that generated interest expense savings of $2.5 million and (ii) $227.0 million of short term FHLB advances during the second quarter of 2016 that generated interest expense savings of $1.5 million. The decrease in interest expenses was partially offset by an increase in the deposit interest expense of $285 thousand.

The decrease in interest income was caused primarily by a decrease of $6.8 million in the interest income from the acquired BBVAPR and Eurobank loan portfolios as such loans continue to be repaid. This decrease was partially offset by an increase of $4.3 million in the interest income from originated loans from higher yields in the commercial and retail loan portfolios and an increase of $469 thousand in the interest income from investments as a result of increased yields on interest bearing cash and money market investments.

Interest rate spread increased 55 basis points from 4.55% to 5.10%. This increase is mainly due to the net effect of a 32 basis point increase in the average yield of interest-earning assets from 5.57% to 5.89% and to 23 basis point decrease in average costs of interest-bearing liabilities from 1.02% to 0.79%.

Interest income decreased to $85.9 million from $87.9 million. Such decrease reflected a decrease of $7.8 million from a lower volume of interest-earning assets, partially offset by an increase of $5.9 million from higher interest rates on interest-earning assets. Interest income from loans decreased 3.1% to $77.2 million, reflecting a decrease of $7.4 million from a lower volume of loans, partially offset by an increase of $4.9 million from higher interest rates. Interest income from investments increased 5.7% to $8.7 million, reflecting an increase of $945 thousand attributable to higher interest rates on cash balances and a decrease of $476 thousand attributable to a lower volume.

The average balance of total interest-earning assets was $5.849 billion, a decrease of 7.6% from the same period in 2016. The average balances of loans and investments decreased 8.3% and 5.8%, respectively, reflecting a decrease in the average acquired loan portfolio of $296.2 million due to repayments and maturities and the sale of $166.0 million mortgage-backed securities and $39.2 million US Treasury securities during the quarter ended June 30, 2017.

Interest expense decreased to $10.4 million from $14.6 million, due to the decreases of $3.1 million and $1.2 million in the volume and interest rate of interest-bearing liabilities, respectively. The decreased volume and rate of repurchase agreements decreased interest expenses by $1.1 million and $1.5 million, respectively, and the decrease in the volume of other borrowings decreased interest expenses by $2.0 million. The decrease in interest expenses was partially offset by an increase of $285 thousand in deposit interest expenses from higher interest rates. The total cost of borrowings decreased 99 basis points to 1.78% from 2.77%. The cost of deposits slightly increased 6 basis point to 0.66%, when compared to 0.60% for the same period in 2016.

Comparison of six-month periods ended June 30, 2017 and 2016

Table 1A above shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the six-month periods ended June 30, 2017 and 2016.

Net interest income of $150.2 million increased 1.3%, or $1.8 million, from $148.3 million, reflecting a decrease in interest expense of 29.1%, or $9.0 million, partially offset by a decrease in interest income of 4.0%, or $7.1 million.

The decrease in interest expenses was primarily a result of the repayment (i) of $268.0 million in part in February 2016 and $232.0 million at maturity in March 2017 of a 4.78% repurchase agreement that generated interest expense savings of $5.4 million and (ii) of $227 million at maturity of short term FHLB advances classified as other borrowings during the quarter that generated interest expense savings of $3.1 million. The decrease in interest expenses was partially offset by an increase in the deposit interest expense of $514 thousand.

The decrease in interest income was caused primarily by a decrease of $14.3 million in the interest income from the acquired BBVAPR and Eurobank loan portfolios as such loans continue to be repaid. This decrease was partially offset by an increase of $8.4 million in the interest income from originated loans from higher yields in the commercial and retail loan portfolios. Interest income from investments decreased $1.2 million in the as a result of a decrease in the investment securities portfolio volume.

Interest rate spread increased 47 basis points from 4.60% to 5.07%. This increase is mainly due to the net effect of a 24 basis point increase in the average yield of interest-earning assets from 5.66% to 5.90% and to 23 basis point decrease in average costs of interest-bearing liabilities from 1.06% to 0.83%.

Interest income decreased to $172.1 million from $179.2 million. Such decrease reflects a decrease of $13.0 million from a lower volume of interest-earning assets, partially offset by an increase of $5.9 million from higher interest rates on interest-earning assets. Interest income from loans decreased 3.7% to $154.9 million, reflecting a decrease of $11.7 million from a lower volume of loans, partially offset by an increase of $5.8 million from higher interest rates. Interest income from investments decreased 6.3% to $17.2 million, reflecting a decrease of $1.3 million attributable to a lower volume and an increase of $144 thousand attributable to higher interest rates on interest bearing cash and money market investments.

The average balance of total interest-earning assets was $5.887 billion, a decrease of 7.3% from the same period in 2016. The average balances of loans and investments decreased 7.4% and 7.1%, respectively, reflecting a decrease in the average acquired loan portfolio of $250.0 million due to repayments and maturities, a decrease in the average originated loan portfolio of $81.4 million as a result of the sale of the $200 million participation in the PREPA line of credit in the fourth quarter of 2016. The decrease in average investments reflects the sale of $166.0 million mortgage-backed securities and $39.2 million US Treasury securities during the second quarter of 2017.

Interest expense decreased to $21.9 million from $30.9 million, due to the decreases of $7.0 million and $2.0 million from decreases in the volume and interest rate of interest-bearing liabilities, respectively. The decreased volume and rate of repurchase agreements decreased interest expenses by $2.8 million and $2.6 million, respectively, and the decrease in the volume of other borrowings decreased interest expenses by $4.1 million. The decrease in interest expenses was partially offset by an increase of $514 thousand in deposit interest expenses from higher interest rates. The total cost of borrowings decreased 78 basis points to 2.10% from 2.88%. The cost of deposits slightly increased 3 basis point to 0.65%, when compared to 0.62% for the same period in 2016.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	**2016**	**Variance**	**2017**	**2016**	**Variance**
			(Dollars in thousands)			
Banking service revenue	$ 10,458	$ 10,219	2.3%	$ 21,084	$ 20,337	3.7%
Wealth management revenue	6,516	7,041	-7.5%	12,731	13,193	-3.5%
Mortgage banking activities	959	1,024	-6.3%	1,546	1,879	-17.7%
Total banking and financial service revenue	**17,933**	**18,284**	**-1.9%**	**35,361**	**35,409**	**-0.1%**
FDIC shared-loss benefit (expense), net	-	(3,420)	100.0%	1,403	(7,449)	118.8%
Net gain (loss) on:						
Sale of securities available for sale	6,891	211	3165.9%	6,891	12,207	-43.5%
Derivatives	22	(10)	320.0%	103	(13)	892.3%
Early extinguishment of debt	(80)	-	-100.0%	(80)	(12,000)	99.3%
Other non-interest income	120	90	33.3%	282	504	-44.0%
	6,953	(3,129)	322.2%	**8,599**	**(6,751)**	**227.4%**
Total non-interest income, net	**$ 24,886**	**$ 15,155**	**64.2%**	**$ 43,960**	**$ 28,658**	**53.4%**

Non-Interest Income

Non-interest income is affected by the level of trust assets under management, transactions generated by clients' financial assets serviced by the securities broker-dealer and insurance agency subsidiaries, the level of mortgage banking activities, and the fees generated from loans and deposit accounts.

Comparison of quarters ended June 30, 2017 and 2016

As shown in Table 2 above, the Company recorded non-interest income, net, in the amount of $24.9 million, compared to $15.2 million, an increase of 64.2%, or $9.7 million.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services increased 2.3% to $10.5 million from $10.2 million. The increase is mainly due to an increase in account analysis services fees of $163 thousand and an increase in debit card interchange income fees of $81 thousand.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 7.5% to $6.5 million, as compared to $7.0 million in the same period in 2016. Such decrease reflects a reduction in securities brokerage activities and the liquidation of the Puerto Rico Cash & Money Market Fund on April 3, 2017. Client trading volume in the broker-dealer subsidiary continued its downward trend due to the general investor uncertainty in the Puerto Rico market.

Income generated from mortgage banking activities decreased 6.3% to $959 thousand, compared to $1.0 million, mainly from the decrease in price of the mortgage servicing asset.

During the second quarter of 2017, the Company took advantage of the market conditions and sold $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, the Company repaid before maturity $100 million of repurchase agreements at a cost of $80 thousand.

Comparison of six-month periods ended June 30, 2017 and 2016

The Company recorded non-interest income, net in the amount of $44.0 million, compared to $28.7 million for the same period in 2016, an increase of 53.4%, or $15.3 million.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, increased 3.7% to $21.1 million, from $20.3 million for the same period in 2016. The increase is mainly due to increases in account analysis services fees of $426 thousand, debit card interchange income of $230 thousand, and card management service fees of $106 thousand.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 3.5% to $12.7 million, as compared to $13.2 million in the same period in 2016. Such decrease reflects a reduction in securities brokerage activities and the liquidation of the Puerto Rico Cash & Money Market Fund on April 3, 2017. Client trading volume in the broker-dealer subsidiary continued its downward trend due to the general investor uncertainty in the Puerto Rico market.

Income generated from mortgage banking activities decreased 17.7% to $1.5 million, compared to $1.9 million, mainly from the decrease in price of the mortgage servicing asset.

During the six-month period ended June 30, 2017, the Company entered into an agreement with the FDIC to terminate two shared-loss agreements covering certain assets, resulting in a benefit of $1.4 million, recorded in the consolidated statement of operations. During the six-month period ended 2016, the Company recorded expenses of $7.4 million related to the FDIC shared-loss agreement.

During the six-month period ended June 30, 2017, the Company took advantage of market conditions and sold $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, the Company unwound $100 million of repurchase agreements at a cost of $80 thousand, included as a loss on early extinguishment of debt in the consolidated statements of operations. During the same period in 2016, the Company sold $277.2 million in mortgage-backed securities and $11.1 million in Puerto Rico government bonds, resulting in a gain of $12.2 million. This transaction resulted in the repayment before maturity of $268.0 million of a repurchase agreement at a cost of $12.0 million, included as a loss on early extinguishment of debt in the consolidated statements of operations.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	2016	Variance %	2017	2016	Variance %
	(Dollars in thousands)					
Compensation and employee benefits	$ 19,317	$ 18,441	4.8%	$ 39,664	$ 38,696	2.5%
Professional and service fees	3,225	2,810	14.8%	6,462	5,795	11.5%
Occupancy and equipment	8,690	8,107	7.2%	16,057	15,929	0.8%
Insurance	1,183	3,155	-62.5%	2,783	6,305	-55.9%
Electronic banking charges	5,450	4,947	10.2%	10,352	10,536	-1.7%
Information technology expenses	2,069	1,606	28.8%	4,068	3,262	24.7%
Advertising, business promotion, and strategic initiatives	1,361	1,294	5.2%	2,722	2,588	5.2%
Loss on sale of foreclosed real estate and other repossessed assets	1,787	4,163	-57.1%	3,113	6,094	-48.9%
Loan servicing and clearing expenses	1,270	1,966	-35.4%	2,459	4,096	-40.0%
Taxes, other than payroll and income taxes	2,393	2,330	2.7%	4,764	5,001	-4.7%
Communication	761	581	31.0%	1,506	1,400	7.6%
Printing, postage, stationery and supplies	665	600	10.8%	1,303	1,325	-1.7%
Director and investor relations	274	301	-9.0%	554	579	-4.3%
Credit related expenses	2,217	2,203	0.6%	4,843	4,458	8.6%
Other operating expenses	2,154	1,321	63.1%	3,850	2,618	47.1%
Total non-interest expenses	**$ 52,816**	**$ 53,825**	**-1.9%**	**$ 104,500**	**$ 108,682**	**-3.8%**
Relevant ratios and data:						
Efficiency ratio	**56.49%**	**58.76%**		**56.32%**	**59.16%**	
Compensation and benefits to non-interest expense	**36.57%**	**34.43%**		**37.96%**	**35.71%**	
Compensation to average total assets owned (annualized)	**1.23%**	**1.09%**		**1.25%**	**1.13%**	
Average number of employees	**1,462**	**1,451**		**1,449**	**1,460**	
Average compensation per employee	**$ 13.21**	**$ 12.80**		**$ 27.4**	**$ 26.6**	
Average loans per average employee	**$ 2,825**	**$ 3,104**		**$ 2,854**	**$ 3,057**	

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Non-Interest Expenses

Comparison of quarters ended June 30, 2017 and 2016

Non-interest expense was $52.8 million, representing a decrease of 1.9% compared to $53.8 million.

Loss on sale of foreclosed real estate and other repossessed assets decreased 57.1% to $1.8 million, as compared to $4.2 million in the second quarter of 2016 due to lower markdowns, $1.5 million in savings resulting from the loss-share termination, and to fewer losses on the sale of foreclosed real estate and other repossessed assets.

Insurance expense decreased $2.0 million, to $1.2 million, as a result of a change in the calculation method of the FDIC Savings Association Insurance Fund (SAIF) insurance that became effective during the third quarter of 2016.

Loan servicing and clearing expenses decreased $696 thousand, mainly due to a reduction of $611 thousand in mortgage servicing expense from the migration to in-house servicing during 2016.

The decreases in the foregoing non-interest expenses were partially offset by increases in compensation and employee benefits, in occupancy and equipment expenses, and in electronic banking charges.

Compensation and employee benefits increased $876 thousand, mainly due to an increase in provision for bonus of $936 thousand from an increase in average employees.

Occupancy and equipment expenses increased $583 thousand, primarily due to costs associated with consolidating office space during the second quarter of 2017.

Electronic banking charges increased $503 thousand, primarily as a result of an increase of $538 thousand in credit cards processing services.

The efficiency ratio improved to 56.49% from 58.76%. The efficiency ratio measures how much of the Company’s revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, FDIC shared-loss benefit/expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income (losses) that are excluded from efficiency ratio computation for the quarters ended June 30, 2017 and 2016 amounted to $7.0

million income and a $3.1 million loss, respectively.

Comparison of six-month periods ended June 30, 2017 and 2016

Non-interest expense for the six-month period ended June 30, 2017 was $104.5 million, representing a decrease of 3.8% compared to $108.7 million.

Insurance expense decreased $3.5 million, to $2.8 million, as a result of a change in the calculation method of the FDIC Savings Association Insurance Fund (SAIF) insurance. The change was effective beginning with the June 30, 2016 invoice, which was received during the third quarter of 2016.

Loss on sale of foreclosed real estate and other repossessed assets decreased 48.9% to $3.1 million, as compared to $6.1 million in the same period for the previous year due to lower markdowns, $2.2 million in savings resulting from the loss-share termination, and to decrease in losses on the sale of foreclosed real estate.

Loan servicing and clearing expenses decreased $1.6 million, mainly due to a reduction in the mortgage servicing expense of $1.6 million from the migration to in-house servicing during 2016.

The decreases in the foregoing non-interest expenses were partially offset by increases in compensation and employee benefits, professional and service fees, information technology expenses, and other operating expenses.

Compensation and employee benefits increased $968 thousand, mainly due to an increase in provision for bonus of $1.1 million, mainly related to an adjustment made in the second quarter of 2016 from a decrease in average employees.

Professional and service fees increased 11.5% or $667 thousand to $6.5 million, mostly due to increases of $570 thousand and $168 thousand in collection agencies expense, and in consulting and outsourcing expenses, respectively.

Information and technology expenses increased $806 thousand to $4.1 million, mostly due to $703 thousand increase in data processing expenses.

Other operating expenses increased $1.2 million, mainly from an increase of $200 thousand in broker-dealer legal contingencies, and $534 thousand from a commercial loan repurchased during the six-month period ended June 30, 2017.

The efficiency ratio was 56.32% compared to 59.16% for the same period in 2016. The efficiency ratio measures how much of the Company's revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, FDIC shared-loss expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income (losses) that are excluded from the efficiency ratio computation for the six-month period ended June 30, 2017 amounted to income of $8.6 million, compared to losses of $6.8 million for the six-month period ended June 30, 2016.

Provision for Loan and Lease Losses

Comparison of quarters ended June 30, 2017 and 2016

Provision for loan and lease losses increased 83.7%, or $12.1 million, to $26.5 million. Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for the quarter was adequate to maintain the allowance for loan and lease losses at an appropriate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for originated and other loan and lease losses increased 152.2%, or $13.8 million, to $22.8 million from $9.1 million, mainly from the increase in the provision for commercial loans. The increase reflects the provision for commercial loans of $12.1 million, compared to a recapture of $457 thousand for the same quarter in 2016. Provisions for mortgage and consumer loans increased $1.1 million and $1.8 million, respectively. Increases in provision for originated and other loan and lease losses were partially offset by a decrease in provision for auto loans of $1.7 million.

On June 30, 2017, the Company was opportunistic and entered into an agreement to sell a performing originated municipal loan, which was due in July 2018, for $28.8 million. The sale, which closed on July 5, 2017 upon receipt of the sales proceeds, reduced near-term risk associated with a likely refinancing. A provision of $4.3 million was recorded in second quarter of 2017 to charge-off the loss on sale. The loan was moved to other loans held-for-sale at June 30, 2017 with a balance of $33.7 million, and included a principal payment of $4.8 million received by the Company in July 1, 2017. Based on the Company's allowance for loan and lease losses methodology for originated loans, the Company has a general reserve for the municipal loan portfolio, as they have particular risk characteristics. A loss in any of the loans in this portfolio will impact directly the general valuation reserve ("GVA") factor to be used for the determination of the allowance for loan and lease losses. As a result of the aforementioned loss on sale, another provision of $5.9 million was recorded for the general allowance on the municipal loan portfolio. The sale reduced the Company's exposure to this sector by approximately 27% from December 31, 2016, to $140.8 million after the municipal loan sale and scheduled principal payments received after the quarter-end. Such municipal loan exposure represents 2.3% of the Company's total assets at June 30, 2017, which is a level more in line with the Company's size. The composition of this balance is $90.0 million originated municipal loans with an allowance for loan losses of $7.1 million, and $50.8 million acquired municipal loans accounted for under ASC 310-30 with an allowance for loan losses of $557 thousand.

The increase in provision for commercial loans also reflected an $1.7 million increase in provision for loan losses from the growth of the originated loan portfolio.

Total charge-offs on originated and other loans increased 43.2% to $18.8 million, as compared to $13.1 million as a result of increases in commercial, consumer and mortgage charge-offs of $4.0 million, $1.2 million and $788 thousand, respectively. Increase in commercial charge-offs includes the $4.3 million loss on the aforementioned sale of the municipal loan. These increases in charge-offs were offset by a decrease in auto loan charge-offs of $325 thousand. Total recoveries on originated and other loans increased from $3.6 million to $5.2 million. Recoveries for 2017 included $1.1 million and $612 thousand from the sale of auto and consumer loans, respectively, previously fully charged-off. The net charge-off rate increased 58 basis points to 1.79%.

Provision for acquired loan and lease losses decreased 31.1%, or $1.7 million, to $3.7 million from $5.4 million. Provision for acquired BBVAPR loan and lease losses decreased $1.1 million to $3.3 million from $4.4 million. Provision for acquired Eurobank loan and lease losses decreased $619 thousand, as these loans continue to repay and mature.

Comparison of six-month periods ended June 30, 2017 and 2016

Provision for loan and lease losses increased 56.5%, or $16.0 million, to $44.2 million. Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for the quarter was adequate to maintain the allowance for loan and lease losses at an appropriate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for originated and other loan and lease losses increased 75.3%, or $14.8 million, to $34.6 million from $19.7 million, mainly from the increase in the provision for commercial loans. This increase reflects the provision for commercial loans of $13.8 million, compared to a recapture of $119 thousand for the same period in 2016. Such provision includes $4.3 million recorded to charge-off the loss on sale of a municipal loan and another provision of $5.9 million recorded for the general allowance on the municipal loan portfolio. The increase in provision for commercial loans also reflected a $1.7 million increase in provision for loan losses from the growth of the originated loan portfolio. Also, provisions for consumer and mortgage loans increased $2.9 million and $2.7 million, respectively. Increases in provision for originated and other loan and lease losses were partially offset by a decrease in provision for auto loans of $4.1 million.

Total charge-offs on originated and other loans increased 24.8% to $32.9 million, as compared to $26.5 million as a result of increases in commercial, consumer and mortgage charge-offs of $3.9 million, $2.2 million and $1.5 million, respectively. The increase in commercial charge-offs includes the $4.3 million recorded to charge-off the loss on the aforementioned sale of the municipal loan. Increases in charge-offs were offset by a decrease in auto loan charge-offs of $1.1 million. Total recoveries on originated and other loans increased from $7.0 million to $8.8 million. Recoveries for 2017 included $1.1 million and $612 thousand from the sale of auto and consumer loans, respectively, previously fully charged-off. The net charge-off rate increased 34 basis points to 1.59%.

Provision for acquired loan and lease losses increased 13.1%, or $1.1 million, to $9.6 million from $8.5 million. Provision for acquired BBVAPR loan and lease losses increased $917 thousand to $7.6 million from $6.7 million. Provision for acquired Eurobank loan and lease losses increased $196 thousand, as these loans continue to repay and mature.

Income Taxes

Comparison of quarters ended June 30, 2017 and 2016

Income tax expense was $4.0 million, compared to $5.9 million. The effective income tax rate decreased to 29.15% as a result of higher proportion of exempt income and income subject to preferential rates, mainly from to the gain on sale of investment securities available for sale during 2017.

Comparison of six-month periods ended June 30, 2017 and 2016

Income tax expense was $13.2 million, compared to $11.5 million for the same period in 2016. Income tax expense reflects the net income before income taxes of $45.5 million for the six-month period ended June 30, 2017, compared to a net income before income taxes of $40.0 million for the same period of 2016.

Business Segments

The Company segregates its businesses into the following major reportable segments: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Company's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated. The Company's methodology for allocating non-interest expenses among segments is based on several factors such as revenue, employee headcount, occupied space, dedicated services or time, among others. Following are the results of operations and the selected financial information by operating segment for the quarters and six-month periods ended June 30, 2017 and 2016.

	Quarter Ended June 30, 2017					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 77,019	$ 18	$ 8,903	$ 85,940	$ -	$ **85,940**
Interest expense	(6,820)	-	(3,557)	(10,377)	-	**(10,377)**
Net interest income	70,199	18	5,346	75,563	**-**	**75,563**
Provision for loan and lease losses	(26,526)	-	(10)	(26,536)	-	**(26,536)**
Non-interest income	11,776	6,329	6,781	24,886	-	**24,886**
Non-interest expenses	(47,402)	(4,100)	(1,314)	(52,816)	-	**(52,816)**
Intersegment revenue	346	-	71	417	(417)	-
Intersegment expenses	(71)	(254)	(92)	(417)	417	-
Income before income taxes	**$ 8,322**	**$ 1,993**	**10,782**	**$ 21,097**	**$ -**	**$ 21,097**
Total assets	**$ 5,490,287**	**$ 22,531**	**$ 1,692,603**	**$ 7,205,421**	**$ (969,595)**	**$ 6,235,826**

	Quarter Ended June 30, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 79,675	$ 16	$ 8,217	$ 87,908	$ -	$ **87,908**
Interest expense	(7,300)	-	(7,296)	(14,596)	-	**(14,596)**
Net interest income	72,375	16	921	73,312	-	**73,312**
Provision for loan and lease losses	(14,445)	-	-	(14,445)	-	**(14,445)**
Non-interest income	8,214	6,910	31	15,155	-	**15,155**
Non-interest expenses	(47,097)	(4,908)	(1,820)	(53,825)	-	**(53,825)**
Intersegment revenue	389	-	49	438	(438)	-
Intersegment expenses	(49)	(286)	(103)	(438)	438	-
Income (loss) before income taxes	**$ 19,387**	**$ 1,732**	**(922)**	**$ 20,197**	**$ -**	**$ 20,197**
Total assets	**$ 5,829,987**	**$ 19,054**	**$ 1,800,838**	**$ 7,649,879**	**$ (937,283)**	**$ 6,712,596**

	Six-Month Period Ended June 30, 2017					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 154,592	$ 30	$ 17,496	$ 172,118	$ -	$ **172,118**
Interest expense	(13,634)	-	(8,303)	(21,937)	-	**(21,937)**
Net interest income	140,958	30	9,193	150,181	-	**150,181**
Provision for loan and lease losses	(44,168)	-	(22)	(44,190)	-	**(44,190)**
Non-interest income	25,003	12,257	6,700	43,960	-	**43,960**
Non-interest expenses	(93,456)	(8,320)	(2,724)	(104,500)	-	**(104,500)**
Intersegment revenue	810	-	142	952	(952)	-
Intersegment expenses	(142)	(565)	(245)	(952)	952	-
Income before income taxes	**$ 29,005**	**$ 3,402**	**$ 13,044**	**$ 45,451**	**$ -**	**$ 45,451**
Total assets	**$ 5,490,287**	**$ 22,531**	**$ 1,692,603**	**$ 7,205,421**	**$ (969,595)**	**$ 6,235,826**

	Six-Month Period Ended June 30, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 160,827	$ 34	$ 18,353	$ 179,214	$ -	$ **179,214**
Interest expense	(14,107)	-	(16,820)	(30,927)	-	**(30,927)**
Net interest income	146,720	34	1,533	148,287	-	**148,287**
Provision for loan and lease losses	(28,234)	-	-	(28,234)	-	**(28,234)**
Non-interest income (loss)	16,009	12,930	(281)	28,658	-	**28,658**
Non-interest expenses	(97,786)	(7,853)	(3,043)	(108,682)	-	**(108,682)**
Intersegment revenue	787	-	149	936	(936)	**-**
Intersegment expenses	(149)	(577)	(210)	(936)	936	**-**
Income (loss) before income taxes	**$ 37,347**	**$ 4,534**	**$ (1,852)**	**$ 40,029**	**$ -**	**$ 40,029**
Total assets	**$ 5,829,987**	**$ 19,054**	**$ 1,800,838**	**$ 7,649,879**	**$ (937,283)**	**$ 6,712,596**

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Comparison of quarters ended June 30, 2017 and 2016

Banking

Net interest income of the Company's Banking segment decreased $2.2 million, or 3.0%, reflecting a decrease of 3.1% in interest income from loans. Interest income from loans decreased to $77.0 million, reflecting a decrease of $7.6 million due to lower volume, partially offset by an increase of $4.9 million in from higher interest rates. Our loan portfolio is transitioning as originated loans with normal yields grow at a slower pace than higher-yielding acquired loans decline due to repayments and maturities.

Originated loans interest income increased 8.8% to $53.4 million, as average balances dropped 2.5% and yields increased to 7.03%, mainly from higher yields in commercial and retail categories. Acquired BBVAPR loans interest income declined 24.9% to $17.8 million as average balances declined 22.8% and yields decreased 21 basis points to 7.50%. Acquired Eurobank loans interest income fell 12.8% to $6.0 million as average balances declined 10.7% and yields decreased 45 basis points to 18.84%. The decline in acquired loans reflects continued pay downs, and periodic yield recasting.

Provision for loan and lease losses increased 83.7%, or $12.1 million, to $26.5 million, reflecting the increase in provision of commercial loans. Such provision includes $4.3 million recorded to charge-off the loss on sale of a municipal loan and another provision of $5.9 million recorded for the general allowance on municipal loan portfolio. The increase in provision for commercial loans also reflected an $1.7 million increase in provision for loan losses from the growth of the originated loan portfolio.

Non-interest income increased to $11.8 million, $3.6 million up from the same quarter in 2016. The increase was driven by the FDIC shared-loss agreement termination during the first quarter of 2017, compared to an expense of $3.4 million in the year ago quarter recorded for such agreement.

Non-interest expense of $47.4 million slightly increased 0.6%, primarily reflecting an increase in electronic banking charges of $503 thousand, as a result of an increase of $538 thousand in credit cards processing services.

Wealth Management

Wealth management segment revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased $581 thousand to $6.3 million, compared to $6.9 million, mainly from changes in volume and market rates.

Non-interest expense of $4.1 million decreased $808 thousand, primarily reflecting a decrease in compensation expense from lower broker commissions.

Treasury

Treasury's income before taxes, which consists of the Company's asset/liability management activities, such as purchase and sale of investment securities, interest rate risk management, derivatives, and borrowings, increased to $10.8 million, compared to a loss of $922 thousand.

Net interest income increased $4.4 million to $5.3 million, mainly from an increase in interest income and a reduction in interest expenses. Interest income from investments increased 5.7%, to $8.7 million, mainly attributable to higher interest rates on cash balances. Interest expense decreased $3.7 million to $3.6 million because of the drop in repurchase agreements from the payment at maturity of a $232.0 million repurchase agreement at 4.78% in March 2017. In addition, other borrowings balances decreased from the repayment at maturity of $227.0 million of short term FHLB advances during the second quarter of 2016. Total cost of borrowings decreased 99 basis points to 1.78% from 2.77%.

During the second quarter of 2017, the Company took advantage of the market conditions and sold $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, the Company repaid before maturity $100 million repurchase agreements at a cost of $80 thousand.

Comparison of six-month periods ended June 30, 2017 and 2016

Banking

Net interest income of the Company's Banking segment decreased $5.8 million, or 3.9%, reflecting a decrease of 3.9% in interest income from loans. Interest income from loans decreased $6.2 million to $154.6 million, reflecting a decrease of $11.7 million due to lower volume, partially offset by an increase of $5.5 million from higher interest rates.

Originated loans interest income increased 8.6% to $105.4 million, as average balances dropped 2.6% and yields increased to 7.01%, mainly from higher yields in commercial and retail categories. Acquired BBVAPR loans interest income declined 25.3% to $36.8 million as average balances declined 19.3% and yields decreased 57 basis points to 7.63%. Acquired Eurobank loans interest income fell 12.7% to $12.6 million as average balances declined 7.5% and yields decreased 107 basis points to 19.84%.

Provision for loan and lease losses increased 56.4%, or $15.9 million, to $44.2 million, reflecting the increase in provision of commercial loans. Such provision includes $4.3 million recorded to charge-off the loss on sale of a municipal loan and another provision of $5.9 million recorded for the general allowance on municipal loan portfolio. The increase in provision for commercial loans also reflected an $1.7 million increase in provision for loan losses from the growth of the originated loan portfolio.

Non-interest income increased to $25.0 million, $9.0 million up from the same period in 2016. The increase was mainly driven by the FDIC shared-loss agreement termination during the first quarter of 2017, in which the Company recorded a benefit of $1.4 million, compared to an expense of $7.4 million in the year ago quarter recorded for such agreement.

Non-interest expense of $93.5 million decreased 4.4%, primarily reflecting a decrease in loss on sale of foreclosed real estate and other repossessed assets, which decreased 48.9% to $3.1 million, as compared to $6.1 million in the same period for the previous year due to lower markdowns, $2.2 million in savings resulting from the loss-share termination, and to fewer losses on the sale of foreclosed real estate.

Wealth Management

Wealth management segment revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased $673 thousand to $12.3 million, compared to $12.9 million, mainly from changes in volume and market rates.

Non-interest expense of $8.3 million increased $467 thousand, primarily reflecting an increase in broker-dealer legal contingencies.

Treasury

Treasury's income before taxes, which consists of the Company's asset/liability management activities, such as purchase and sale of investment securities, interest rate risk management, derivatives, and borrowings, increased to $13.0 million, compared to a loss of $1.9 million.

Net interest income increased $7.7 million to $9.2 million, mainly from a reduction in interest expenses. Interest income from investments decreased 6.3% to $17.2 million, reflecting a decrease from lower volume and interest rate of $1.3 million and $144 thousand, respectively. Interest expense reflects a decrease in repurchase agreements volume and rate of $2.8 million and of $2.6 million, respectively, and the decrease in other borrowings volume and rate of $4.1 million and $48 thousand, respectively. Decrease in repurchase agreements reflects the partial unwinding of $268.0 million repurchase agreement at 4.78% in February 2016 and the repayment at maturity of the remaining $232.0 million balance in March 2017. The decrease in other borrowings balances resulted from the repayment at maturity of $227.0 million of short term FHLB advances during the second quarter of 2016. Total cost of borrowings decreased 78 basis points to 2.10% from 2.88%.

During 2017, the Company took advantage of the market conditions and sold $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, the Company unwound $100 million of repurchase agreements at a cost of $80 thousand.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At June 30, 2017, the Company’s total assets amounted to $6.236 billion representing a decrease of 4.1% when compared to $6.502 billion at December 31, 2016. This reduction is mainly due to a decrease in the investment portfolio of $140.9 million, a decrease in the loan portfolio of $55.8 million and a decrease in cash and cash equivalents of $33.1 million.

The Company's investment portfolio decreased $140.9 million from $1.363 billion at December 31, 2016 to $1.222 billion at June 30, 2017, reflecting decreases in investment securities available-for-sale portfolio by $102.0 million, mainly attributed to the sale of $166.0 million mortgage-backed securities during the six-month period ended June 30, 2017. There was also a decrease in investment securities held-to-maturity portfolio by $44.5 million primarily due to paydowns and premium amortizations of $41.9 million and $2.6 million, respectively.

The Company’s loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate located in Puerto Rico, other commercial and industrial loans, consumer loans, and auto loans. At June 30, 2017, the Company’s loan portfolio decreased $55.8 million from $4.148 billion at December 31, 2016 to $4.092 billion. Our loan portfolio is transitioning as originated loans grow at a slower pace than acquired loans decrease, due to repayments and maturities. At June 30, 2017, loans held for sale, at fair value increased $35.2 million. The acquired BBVAPR loan portfolio decreased $108.9 million from December 31, 2016 to $899.0 million. The Eurobank acquired loan portfolio decreased $17.9 million from December 31, 2016 to $116.7 million at June 30, 2017. Mortgage loans held for sale increased to $14.0 million from $12.5 million on December 31, 2016. Other loans held for sale at June 30, 2017 included $33.6 million corresponding to a municipal loan which sale settled on July 5, 2017.

At June 30, 2017, loans represented 77% of total interest-earning assets while investments represented 23%, compared to December in which loans represented 75% of total interest-earning assets and investments represented 25%.

Financial Assets Managed

The Company’s financial assets include those managed by the Company’s trust division, retirement plan administration subsidiary, and assets gathered by its broker-dealer and insurance subsidiaries. The Company’s trust division offers various types of individual retirement accounts ("IRA"s) and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while the retirement plan administration subsidiary, OPC, manages private retirement plans. At June 30, 2017, total assets managed by the Company's trust division and OPC amounted to $2.944 billion, compared to $2.850 billion at December 31, 2016. Oriental Financial Services offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At June 30, 2017, total assets gathered by Oriental Financial Services and Oriental Insurance from its customer investment accounts amounted to $2.276 billion, compared to $2.351 billion at December 31, 2016. Changes in trust and broker-dealer related assets primarily reflect changes in portfolio balances and differences in market values.

Goodwill

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

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

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

As of June 30, 2017, the Company had $86.1 million of goodwill allocated as follows: $84.1 million to the Banking unit and $2.0 million to the Wealth Management unit. During the last quarter of 2016, based on its annual goodwill impairment test, the Company determined that the Banking unit failed step one of the two-step impairment test and that the Wealth Management unit passed such step. As a result of step one; the Banking unit’s adjusted net book value exceeded its fair value by approximately $145.0 million, or 15%. Accordingly, the Company proceeded to perform step two of the analysis. Based on the results of step two, the Company determined that the carrying value of the goodwill allocated to the Banking unit was not impaired as of the valuation date. During the six-month period ended June 30, 2017, the Company performed an assessment of events or circumstances that could trigger reductions in the book value of the goodwill. Based on this assessment, no events were identified that triggered changes in the book value of goodwill at June 30, 2017.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION

	June 30, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Investments:			
FNMA and FHLMC certificates	$ 902,101	$ 1,025,370	-12.0%
Obligations of US government-sponsored agencies	3,327	3,884	-14.3%
US Treasury securities	54,990	49,054	12.1%
CMOs issued by US government-sponsored agencies	91,553	101,831	-10.1%
GNMA certificates	146,683	165,235	-11.2%
Puerto Rico government and public instrumentalities	4,341	4,073	6.6%
FHLB stock	16,616	10,793	54.0%
Other debt securities	1,739	1,921	-9.5%
Other investments	297	350	-15.1%
Total investments	**1,221,647**	**1,362,511**	**-10.3%**
Loans	**4,091,866**	**4,147,692**	**-1.3%**
Total investments and loans	**5,313,513**	**5,510,203**	**-3.6%**
Other assets:			
Cash and due from banks (including restricted cash)	473,871	507,863	-6.7%
Money market investments	6,467	5,606	15.4%
FDIC indemnification asset	-	14,411	-100.0%
Foreclosed real estate	50,223	47,520	5.7%
Accrued interest receivable	19,798	20,227	-2.1%
Deferred tax asset, net	116,199	124,200	-6.4%
Premises and equipment, net	69,836	70,407	-0.8%
Servicing assets	9,866	9,858	0.1%
Derivative assets	957	1,330	-28.0%
Goodwill	86,069	86,069	0.0%
Other assets and customers' liability on acceptances	89,027	104,130	-14.5%
Total other assets	**922,313**	**991,621**	**-7.0%**
Total assets	**$ 6,235,826**	**$ 6,501,824**	**-4.1%**
Investment portfolio composition:			
FNMA and FHLMC certificates	73.7%	75.2%	
Obligations of US government-sponsored agencies	0.3%	0.3%	
US Treasury securities	4.5%	3.6%	
CMOs issued by US government-sponsored agencies	7.5%	7.5%	
GNMA certificates	12.0%	12.1%	
Puerto Rico government and public instrumentalities	0.4%	0.3%	
FHLB stock	1.4%	0.8%	
Other debt securities and other investments	0.2%	0.2%	
	100.0%	**100.0%**	

TABLE 5 — LOANS RECEIVABLE COMPOSITION

	June 30 2017	December 31, 2016	Variance %
	(In thousands)		
Originated and other loans and leases held for investment:			
Mortgage	$ 699,290	$ 721,494	-3.1%
Commercial	1,270,844	1,277,866	-0.5%
Consumer	314,267	290,515	8.2%
Auto and leasing	807,204	756,395	6.7%
	3,091,605	**3,046,270**	**1.5%**
Allowance for loan and lease losses on originated and other loans and leases	(69,666)	(59,300)	-17.5%
	3,021,939	**2,986,970**	**1.2%**
Deferred loan costs, net	6,574	5,766	14.0%
Total originated and other loans loans held for investment, net	**3,028,513**	**2,992,736**	**1.2%**
Acquired loans:			
Acquired BBVAPR loans:			
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	5,350	5,562	-3.8%
Consumer	30,233	32,862	-8.0%
Auto	33,661	53,026	-36.5%
	69,244	**91,450**	**-24.3%**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(3,348)	(4,300)	22.1%
	65,896	**87,150**	**-24.4%**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)			
Mortgage	544,325	569,253	-4.4%
Commercial	266,002	292,564	-9.1%
Consumer	2,163	4,301	-49.7%
Auto	58,078	85,676	-32.2%
	870,568	**951,794**	**-8.5%**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(37,494)	(31,056)	-20.7%
	833,074	**920,738**	**-9.5%**
Total acquired BBVAPR loans, net	**898,970**	**1,007,888**	**-10.8%**
Acquired Eurobank loans:			
Loans secured by 1-4 family residential properties	70,329	73,018	-3.7%
Commercial	66,894	81,460	-17.9%
Consumer	1,256	1,372	-8.5%

		138,479		**155,850**	**-11.1%**
Allowance for loan and lease losses on Eurobank loans		(21,787)		(21,281)	-2.4%
Total acquired Eurobank loans, net		**116,692**		**134,569**	**-13.3%**
Total acquired loans, net		**1,015,662**		**1,142,457**	**-11.1%**
Total held for investment, net		**4,044,175**		**4,135,193**	**-2.2%**
Mortgage loans held for sale		**14,044**		**12,499**	**12.4%**
Other loans held for sale		**33,647**		**-**	**100.0%**
Total loans, net	**$**	**4,091,866**	**$**	**4,147,692**	**-1.3%**

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The Company’s loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred to as "originated and other" loans) and loans acquired (referred to as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans. Acquired Eurobank loans were purchased subject to loss-sharing agreements with the FDIC, which were terminated on February 6, 2017.

As shown in Table 5 above, total loans, net, amounted to $4.092 billion at June 30, 2017 and $4.148 billion at December 31, 2016. The Company’s originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to $699.3 million (22.6% of the gross originated loan portfolio) compared to $721.5 million (23.7% of the gross originated loan portfolio) at December 31, 2016. Mortgage loan production totaled $45.9 million and $89.4 million for the quarter and six-month period ended June 30, 2017, which represents a decrease of 20.4% and 15.7%, from $57.6 million and $106.0 million, respectively, for the same periods in 2016. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $9.2 million and $9.7 million at June 30, 2017 and December 31, 2016, respectively. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

- Commercial loan portfolio amounted to $1.271 billion (41.1% of the gross originated loan portfolio) compared to $1.278 billion (42.0% of the gross originated loan portfolio) at December 31, 2016. Commercial loan production increased 21.3% to $80.4 million for the quarter ended June 30, 2017, from $66.3 million for the same period in 2016. However, for the six-month period ended June 30, 2017, the production decreased 12.9% to $126.8 million from $145.5 million for the same period in 2016.

- Consumer loan portfolio amounted to $314.3 million (10.2% of the gross originated loan portfolio) compared to $290.5 million (9.5% of the gross originated loan portfolio) at December 31, 2016. Consumer loan production increased 25.5% and 24.4% to $49.7 million and $91.8 million for the quarter and six-month period ended June 30, 2017, respectively, from $39.6 million and $73.8 million for the same periods in 2016.

- Auto and leasing portfolio amounted to $807.2 million (26.1% of the gross originated loan portfolio) compared to $756.4 million (24.8% of the gross originated loan portfolio) at December 31, 2016. Auto and leasing production increased by 5.6% and 19.3% to $78.6 million and $165.4 million for the quarter and six-month period ended June 30, 2017, respectively, compared to $74.4 million and $138.7 million for the same periods in 2016.

TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	June 30, 2017								
	Higher-Risk Residential Mortgage Loans*								
	Junior Lien Mortgages			Interest Only Loans			High Loan-to-Value Ratio Mortgages LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 10,034	$ 262	2.61%	$ 10,041	$ 787	7.84%	$ 74,909	$ 1,525	2.04%
90 - 119 days	217	8	3.69%	-	-	0.00%	556	46	8.22%
120 - 179 days	-	-	0.00%	-	-	0.00%	340	37	10.95%
180 - 364 days	129	5	4.04%	456	117	25.57%	2,558	157	6.16%
365+ days	362	57	15.75%	2,653	678	25.57%	8,291	786	9.48%
Total	$ 10,742	$ 332	3.09%	$ 13,150	$ 1,582	12.03%	$ 86,654	$ 2,551	2.94%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.34%			0.42%			2.74%		
Refinanced or Modified Loans:									
Amount	$ 2,095	$ 203	9.71%	$ 546	$ 51	9.26%	$ 16,718	$ 1,148	6.87%
Percentage of Higher-Risk Loan Category	19.50%			4.15%			19.29%		
Loan-to-Value Ratio:									
Under 70%	$ 6,978	$ 195	2.80%	$ 778	$ 60	7.75%	$ -	$ -	-
70% - 79%	1,732	91	5.25%	2,886	268	9.29%	-	-	-
80% - 89%	168	19	11.37%	3,325	439	13.21%	-	-	-
90% and over	1,864	26	1.41%	6,161	815	13.22%	86,654	2,551	2.94%
	$ 10,742	$ 331	3.09%	$ 13,150	$ 1,582	12.03%	$ 86,654	$ 2,551	2.94%

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

The following table includes the Company's lending and investment exposure to the Puerto Rico government, including its agencies, instrumentalities, municipalities and public corporations:

TABLE 7 - PUERTO RICO GOVERNMENT RELATED LOANS AND SECURITIES

	June 30, 2017				
		Maturity			
Loans and Securities:	**Carrying Value**	**Less than 1 Year**	**1 to 3 Years**	**More than 3 Years**	**Comments**
	(In thousands)				
Central government	$ 10,613	$ -	$ -	$ 10,613	The remaining balance is a loan to the Puerto Rico Housing Finance Authority ("PRHFA"). At June 30, 2017 the allowance for loan losses was $8.0 million. In July, PRHFA paid the Company $5.8 million to cancel the loan.
Municipalities	188,225	42,900	31,440	113,885	Secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations.
Investment securities	4,680	2,035	2,645	-	The remaining position is a PRHTA security maturing July 1, 2018 issued for P3 Project Teodoro Moscoso Bridge operated by private companies that have the payment

									obligation. A scheduled principal payment of $2.0 million was received on July 1, 2017
Total	**$**	**203,518**	**$**	**44,935**	**$**	**34,085**	**$**	**124,498**	

Some highlights follow regarding the data included above:

- At June 30, 2017, loans to municipalities included a $38.0 million loan classified as held for sale. The proceeds of the sale were received on July 5, 2017, and $13.8 million of scheduled principal payments were received in July.

- Deposits from the Puerto Rico government totaled $123.3 million at June 30, 2017.

Credit Risk Management

Allowance for Loan and Lease Losses

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company’s allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. At June 30, 2017, the Company’s allowance for loan and lease losses amounted to $132.3 million, a $16.4 million increase from $115.9 million at December 31, 2016.

Tables 8 through 12 set forth an analysis of activity in the allowance for loan and lease losses and present selected loan loss statistics. In addition, Table 5 sets forth the composition of the loan portfolio.

At June 30, 2017, $69.7 million of the allowance corresponded to originated and other loans held for investment, or 2.25% of total originated and other loans held for investment, compared to $59.3 million, or 1.95% of total originated and other loans held for investment at December 31, 2016. Provision for loan and lease losses of $34.6 million and recoveries of $8.8 million, were offset by charge-offs of $32.9 million during the six-month period ended June 30, 2017. The allowance for residential mortgage loans increased by 7.6% (or $1.3 million), when compared with the balances recorded at December 31, 2016. The allowance for commercial and consumer loans increased by 92.1% (or $8.3 million) and 14.6% (or $1.9 million), respectively, when compared with the balances recorded at December 31, 2016. The allowance for auto and leasing loans decreased 3.7% (or $721 thousand), when compared with the balances recorded at December 31, 2016.

Allowance for loan and lease losses recorded for acquired BBVAPR loans accounted for under the provisions of ASC 310-20 at June 30, 2017 was $3.3 million compared to $4.3 million at December 31, 2016, a 22.1% decrease. The allowance decreased as a result of $2.3 million in charge-offs and $92 thousand in recapture for loan and lease losses, which were partially offset by a $1.4 million of recoveries during the six-month period ended June 30, 2017. The allowance for commercial loans decreased by 75.7% (or $128 thousand), when compared with the balance recorded at December 31, 2016. The allowance for auto loans decreased by 38.0% (or $419 thousand) and consumer loans decreased by 13.4% (or $405 thousand) respectively, when compared with the balances recorded at December 31, 2016, due to the normal amortization of credit discount of these acquired loans.

Allowance for loan and lease losses recorded for acquired BBVAPR loans accounted for under ASC-310-30 at June 30, 2017 was $37.5 million as compared to $31.1 million at December 31, 2016. The allowance increased mainly as a result of a $7.7 million provision for loan and lease losses, slightly offset by $1.3 million in allowance de-recognition during the six-month period ended June 30, 2017.

Allowance for loan and lease losses recorded for acquired Eurobank loans at June 30, 2017 was $21.8 million as compared to $21.3 million at December 31, 2016. The allowance increased as a result of $2.0 million in provision for loan and lease losses, partially offset by $1.5 million in allowance de-recognition. The allowance for loan and lease losses on acquired Eurobank loans is accounted for under the provisions of ASC 310-30.

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

Non-performing Assets

The Company's non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At June 30, 2017 and December 31, 2016, the Company had $95.2 million and $104.1 million, respectively, of non-accrual loans, including acquired BBVAPR loans accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium).

At June 30, 2017 and December 31, 2016, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $98.7 million and $98.1 million, respectively.

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

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

At June 30, 2017, the Company's non-performing assets decreased by 2.5% to $153.0 million (2.83% of total assets, excluding acquired loans with deteriorated credit quality) from $156.9 million (2.88% of total assets, excluding acquired loans with deteriorated credit quality) at December 31, 2016. The Company does not expect non-performing loans to result in significantly higher losses. At June 30, 2017, the allowance for originated loan and lease losses to non-performing loans coverage ratio was 71.4% (56.30% at December 31, 2016).

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

The following items comprise non-performing assets:

- Originated and other loans held for investment:

Residential mortgage loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 18 months or more past due. At June 30, 2017, the Company's originated non-performing mortgage loans totaled $63.1 million (63.5% of the Company's non-performing loans), a 15.3% decrease from $74.5 million (68.9% of the Company's non-performing loans) at December 31, 2016.

Commercial loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At June 30, 2017, the Company's originated non-performing commercial loans amounted to $23.5 million (23.6% of the Company's non-performing loans), an 18.9% increase from $19.8 million at December 31, 2016 (18.3% of the Company's non-performing loans).

Consumer loans — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days in personal loans and 180 days in credit cards and personal lines of credit. At June 30, 2017, the Company's originated non-performing consumer loans amounted to $2.7 million (2.7% of the Company's non-performing loans), a 35.3% increase from $2.0 million at December 31, 2016 (1.8% of the Company's non-performing loans).

Auto loans and leases — are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At June 30, 2017, the Company's originated non-performing auto loans and leases amounted to $8.3 million (8.3% of the Company's total non-performing loans), a decrease of 8.4% from $9.1 million at December 31, 2016 (8.4% of the Company's total non-performing loans).

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

Commercial revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At June 30, 2017, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $1.1 million (1.1% of the Company's non-performing loans), a 19.9% decrease from $1.4 million at December 31, 2016 (1.3% of the Company's non-performing loans).

Consumer revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 180 days. At June 30, 2017, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $536 thousand (0.5% of the Company's non-performing loans), a 35.3% decrease from $828 thousand at December 31, 2016 (0.8% of the Company's non-performing loans).

Auto loans acquired at premium - are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At June 30, 2017, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled $325 thousand (0.3% of the Company's non-performing loans), a 41.1% decrease from $552 thousand at December 31, 2016 (0.5% of the Company's non-performing loans).

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

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

The Non-traditional Mortgage Loan Program is for non-traditional mortgages, including balloon payment, interest only/interests first, variable interest rate, adjustable interest rate and other qualified loans. Non-traditional mortgage loan portfolios are segregated into the following categories: performing loans that meet secondary market requirement and are refinanced under the credit underwriting guidelines of FHA/VA/FNMA/ FHLMC, and performing loans not meeting secondary market guidelines processed by the Company's current credit and underwriting guidelines. The

Company achieved an affordable and sustainable monthly payment by taking specific, sequential, and necessary steps such as reducing the interest rate, extending the loan term, capitalizing arrearages, deferring the payment of principal or, if the borrower qualifies, refinancing the loan.

In order to apply for any of the loan modification programs, if the borrower is active in Chapter 13 bankruptcy, they must request an authorization from the bankruptcy trustee to allow for the loan modification. Borrowers with discharged Chapter 7 bankruptcies may also apply. Loans in these programs are evaluated by designated underwriters for troubled-debt restructuring classification if the Company grants a concession for legal or economic reasons due to the debtor's financial difficulties.

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES BREAKDOWN

	June 30, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Originated and other loans held for investment			
Allowance balance:			
Mortgage	$ 18,664	$ 17,344	7.6%
Commercial	17,279	8,995	92.1%
Consumer	14,981	13,067	14.6%
Auto and leasing	18,742	19,463	-3.7%
Unallocated allowance	-	431	-100.0%
Total allowance balance	**$ 69,666**	**$ 59,300**	**17.5%**
Allowance composition:			
Mortgage	26.80%	29.24%	-8.3%
Commercial	24.80%	15.17%	63.5%
Consumer	21.50%	22.04%	-2.5%
Auto and leasing	26.90%	32.82%	-18.0%
Unallocated allowance	0.00%	0.73%	-100.0%
	100.00%	**100.00%**	
Allowance coverage ratio at end of period applicable to:			
Mortgage	2.67%	2.40%	11.3%
Commercial	1.36%	0.70%	94.3%
Consumer	4.77%	4.50%	6.0%
Auto and leasing	2.32%	2.57%	-9.7%
Total allowance to total originated loans	**2.25%**	**1.95%**	**15.4%**
Allowance coverage ratio to non-performing loans:			
Mortgage	29.59%	23.28%	27.1%
Commercial	73.47%	45.46%	61.6%
Consumer	557.54%	657.96%	-15.3%
Auto and leasing	225.94%	215.01%	5.1%
Total	**71.40%**	**56.30%**	**26.8%**
Acquired BBVAPR loans accounted for under ASC 310-20			
Allowance balance:			
Commercial	$ 41	$ 169	-75.7%
Consumer	2,623	3,028	-13.4%
Auto	684	1,103	-38.0%
Total allowance balance	**$ 3,348**	**$ 4,300**	**-22.1%**
Allowance composition:			
Commercial	1.22%	3.93%	-69.0%
Consumer	78.35%	70.42%	11.3%
Auto	20.43%	25.65%	-20.4%
	100.00%	**100.00%**	

Allowance coverage ratio at end of period applicable to:			
Commercial	0.77%	3.04%	-74.7%
Consumer	8.68%	9.21%	-5.8%
Auto	2.03%	2.08%	-2.4%
Total allowance to total acquired loans	**4.84%**	**4.70%**	**3.0%**
Allowance coverage ratio to non-performing loans:			
Commercial	3.62%	11.94%	-69.7%
Consumer	489.37%	365.70%	33.8%
Auto	210.46%	199.82%	5.3%
Total	**167.90%**	**153.85%**	**9.1%**

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

	June 30, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Acquired BBVAPR loans accounted for under ASC 310-30			
Allowance balance:			
Mortgage	$ 4,141	$ 2,682	54.4%
Commercial	25,614	23,452	9.2%
Auto	7,739	4,922	57.2%
Total allowance balance	**$ 37,494**	**$ 31,056**	**20.7%**
Allowance composition:			
Mortgage	11.04%	8.64%	27.8%
Commercial	68.32%	75.51%	-9.5%
Auto	20.64%	15.85%	30.2%
	100.00%	**100.00%**	
Acquired Eurobank loans accounted for under ASC 310-30			
Allowance balance:			
Mortgage	$ 13,651	$ 11,947	14.3%
Commercial	8,131	9,328	-12.8%
Consumer	5	6	-16.7%
Total allowance balance	**$ 21,787**	**$ 21,281**	**2.4%**
Allowance composition:			
Mortgage	62.66%	56.14%	11.6%
Commercial	37.31%	43.83%	-14.9%
Consumer	0.02%	0.03%	-33.3%
	100.0%	**100.0%**	

TABLE 9 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	2016	Variance %	2017	2016	Variance %
	(Dollars in thousands)					
Originated and other loans:						
Balance at beginning of period	$ 60,483	$ 113,238	-46.6%	$ 59,300	$ 112,626	-47.3%
Provision for loan and lease losses	22,818	9,052	152.1%	34,551	19,712	75.3%
Charge-offs	(18,790)	(13,118)	43.2%	(32,945)	(26,480)	24.4%
Recoveries	5,155	3,640	41.6%	8,760	6,954	26.0%
Balance at end of period	**$ 69,666**	**$ 112,812**	**-38.2%**	**$ 69,666**	**$ 112,812**	**-38.2%**
Acquired loans:						
BBVAPR loans						
Acquired loans accounted for under ASC 310-20:						
Balance at beginning of period	$ 3,615	$ 4,993	-27.6%	$ 4,300	$ 5,542	-22.4%
Provision for loan and lease losses	(59)	548	-110.8%	(92)	844	-110.9%
Charge-offs	(1,102)	(1,596)	-31.0%	(2,271)	(3,152)	-28.0%
Recoveries	894	542	64.9%	1,411	1,253	12.6%
Balance at end of period	**$ 3,348**	**$ 4,487**	**-25.4%**	**$ 3,348**	**$ 4,487**	**-25.4%**
Acquired loans accounted for under ASC 310-30:						
Balance at beginning of period	$ 34,930	$ 27,747	25.9%	$ 31,056	$ 25,785	20.4%
Provision for loan and lease losses	3,365	3,814	-11.8%	7,696	5,842	31.7%
Loan pools fully charged off	-	(216)	-100.0%	-	(282)	-100.0%
Allowance de-recognition	(801)	(8,544)	-90.6%	(1,258)	(8,544)	-85.3%
Balance at end of period	**$ 37,494**	**$ 22,801**	**64.4%**	**$ 37,494**	**$ 22,801**	**64.4%**
Eurobank loans						
Balance at beginning of period	$ 22,006	$ 92,293	-76.2%	$ 21,281	$ 90,178	-76.4%
	412	1,031	-60.0%	2,032	1,836	10.7%

Provision for loan and lease losses						
FDIC shared-loss portion on recapture of loan and lease losses	-	951	-100.0%	-	2,395	-100.0%
Loan pools fully charged off	-	-	0.0%	-	(134)	-100.0%
Allowance de-recognition	(631)	(72,159)	-99.1%	(1,526)	(72,159)	-97.9%
Balance at end of period	**$ 21,787**	**$ 22,116**	**-1.5%**	**$ 21,787**	**$ 22,116**	**-1.5%**
Allowance for loans and lease losses on originated and other loans to:						
Total originated loans	2.25%	3.53%	-36.3%	2.25%	3.53%	-36.3%
Non-performing originated loans	71.40%	38.85%	83.8%	71.40%	38.85%	83.8%
Allowance for loans and lease losses on acquired loans accounted for under ASC 310-20 to:						
Total acquired loans accounted for under ASC 310-20	4.84%	3.84%	26.0%	4.84%	3.84%	26.0%
Non-performing acquired loans accounted for under ASC 310-20	167.90%	214.07%	-21.6%	167.90%	214.07%	-21.6%

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

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	2016	Variance %	2017	2016	Variance %
	(Dollar in thousands)					
Originated and other loans and leases:						
Mortgage						
Charge-offs	$ (2,162)	$ (1,374)	57.4%	$ (4,541)	$ (3,036)	49.6%
Recoveries	63	36	75.0%	119	181	-34.3%
Total	**(2,099)**	**(1,338)**	**56.9%**	**(4,422)**	**(2,855)**	**54.9%**
Commercial						
Charge-offs	(4,841)	(833)	481.2%	(5,697)	(1,844)	208.9%
Recoveries	136	228	-40.4%	226	316	-28.5%
Total	**(4,705)**	**(605)**	**677.7%**	**(5,471)**	**(1,528)**	**258.0%**
Consumer						
Charge-offs	(4,012)	(2,811)	42.7%	(7,368)	(5,138)	43.4%
Recoveries	780	133	486.5%	945	235	302.1%
Total	**(3,232)**	**(2,678)**	**20.7%**	**(6,423)**	**(4,903)**	**31.0%**
Auto						
Charge-offs	(7,775)	(8,100)	-4.0%	(15,339)	(16,462)	-6.8%
Recoveries	4,176	3,243	28.8%	7,470	6,222	20.1%
Total	**(3,599)**	**(4,857)**	**-25.9%**	**(7,869)**	**(10,240)**	**-23.2%**
Net credit losses						
Total charge-offs	(18,790)	(13,118)	43.2%	(32,945)	(26,480)	24.4%
Total recoveries	5,155	3,640	41.6%	8,760	6,954	26.0%
Total	**$ (13,635)**	**$ (9,478)**	**43.9%**	**$ (24,185)**	**$ (19,526)**	**23.9%**
Net credit losses to average loans outstanding:						
Mortgage	1.20%	0.72%	66.7%	1.25%	0.76%	64.5%
Commercial	1.50%	0.17%	782.4%	0.87%	0.21%	314.3%
Consumer	4.42%	4.35%	1.6%	4.49%	4.08%	10.0%
Auto	1.79%	2.75%	-34.9%	1.99%	2.95%	-32.5%
Total	**1.79%**	**1.21%**	**47.9%**	**1.59%**	**1.25%**	**27.2%**
Recoveries to charge-offs	**27.43%**	**27.75%**	**-1.1%**	**26.59%**	**26.26%**	**1.3%**
Average originated loans:						
Mortgage	$ 698,782	$ 743,516	-6.0%	$ 705,167	$ 749,904	-6.0%
Commercial	1,256,827	1,433,944	-12.4%	1,251,179	1,429,638	-12.5%
Consumer	292,739	246,003	19.0%	286,149	240,251	19.1%
Auto	803,201	706,107	13.8%	791,008	695,071	13.8%
Total	**$ 3,051,549**	**$ 3,129,570**	**-2.5%**	**$ 3,033,503**	**$ 3,114,864**	**-2.6%**

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

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2017	2016	Variance %	2017	2016	Variance %
	(Dollars in thousands)					
Acquired loans accounted for under ASC 310-20:						
Commercial						
Charge-offs	$ (126)	$ (12)	950.0%	$ (132)	$ (19)	594.7%
Recoveries	2	8	-75.0%	3	40	-92.5%
Total	**(124)**	**(4)**	**3000.0%**	**(129)**	**21**	**-714.3%**
Consumer						
Charge-offs	(771)	(1,013)	-23.9%	(1,656)	(1,825)	-9.3%
Recoveries	295	88	235.2%	359	169	112.4%
Total	**(476)**	**(925)**	**-48.5%**	**(1,297)**	**(1,656)**	**-21.7%**
Auto						
Charge-offs	(205)	(571)	-64.1%	(483)	(1,308)	-63.1%
Recoveries	597	446	33.9%	1,049	1,044	0.5%
Total	**392**	**(125)**	**-413.6%**	**566**	**(264)**	**-314.4%**
Net credit losses						
Total charge-offs	(1,102)	(1,596)	-31.0%	(2,271)	(3,152)	-28.0%
Total recoveries	894	542	64.9%	1,411	1,253	12.6%
Total	**$ (208)**	**$ (1,054)**	**-80.3%**	**$ (860)**	**$ (1,899)**	**-54.7%**
Net credit losses to average loans outstanding:						
Commercial	126.52%	2.77%	4467.5%	64.18%	-7.13%	-1000.1%
Consumer	3.29%	6.19%	-46.8%	4.46%	5.51%	-19.2%
Auto	-3.78%	0.63%	-702.2%	-2.50%	0.62%	-506.2%
Total	**0.83%**	**3.01%**	**-72.1%**	**1.66%**	**2.59%**	**-35.9%**
Recoveries to charge-offs	**81.13%**	**33.96%**	**138.9%**	**62.13%**	**39.75%**	**56.3%**
Average loans accounted for under ASC 310-20:						
Commercial	$ 392	$ 577	-32.1%	$ 402	$ 589	-31.7%
Consumer	57,813	59,785	-3.3%	58,214	60,087	-3.1%
Auto	41,447	79,603	-47.9%	45,281	85,815	-47.2%
Total	**$ 99,652**	**$ 139,965**	**-28.8%**	**$ 103,897**	**$ 146,491**	**-29.1%**

TABLE 11 — NON-PERFORMING ASSETS

	June 30, 2017	December 31, 2016	Variance (%)
	(Dollars in thousands)		
Non-performing assets:			
Non-accruing loans			
Troubled-Debt Restructuring loans	$ 27,315	$ 32,408	-15.7%
Other loans	67,848	71,941	-5.7%
Accruing loans			
Troubled-Debt Restructuring loans	3,395	2,706	25.5%
Other loans	1,008	1,067	-5.5%
Total non-performing loans	$ 99,566	$ 108,122	-7.9%
Foreclosed real estate not covered under the shared-loss agreements with the FDIC	50,223	45,587	10.2%
Other repossessed assets	3,225	3,224	0.0%
	$ 153,014	**$ 156,933**	**-2.5%**
Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)	**2.83%**	**2.88%**	**-1.7%**
Non-performing assets to total capital	**16.30%**	**17.05%**	**-4.4%**

	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2016
	(In thousands)			
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	$ 909	$ 984	$ 1,644	$ 1,821

TABLE 12 — NON-PERFORMING LOANS

	June 30, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Non-performing loans:			
Originated and other loans held for investment			
Mortgage	$ 63,071	$ 74,503	-15.3%
Commercial	23,519	19,786	18.9%
Consumer	2,687	1,986	35.3%
Auto and leasing	8,295	9,052	-8.4%
	97,572	105,327	-7.4%
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	1,133	1,415	-19.9%
Consumer	536	828	-35.3%
Auto	325	552	-41.1%
	1,994	2,795	-28.7%
Total	**$ 99,566**	**$ 108,122**	**-7.9%**
Non-performing loans composition percentages:			
Originated loans			
Mortgage	63.5%	68.9%	
Commercial	23.6%	18.3%	
Consumer	2.7%	1.8%	
Auto and leasing	8.3%	8.4%	
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	1.1%	1.3%	
Consumer	0.5%	0.8%	
Auto	0.3%	0.5%	
Total	**100.0%**	**100.0%**	
Non-performing loans to:			
Total loans, excluding loans accounted for under ASC 310-30 (including those by analogy)	**3.15%**	**3.45%**	**-8.7%**
Total assets, excluding loans accounted for under ASC 310-30 (including those by analogy)	**1.84%**	**1.99%**	**-7.5%**
Total capital	**10.60%**	**11.75%**	**-9.8%**

Non-performing loans with partial charge-offs to:			
Total loans, excluding loans accounted for under ASC 310-30 (including those by analogy)	**1.20%**	**1.17%**	**2.56%**
Non-performing loans	**38.13%**	**34.09%**	**11.9%**
Other non-performing loans ratios:			
Charge-off rate on non-performing loans to non-performing loans on which charge-offs have been taken	**57.72%**	**63.58%**	**-9.2%**
Allowance for loan and lease losses to non-performing loans on which no charge-offs have been taken	**118.53%**	**89.25%**	**32.8%**

FDIC Indemnification Asset

The Company recorded the FDIC indemnification asset, measured separately from the covered loans, as part of the Eurobank FDIC-assisted transaction. On February 6, 2017, the Bank and the FDIC agreed to terminate the single family and commercial shared-loss agreements related to the FDIC assisted acquisition.

TABLE 13 - ACTIVITY OF FDIC INDEMNIFICATION ASSET

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
<u>**FDIC indemnification asset:**</u>				
Balance at beginning of period	$ -	$ 20,923	$ 14,411	$ 22,599
Shared-loss agreements reimbursements from the FDIC	-	(332)	-	(737)
Increase in expected credit losses to be covered under shared-loss agreements, net	-	951	-	2,395
FDIC indemnification asset benefit (expense)	-	(1,405)	1,403	(4,269)
Net expenses incurred under shared-loss agreements	-	(1,711)	-	(1,562)
Shared-loss termination settlement	-	-	(15,814)	-
Balance at end of period	**$ -**	**$ 18,426**	**$ -**	**$ 18,426**

TABLE 14 - LIABILITIES SUMMARY AND COMPOSITION

	June 30, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Deposits:			
Non-interest bearing deposits	$ 845,375	$ 848,502	-0.4%
NOW accounts	999,595	1,091,237	-8.4%
Savings and money market accounts	1,169,002	1,196,231	-2.3%
Certificates of deposit	1,566,746	1,526,805	2.6%
Total deposits	**4,580,718**	**4,662,775**	**-1.8%**
Accrued interest payable	1,968	1,712	15.0%
Total deposits and accrued interest payable	**4,582,686**	**4,664,487**	**-1.8%**
Borrowings:			
Securities sold under agreements to repurchase	453,492	653,756	-30.6%
Advances from FHLB	137,540	105,454	30.4%
Subordinated capital notes	36,083	36,083	0.0%
Other term notes	177	61	190.2%
Total borrowings	**627,292**	**795,354**	**-21.1%**
Total deposits and borrowings	**5,209,978**	**5,459,841**	**-4.6%**
Other Liabilities:			
Derivative liabilities	1,881	2,437	-22.8%
Acceptances outstanding	22,739	23,765	-4.3%
Other liabilities	62,260	95,370	-34.7%
Total liabilities	**$ 5,296,858**	**$ 5,581,413**	**-5.1%**
Deposits portfolio composition percentages:			
Non-interest bearing deposits	18.5%	18.2%	
NOW accounts	21.8%	23.4%	
Savings and money market accounts	25.5%	25.7%	
Certificates of deposit	34.2%	32.7%	
	100.0%	**100.0%**	
Borrowings portfolio composition percentages:			
Securities sold under agreements to repurchase	72.3%	82.2%	
Advances from FHLB	21.9%	13.3%	
Other term notes	0.0%	0.0%	
Subordinated capital notes	5.8%	4.5%	
	100.0%	**100.0%**	
Securities sold under agreements to repurchase (excluding accrued interest)			
Amount outstanding at period-end	$ 452,850	$ 652,229	
Daily average outstanding balance	$ 523,448	$ 663,845	
Maximum outstanding balance at any month-end	$ 655,790	$ 902,500	

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Liabilities and Funding Sources

As shown in Table 14 above, at June 30, 2017, the Company’s total liabilities were $5.297 billion, 5.1% less than the $5.581 billion reported at December 31, 2016. Deposits and borrowings, the Company’s funding sources, amounted to $5.210 billion at June 30, 2017 versus $5.460 billion at December 31, 2016, a 4.6% decrease.

Borrowings consist mainly of repurchase agreements, FHLB-NY advances and subordinated capital notes. At June 30, 2017, borrowings amounted to $627.3 million, representing a decrease of 21.1% when compared with the $795.4 million reported at December 31, 2016. The decrease in borrowings is attributed to decreases in repurchases agreements and to decrease in FHLB-NY advances. Repurchase agreements at June 30, 2017 decreased $200.3 million to $453.5 million from $653.8 million at December 31, 2016, reflecting the maturity of a repurchase agreement amounting to $232.0 million with a rate of 4.78% on March 2, 2017 and an unwinding of $100.0 million in repurchase agreements during the second quarter of 2017, at a cost of $80 thousand. These decreases were partially offset by new repurchase agreements of $110.0 million with the FHLB, $37.0 million with Nomura and $66.0 million with Credit Suisse. As a member of the FHLB-NY, the Bank can obtain advances from the FHLB-NY secured by the FHLB-NY stock owned by the Bank as well as by certain mortgage loans and investment securities of the Bank. Additional FHLB short-term borrowings of $33.0 million were received during the second quarter of 2017, which matured on July 3, 2017 and were renewed as one month short term advances.

At June 30, 2017, deposits represented 88% and borrowings represented 12% of interest-bearing liabilities. At June 30, 2017, deposits, the largest category of the Company’s interest-bearing liabilities, were $4.583 billion, a decrease of 1.8% from $4.664 billion at December 31, 2016. During the six-month period ended June 30, 2017, demand and savings deposits decreased 3.5% to $2.961 billion, brokered deposits decreased 1.3%, or $7.5 million, to $568.9 million, and time deposits, excluding brokered deposits, increased 3.2% to $1.053 billion.

Stockholders’ Equity

At June 30, 2017, the Company’s total stockholders’ equity was $939.0 million, a 2.0% increase when compared to $920.4 million at December 31, 2016. This increase in stockholders’ equity reflects increases in retained earnings of $16.9 million, in legal surplus of $3.2 million, and in treasury stock of $358 thousand, partially offset by a decrease in accumulated comprehensive income of $1.9 million. Book value per share was $17.59 at June 30, 2017 compared to $17.18 at December 31, 2016.

From December 31, 2016 to June 30, 2017, tangible common equity to total assets increased to 10.93% from 10.19%, Tier 1 Leverage capital ratio increased to 13.69% from 12.99%, Common Equity Tier 1 capital ratio increased to 14.66% from 14.05%, Tier 1 Risk-Based capital ratio increased to 19.14% from 18.35%, and Total Risk-Based capital ratio increased to 20.42% from 19.62%.

New Capital Rules to Implement Basel III Capital Requirements

In July 2013, the Board of Governors of the Federal Reserve System (the “Board”), the Office of the Comptroller of the Currency (the “OCC”) and the FDIC (together with the Board and the OCC, the “Agencies”) approved new rules (“New Capital Rules”) to establish a revised comprehensive regulatory capital framework for all U.S. banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision’s (the “Basel Committee”) December 2010 final capital framework referred to as “Basel III” for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Bank, as compared to the previous U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee’s 1988 “Basel I” capital accords, with a more risk-sensitive approach based, in part, on the “standardized approach” in the Basel Committee’s 2004 “Basel II” capital accords. In addition, the New Capital Rules implement certain provisions of Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies’ rules. The New Capital Rules became effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. Among other matters, the New Capital Rules: (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the New Capital Rules, for most banking organizations, including the Company, the most common form of Additional Tier 1 capital is noncumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

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

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and
- 4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

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

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

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

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

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

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

The following are the consolidated capital ratios of the Company under the New Capital Rules at June 30, 2017 and December 31, 2016:

TABLE 15 — CAPITAL, DIVIDENDS AND STOCK DATA

	June 30, 2017	December 31, 2016	Variance %
	(Dollars in thousands, except per share data)		
Capital data:			
Stockholders' equity	$ 938,969	$ 920,411	2.0%
Regulatory Capital Ratios data:			
Common equity tier 1 capital ratio	**14.66%**	**14.05%**	**4.3%**
Minimum common equity tier 1 capital ratio required	4.50%	4.50%	0.0%
Actual common equity tier 1 capital	$ 643,607	627,733	2.5%
Minimum common equity tier 1 capital required	$ 197,609	201,040	-1.7%
Minimum capital conservation buffer required	$ 54,892	27,922	96.6%
Excess over regulatory requirement	$ 391,106	398,770	-1.9%
Risk-weighted assets	$ 4,391,321	4,467,556	-1.7%
Tier 1 risk-based capital ratio	**19.14%**	**18.35%**	**4.3%**
Minimum tier 1 risk-based capital ratio required	6.00%	6.00%	0.0%
Actual tier 1 risk-based capital	$ 840,704	$ 819,662	2.6%
Minimum tier 1 risk-based capital required	$ 263,479	$ 268,053	-1.7%
Excess over regulatory requirement	$ 577,225	$ 551,608	4.6%
Risk-weighted assets	$ 4,391,321	$ 4,467,556	-1.7%
Total risk-based capital ratio	**20.42%**	**19.62%**	**4.1%**
Minimum total risk-based capital ratio required	8.00%	8.00%	0.0%
Actual total risk-based capital	$ 896,927	$ 876,657	2.3%
Minimum total risk-based capital required	$ 351,306	$ 357,404	-1.7%
Excess over regulatory requirement	$ 545,621	$ 519,252	5.1%
Risk-weighted assets	$ 4,391,321	$ 4,467,556	-1.7%
Leverage capital ratio	**13.69%**	**12.99%**	**5.4%**
Minimum leverage capital ratio required	4.00%	4.00%	0.0%
Actual tier 1 capital	$ 840,704	$ 819,662	2.6%
Minimum tier 1 capital required	$ 245,577	$ 252,344	-2.7%
Excess over regulatory requirement	$ 595,127	$ 567,318	4.9%
Tangible common equity to total assets	**10.93%**	**10.19%**	**7.3%**
Tangible common equity to risk-weighted assets	**15.52%**	**14.82%**	**4.7%**
Total equity to total assets	**15.06%**	**14.16%**	**6.4%**
Total equity to risk-weighted assets	**21.38%**	**20.60%**	**3.8%**
Stock data:			

Outstanding common shares		43,947,442		43,914,844	0.1%
Book value per common share	$	17.59	$	17.18	2.4%
Tangible book value per common share	$	15.51	$	15.08	2.9%
Market price at end of period	$	10.00	$	13.10	-23.7%
Market capitalization at end of period	$	439,474	$	575,284	-23.6%

The following table presents a reconciliation of the Company’s total stockholders’ equity to tangible common equity and total assets to tangible assets at June 30, 2017, and December 31, 2016:

		June 30, 2017		December 31, 2016
		(In thousands, except share or per share information)		
Total stockholders' equity	$	938,969	$	920,411
Preferred stock		(176,000)		(176,000)
Preferred stock issuance costs		10,130		10,130
Goodwill		(86,069)		(86,069)
Core deposit intangible		(3,799)		(4,260)
Customer relationship intangible		(1,625)		(1,900)
Total tangible common equity	**$**	**681,606**	**$**	**662,312**
Total assets		6,235,826		6,501,824
Goodwill		(86,069)		(86,069)
Core deposit intangible		(3,799)		(4,260)
Customer relationship intangible		(1,625)		(1,900)
Total tangible assets	**$**	**6,144,333**	**$**	**6,409,595**
Tangible common equity to tangible assets		**11.09%**		**10.33%**
Common shares outstanding at end of period		43,947,442		43,914,844
Tangible book value per common share	**$**	**15.51**	**$**	**15.08**

The tangible common equity ratio and tangible book value per common share are non-GAAP measures and, unlike Tier 1 capital and Common Equity Tier 1 capital, are not codified in the federal banking regulations. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders’ equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Company calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Company has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

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

	June 30, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Risk-based capital:			
Common equity tier 1 capital	$ 643,607	$ 627,733	2.5%
Additional tier 1 capital	197,097	191,929	2.7%
Tier 1 capital	**840,704**	**819,662**	**2.6%**
Additional Tier 2 capital	56,223	56,995	-1.4%
Total risk-based capital	**$ 896,927**	**$ 876,657**	**2.3%**
Risk-weighted assets:			
Balance sheet items	$ 4,242,573	$ 4,307,817	-1.5%
Off-balance sheet items	148,748	159,739	-6.9%
Total risk-weighted assets	**$ 4,391,321**	**$ 4,467,556**	**-1.7%**
Ratios:			
Common equity tier 1 capital (minimum required - 4.5%)	**14.66%**	**14.05%**	**4.3%**
Tier 1 capital (minimum required - 6%)	**19.14%**	**18.35%**	**4.3%**
Total capital (minimum required - 8%)	**20.42%**	**19.62%**	**4.1%**
Leverage ratio	**13.69%**	**12.99%**	**5.4%**
Equity to assets	**15.06%**	**14.16%**	**6.4%**
Tangible common equity to assets	**10.93%**	**10.19%**	**7.3%**

The Bank is considered “well capitalized” under the regulatory framework for prompt corrective action. The table below shows the Bank’s regulatory capital ratios at June 30, 2017 and December 31, 2016:

		June 30, 2017		December 31, 2016	Variance %
		(Dollars in thousands)			
<u>Oriental Bank Regulatory Capital Ratios:</u>					
Common Equity Tier 1 Capital to Risk-Weighted Assets		**18.93%**		**17.96%**	**5.4%**
Actual common equity tier 1 capital	$	831,012	$	800,544	3.8%
Minimum capital requirement (4.5%)	$	197,575	$	200,585	-1.5%
Minimum capital conservation buffer requirement (1.25% at June 30, 2017 - 0.625% at December 31, 2016)	$	54,882	$	27,859	97.0%
Minimum to be well capitalized (6.5%)	$	285,386	$	289,734	-1.5%
Tier 1 Capital to Risk-Weighted Assets		**18.93%**		**17.96%**	**5.4%**
Actual tier 1 risk-based capital	$	831,012	$	800,544	3.8%
Minimum capital requirement (6%)	$	263,433	$	267,447	-1.5%
Minimum to be well capitalized (8%)	$	351,244	$	356,596	-1.5%
Total Capital to Risk-Weighted Assets		**20.20%**		**19.23%**	**5.0%**
Actual total risk-based capital	$	887,024	$	857,259	3.5%
Minimum capital requirement (8%)	$	351,244	$	356,596	-1.5%
Minimum to be well capitalized (10%)	$	439,055	$	445,745	-1.5%
Total Tier 1 Capital to Average Total Assets		**0.14%**		**12.75%**	**-98.9%**
Actual tier 1 capital	$	831,012	$	800,544	3.8%
Minimum capital requirement (4%)	$	244,618	$	251,200	-2.6%
Minimum to be well capitalized (5%)	$	305,773	$	314,000	-2.6%

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At June 30, 2017 and December 31, 2016, the Company's market capitalization for its outstanding common stock was $439.5 million ($10.00 per share) and $575.3 million ($13.10 per share), respectively.

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

	Price				Cash Dividend
		High		Low	Per share
2017					
June 30, 2017	$	12.03	$	9.19	$ 0.06
March 31, 2017	$	13.80	$	10.90	$ 0.06
2016					
December 31, 2016	$	14.30	$	9.56	$ 0.06
September 30, 2016	$	11.09	$	8.07	$ 0.06
June 30, 2016	$	9.14	$	6.32	$ 0.06
March 31, 2016	$	7.32	$	4.77	$ 0.06
2015					
December 31, 2015	$	10.52	$	6.39	$ 0.06
September 30, 2015	$	10.20	$	6.63	$ 0.10
June 30, 2015	$	17.04	$	10.67	$ 0.10
March 31, 2015	$	17.70	$	14.88	$ 0.10

Under the Company's current stock repurchase program, it is authorized to purchase in the open market up to $7.7 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by the Company as treasury shares. There were no repurchases during the quarter ended June 30, 2017.

At June 30, 2017, the number of shares that may yet be purchased under such program is estimated at 773,085 and was calculated by dividing the remaining balance of $7.7 million by $10.00 (closing price of the Company common stock at June 30, 2017).

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

Background

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

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

Market Risk

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

Interest Rate Risk

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

In executing its responsibilities, ALCO examines current and expected conditions in global financial markets, competition and prevailing rates in the local deposit market, liquidity, unrealized gains and losses in securities, recent or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps, and any tax or regulatory issues which may be pertinent to these areas.

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

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

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

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

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

These simulations are complex, and use many assumptions that are intended to reflect the general behavior of the Company over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates. The following table presents the results of the simulations at June 30, 2017 for the most likely scenario, assuming a one-year time horizon:

	Net Interest Income Risk (one year projection)					
	Static Balance Sheet			Growing Simulation		
		Amount Change	Percent Change		Amount Change	Percent Change
Change in interest rate	(Dollars in thousands)					
+ 200 Basis points	$	10,811	3.93%	$	8,802	3.13%
+ 100 Basis points	$	5,339	1.97%	$	4,392	1.56%
- 50 Basis points	$	(2,537)	-0.92%	$	(2,014)	-0.72%

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

Future net interest income could be affected by the Company's investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed securities, and any structured repurchase agreements and advances from the FHLB-NY in which it may enter into from time to time. As part of the strategy to limit the interest rate risk and reduce the re-pricing gaps of the Company's assets and liabilities, the Company has executed certain transactions which include extending the maturity and the re-pricing frequency of the liabilities to longer terms reducing the amounts of its structured repurchase agreements and entering into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings that only consist of advances from the FHLB-NY as of June 30, 2017.

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

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

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

Interest rate swaps — The Company entered into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in the one-month LIBOR rate. Once the forecasted wholesale borrowings transactions occurred, the interest rate swap effectively fixes the Company's interest payments on an amount of forecasted interest expense attributable to the one-month LIBOR rate corresponding to the swap notional stated rate. A derivative liability of $923 thousand (notional amount of $35.9 million) was recognized at June 30, 2017 related to the valuation of these swaps.

In addition, the Company has certain derivative contracts, including interest rate swaps not designated as hedging instruments, which are utilized to convert certain variable rate loans to fixed-rate loans, and the mirror-images of these interest rate swaps in which the Company enters into to minimize its interest rate risk exposure that results from offering the derivatives to clients. These interest rate swaps are marked to market through earnings. At June 30, 2017, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of $893 thousand (notional amounts of $12.5 million), and the mirror-image interest rate swaps in which the Company entered into represented a derivative liability of $893 thousand (notional amounts of $12.5 million).

Wholesale borrowings — The Company uses interest rate swaps to hedge the variability of interest cash flows of certain advances from the FHLB-NY that are tied to a variable rate index. The interest rate swaps effectively fix the Company's interest payments on these borrowings. As of June 30, 2017, the Company had $35.9 million in interest rate swaps at an average rate of 2.4% designated as cash flow hedges for $35.9 million in advances from the FHLB-NY that reprice or are being rolled over on a monthly basis.

Credit Risk

Credit risk is the possibility of loss arising from a borrower or counterparty in a credit-related contract failing to perform in accordance with its terms. The principal source of credit risk for the Company is its lending activities. In Puerto Rico, the Company's principal market, economic conditions are challenging, as they have been for the last ten years, due to a shrinking population, a protracted economic recession, a housing sector that remains under pressure, the Puerto Rico government's fiscal and liquidity crisis, and the payment defaults on various Puerto Rico government bonds, with severe austerity measures expected for the Puerto Rico government to be able to restructure its debts under the supervision of a federally created Fiscal Oversight Board.

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

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

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

Liquidity Risk

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

The Company's business requires continuous access to various funding sources. While the Company is able to fund its operations through deposits as well as through advances from the FHLB-NY and other alternative sources, the Company's business is dependent upon other external wholesale funding sources. The Company has selectively reduced its use of certain wholesale funding sources, such as repurchase agreements and brokered deposits. As of June 30, 2017, the Company had $452.9 million in repurchase agreements, excluding accrued interest, and $568.9 million in brokered deposits.

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

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

As of June 30, 2017, the Company had approximately $477.3 million in unrestricted cash and cash equivalents, $667.8 million in investment securities that are not pledged as collateral, $935.5 million in borrowing capacity at the FHLB-NY.

Operational Risk

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

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

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

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

Concentration Risk

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

ITEM 4. *CONTROLS AND PROCEDURES*

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon such evaluation, the CEO and the CFO have concluded that, as of the end of such period, the Company’s disclosure controls and procedures provided reasonable assurance of effectiveness in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports.

Internal Control over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART - II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

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

ITEM 1A. *RISK FACTORS*

There have been no material changes to the risk factors previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2016. In addition to other information set forth in this report, you should carefully consider the risk factors included in the Company's annual report on Form 10-K, as updated by this report or other filings the Company makes with the SEC under the Exchange Act. Additional risks and uncertainties not presently known to the Company at this time or that the Company currently deems immaterial may also adversely affect the Company's business, financial condition or results of operations.

ITEM 2. *UNREGISTERED SALES OF EQUITY SECURITES AND USE OF PROCEEDS*

None

ITEM 3. *DEFAULTS UPON SENIOR SECURITIES*

None.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

ITEM 5. *OTHER INFORMATION*

None.

ITEM 6. *EXHIBITS*

Exhibit No.	Description of Document:
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from OFG Bancorp's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Statements of Financial Condition, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Changes in Stockholders' Equity, (v) Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements.

Signatures

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

OFG Bancorp

(Registrant)

By:	/s/ José Rafael Fernández	Date: August 4, 2017
	José Rafael Fernández President and Chief Executive Officer	
By:	/s/ Maritza Arizmendi	Date: August 4, 2017
	Maritza Arizmendi Executive Vice President and Chief Financial Officer	
By:	/s/ Vanessa de Armas	Date: August 4, 2017
	Vanessa de Armas Controller	