OFG BANCORP
Form 10-Q
November 02, 2018

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 September 30, 2018

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, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer ý Non-Accelerated Filer 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:

51,293,924 common shares ($1.00 par value per share) outstanding as of October 31, 2018

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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 “Oriental”), 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 Oriental’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 expre 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 Oriental’s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- the credit default by the municipalities of the government of Puerto Rico;
- amendments to the fiscal plan approved by the Financial Oversight and Management Board for Puerto Rico;
- determinations in the court-supervised debt-restructuring process under Title III of PROMESA for the Puerto Rico government and all of its agencies, including some of its public corporations;
- the impact of property, credit and other losses in Puerto Rico as a result of hurricanes, earthquakes and other natural disasters;
- the amount of government, private and philanthropic financial assistance for the reconstruction of Puerto Rico’s critical infrastructure, which suffered catastrophic damages caused by hurricane Maria;
- the pace and magnitude of Puerto Rico’s economic recovery;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the relative strength or weakness of the commercial and consumer credit sectors and the real estate market in Puerto Rico;

- the performance of the stock and bond markets;
- competition in the financial services industry; and
- possible legislative, tax or regulatory changes.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; increased competition; Oriental’s ability to grow its core businesses; decisions to downsize, sell or close units or otherwise change Oriental’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 Oriental as of the date of this report, and other than as required by law, including the requirements of applicable securities laws, Oriental assumes no obligation to update or revise any such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017

		September 30, 2018		December 31, 2017
		(In thousands)		
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$	537,945	$	478,182
Money market investments		5,805		7,021
Total cash and cash equivalents		**543,750**		**485,203**
Restricted cash		3,030		3,030
Investments:				
Trading securities, at fair value, with amortized cost of $647 (December 31, 2017 - $647)		405		191
Investment securities available-for-sale, at fair value, with amortized cost of $872,895 (December 31, 2017 - $648,800)		848,552		645,797
Investment securities held-to-maturity, at amortized cost, with fair value of $425,066 (December 31, 2017 - $497,681)		444,679		506,064
Federal Home Loan Bank (FHLB) stock, at cost		12,461		13,995
Other investments		3		3
Total investments		**1,306,100**		**1,166,050**
Loans:				
Loans held-for-sale, at lower of cost or fair value		8,979		12,272
Loans held for investment, net of allowance for loan and lease losses of $165,742 (December 31, 2017 - $167,509)		4,344,001		4,044,057
Total loans		**4,352,980**		**4,056,329**
Other assets:				
Foreclosed real estate		37,868		44,174
Accrued interest receivable		33,452		49,969
Deferred tax asset, net		122,934		127,421
Premises and equipment, net		67,762		67,860
Customers' liability on acceptances		28,682		27,663
Servicing assets		10,866		9,821
Derivative assets		1,265		771
Goodwill		86,069		86,069
Other assets		61,916		64,693
Total assets	$	**6,656,674**	$	**6,189,053**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 (CONTINUED)

	September 30, 2018	December 31, 2017
	(In thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 2,304,067	$ 2,039,126
Savings accounts	1,243,535	1,251,398
Time deposits	1,541,391	1,508,958
Total deposits	**5,088,993**	**4,799,482**
Borrowings:		
Securities sold under agreements to repurchase	378,237	192,869
Advances from FHLB	73,531	99,643
Subordinated capital notes	36,083	36,083
Other borrowings	192	153
Total borrowings	**488,043**	**328,748**
Other liabilities:		
Derivative liabilities	622	1,281
Acceptances executed and outstanding	28,682	27,644
Accrued expenses and other liabilities	80,448	86,791
Total liabilities	**5,686,788**	**5,243,946**
Commitments and contingencies (See Note 20)		
Stockholders' equity:		
Preferred stock; 10,000,000 shares authorized; 1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D issued and outstanding (December 31, 2017 - 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, 2017 - 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: 44,005,741 shares outstanding (December 31, 2017 - 52,625,869; 43,947,442)	52,626	52,626
Additional paid-in capital	542,078	541,600

Legal surplus		87,563		81,454
Retained earnings		236,120		200,878
Treasury stock, at cost, 8,620,003 shares (December 31, 2017 - 8,678,427 shares)		(103,706)		(104,502)
Accumulated other comprehensive (loss), net of tax of $2,904 (December 31, 2017 - $564)		(20,795)		(2,949)
Total stockholders' equity		**969,886**		**945,107**
Total liabilities and stockholders' equity	$	**6,656,674**	$	**6,189,053**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Interest income:				
Loans	$ 84,016	$ 82,467	$ 237,057	$ 237,355
Mortgage-backed securities	8,173	6,245	23,258	20,728
Investment securities and other	1,948	1,643	4,998	4,390
Total interest income	**94,137**	**90,355**	**265,313**	**262,473**
Interest expense:				
Deposits	8,605	7,601	23,554	22,606
Securities sold under agreements to repurchase	2,242	1,282	5,159	6,260
Advances from FHLB and other borrowings	517	596	1,339	1,799
Subordinated capital notes	496	398	1,402	1,149
Total interest expense	**11,860**	**9,877**	**31,454**	**31,814**
Net interest income	**82,277**	**80,478**	**233,859**	**230,659**
Provision for loan and lease losses, net	14,601	44,042	44,808	88,232
Net interest income after provision for loan and lease losses	**67,676**	**36,436**	**189,051**	**142,427**
Non-interest income:				
Banking service revenue	10,797	9,923	32,404	31,007
Wealth management revenue	6,407	6,016	18,688	18,747
Mortgage banking activities	1,242	1,274	3,987	2,820
Total banking and financial service revenues	**18,446**	**17,213**	**55,079**	**52,574**
FDIC shared-loss benefit, net	-	-	-	1,403
Net gain on:				
Sale of securities	-	4	-	6,896
Derivatives	-	-	-	103
Early extinguishment of debt	-	-	-	(80)
Other non-interest income	174	695	758	976
Total non-interest income, net	**18,620**	**17,912**	**55,837**	**61,872**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017 (CONTINUED)

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Non-interest expense:				
Compensation and employee benefits	18,495	19,882	57,202	59,546
Professional and service fees	3,077	3,113	8,917	9,575
Occupancy and equipment	8,388	8,276	25,322	24,012
Insurance	1,620	1,052	4,580	3,834
Electronic banking charges	5,586	5,021	15,968	15,373
Information technology expenses	2,056	2,046	6,064	6,114
Advertising, business promotion, and strategic initiatives	1,329	1,405	3,700	4,205
Loss on sale of foreclosed real estate and other repossessed assets	1,210	1,395	2,828	4,508
Loan servicing and clearing expenses	1,251	1,134	3,639	3,592
Taxes, other than payroll and income taxes	2,175	2,243	6,820	7,007
Communication	927	855	2,627	2,682
Printing, postage, stationary and supplies	499	586	1,748	1,889
Director and investor relations	223	221	800	775
Credit related expenses	2,736	1,714	7,052	6,557
Other	1,369	1,526	8,095	5,300
Total non-interest expense	**50,941**	**50,469**	**155,362**	**154,969**
Income before income taxes	**35,355**	**3,879**	**89,526**	**49,330**
Income tax expense	12,255	560	29,860	13,757
Net income	**23,100**	**3,319**	**59,666**	**35,573**
Less: dividends on preferred stock	(3,466)	(3,465)	(10,396)	(10,396)
Income (loss) available to common shareholders	**$ 19,634**	**$ (146)**	**$ 49,270**	**$ 25,177**
Earnings per common share:				
Basic	**$ 0.45**	**$ -**	**$ 1.12**	**$ 0.57**
Diluted	**$ 0.42**	**$ -**	**$ 1.07**	**$ 0.56**
Average common shares outstanding and equivalents	**51,464**	**51,102**	**51,344**	**51,095**
Cash dividends per share of common stock	**$ 0.06**	**$ 0.06**	**$ 0.18**	**$ 0.18**

See notes to unaudited consolidated financial statements

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UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income	**$ 23,100**	**$ 3,319**	**$ 59,666**	**$ 35,573**
Other comprehensive (loss) income before tax:				
Unrealized (loss) gain on securities available-for-sale	(6,375)	1,445	(21,340)	6,766
Realized gain on investment securities included in net income	-	(4)	-	(6,896)
Unrealized gain on cash flow hedges	223	56	1,153	136
Other comprehensive (loss) income before taxes	**(6,152)**	**1,497**	**(20,187)**	**6**
Income tax effect	619	(348)	2,341	(760)
Other comprehensive (loss) income after taxes	**(5,533)**	**1,149**	**(17,846)**	**(754)**
Comprehensive income	**$ 17,567**	**$ 4,468**	**$ 41,820**	**$ 34,819**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES

IN STOCKHOLDERS' EQUITY

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

	Nine-Month Period Ended September 30,	
	2018	2017
	(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	541,600	540,948
Stock-based compensation expense	978	811
Stock-based compensation excess tax benefit recognized in income	(140)	(99)
Lapsed restricted stock units	(360)	(358)
Balance at end of period	**542,078**	**541,302**
Legal surplus:		
Balance at beginning of period	81,454	76,293
Transfer from retained earnings	6,109	3,502
Balance at end of period	**87,563**	**79,795**
Retained earnings:		
Balance at beginning of period	200,878	177,808
Net income	59,666	35,573
Cash dividends declared on common stock	(7,919)	(7,916)
Cash dividends declared on preferred stock	(10,396)	(10,396)
Transfer to legal surplus	(6,109)	(3,502)
Balance at end of period	**236,120**	**191,567**
Treasury stock:		
Balance at beginning of period	(104,502)	(104,860)
Lapsed restricted stock units	796	358
Balance at end of period	**(103,706)**	**(104,502)**
Accumulated other comprehensive (loss), net of tax:		
Balance at beginning of period	(2,949)	1,596
Other comprehensive (loss), net of tax	(17,846)	(754)
Balance at end of period	**(20,795)**	**842**
Total stockholders' equity	**$ 969,886**	**$ 937,630**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

	Nine-Month Period Ended September 30, 2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	$ **59,666**	$ **35,573**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan origination fees and fair value premiums on acquired loans	3,433	2,531
Amortization of investment securities premiums, net of accretion of discounts	4,426	6,108
Amortization of core deposit and customer relationship intangibles	989	1,105
FDIC shared-loss benefit	-	(1,403)
Depreciation and amortization of premises and equipment	6,642	6,654
Deferred income tax expense, net	6,827	(2,619)
Provision for loan and lease losses	44,808	88,232
Stock-based compensation	978	811
Stock-based compensation excess tax benefit recognized in income	(140)	(99)
(Gain) loss on:		
Sale of loans	(275)	(792)
Derivatives	1	(103)
Sale of securities	-	(6,896)
Early extinguishment of debt	-	80
Foreclosed real estate and other repossessed assets	2,828	5,084
Sale of other assets	(107)	(539)
Originations of loans held-for-sale	(72,512)	(103,194)
Proceeds from sale of loans held-for-sale	21,593	68,758
Net (increase) decrease in:		
Trading securities	(214)	63
Accrued interest receivable	16,517	(2,509)
Servicing assets	(1,045)	40
Other assets	2,405	14,260
Net (decrease) in:		
Accrued interest on deposits and borrowings	643	(345)
Accrued expenses and other liabilities	(23,836)	(4,745)
Net cash provided by operating activities	**73,627**	**106,055**

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017 (CONTINUED)

		Nine-Month Period Ended September 30,		
		2018		2017
		(In thousands)		
Cash flows from investing activities:				
Purchases of:				
Investment securities available-for-sale		(271,062)		(128,969)
FHLB stock		(113,506)		(26,730)
Maturities and redemptions of:				
Investment securities available-for-sale		89,753		83,669
Investment securities held-to-maturity		58,477		65,877
FHLB stock		115,040		23,507
Proceeds from sales of:				
Investment securities available-for-sale		14,746		256,996
Foreclosed real estate and other repossessed assets, including write-offs		38,816		31,829
Premises and equipment		1,670		569
Origination and purchase of loans, excluding loans held-for-sale		(1,015,960)		(546,616)
Principal repayment of loans		632,333		571,098
Repayments to FDIC on shared-loss agreements		-		(10,125)
Additions to premises and equipment		(8,107)		(4,271)
Net cash (used in) provided by investing activities		**(457,800)**		**316,834**
Cash flows from financing activities:				
Net increase (decrease) in:				
Deposits		301,195		180,958
Securities sold under agreements to repurchase		185,308		(369,816)
FHLB advances, federal funds purchased, and other borrowings		(25,904)		(5,436)
Restricted units lapsed		436		-
Dividends paid on preferred stock		(10,397)		(10,396)
Dividends paid on common stock		(7,918)		(7,912)
Net cash provided (used in) financing activities	**$**	**442,720**	**$**	**(212,602)**
Net change in cash, cash equivalents and restricted cash		**58,547**		**210,287**
Cash, cash equivalents and restricted cash at beginning of period		**488,233**		**513,469**
Cash, cash equivalents and restricted cash at end of period	**$**	**546,780**	**$**	**723,756**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:				
Interest paid	$	29,523	$	30,777
Income taxes paid	$	13,446	$	23
	$	59,050	$	69,148

Mortgage loans securitized into mortgage-backed securities				
Transfer from loans to foreclosed real estate and other repossessed assets	$	36,848	$	37,852
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	5,795	$	33,647
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	1,247	$	112
Financed sales of foreclosed real estate	$	912	$	579
Loans booked under the GNMA buy-back option	$	13,325	$	12,999

See notes to unaudited consolidated financial statements

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017 (CONTINUED)

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

OFG Bancorp (“Oriental”) is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. Oriental 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”), a retirement plan administrator, Oriental Pension Consultants, Inc. (“OPC”), and two operating subsidiaries of the Bank, OFG USA LLC ("OFG USA") and Oriental International Bank Inc. (“OIB”). Through these subsidiaries and their respective divisions, Oriental 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, Oriental 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.” These acquired businesses have been integrated with Oriental’s existing business.

New Accounting Updates Not Yet Adopted

Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force). In August 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The ASU also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. This ASU is the final version of Proposed Accounting Standards Update 2018–230—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which has been deleted. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted. We will assess the impact that the adoption of ASU 2018-15 will have on our consolidated financial statements and related disclosures during the year 2019.

Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. In August 2018, the FASB issued ASU 2018-13, which improves the effectiveness of fair value measurement disclosures. ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. This ASU is the final version of Proposed Accounting Standards Update 2015-350—Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurements, which has been deleted. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2019. We will assess the impact that the adoption of ASU 2018-13 will have on our consolidated financial statements and related disclosures during the year 2019.

Codification Improvements. In July 2018, the FASB issued ASU 2018-9, which represents changes to clarify the FASB Accounting Standards Codification (the “Codification”), correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Some of the amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance of this ASU. However, many of the amendments in this ASU do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 Oriental's consolidated financial position or results of operations. At September 30, 2018, Oriental 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 Oriental'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 will assess the impact that the adoption of ASU 2017-04 will have on our consolidated financial statements and related disclosures during the year 2019.

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. Oriental will implement ASU No. 2016-13 on January 1, 2020. 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. Oriental's cross-functional implementation team has developed a project plan to ensure we comply with all updates from this ASU at the time of adoption. We recently have selected the software and are in the process of assessing the methodology to be used in order to develop an acceptable model to estimate the expected credit losses. After the model has been developed, reviewed and validated in accordance with our governance policies, Oriental will keep disclosing relevant information of concerning implementation process and impact of ASU No. 2016-13, as well as the updating of policies, procedures and internal controls. Although Oriental expects the allowance for credit losses to increase upon adoption with a corresponding adjustment to retained earnings, the ultimate amount of the increase will depend on the portfolio composition, credit quality, economic conditions and reasonable and supportable forecasts at that time.

Leases. In February 2016, the FASB issued ASU No. 2016-02, the FASB issued ASU No. 2016-02, which requires lessees to recognize a right-of-use (ROU) asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. The standard, effective January 1, 2019, with early adoption permitted, would have caused us to recognize virtually all leases on the Consolidated Balance Sheets upon adoption and in the comparative period. However, in July 2018, the FASB issued an update to its guidance providing companies with the option to adopt the provisions of the standard prospectively without adjusting comparative periods; we will elect this option and adopt the standard on January 1, 2019. The new standard provides a number of optional practical expedients in transition. We expect to elect the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We currently expect to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. Oriental's leases primarily consist of leased office space. At September 30, 2018, Oriental had $27.7 million of minimum lease commitments from these operating leases (refer to Note 20). While we continue to assess the potential impacts upon adoption, we do not expect a material impact on our financial position, results of operations, cash flows or regulatory risk-based capital. Preliminarily we expect that the amounts to be recognized as right-of-use assets and lease liabilities will be less than 1% of our total assets.

New Accounting Updates Adopted During the Nine-month Period Ended September 30, 2018

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

effective for fiscal years, and interim periods, beginning after December 15, 2017. The standard requires application using a retrospective transition method. The adoption of ASU No. 2016-18 on January 1, 2018, changed the presentation and classification of restricted cash and restricted cash equivalents in our consolidated statements of cash flows.

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. Oriental has adopted this ASU on January 1, 2018 using the modified retrospective method. Oriental's implementation efforts included the identification of revenue streams that are within the scope of the new guidance and the review of related contracts with customers to determine their effect on certain non-interest income items presented in our consolidated statements of operations and the additional presentation disclosures required (refer to note 22). We concluded that substantially all of Oriental's revenues are generated from activities that are outside the scope of this ASU, and the adoption did not have a material impact on our consolidated financial statements. Therefore, there was no cumulative effect adjustment recorded.

NOTE 2 – SIGNIFICANT EVENTS

Hurricanes Irma and Maria

During 2017, Oriental was impacted by hurricanes Irma and Maria, which struck the Island on September 7, 2017 and September 20, 2017, respectively. Hurricane Maria caused catastrophic damages throughout Puerto Rico, including homes, businesses, roads, bridges, power lines, commercial establishments, and public facilities. It caused an unprecedented crisis when it ravaged the Island's electric power grid less than two weeks after hurricane Irma left over a million Puerto Rico residents without power. For several months after the hurricanes, a large part of Puerto Rico was without electricity, many businesses were unable to operate, and government authorities struggled to deliver emergency supplies and clean drinking water to many communities outside the San Juan metropolitan area. Further, payment and delivery systems, including the U.S. Post Office, were unable to operate for weeks after hurricane Maria.

Almost all of Oriental's operations and clients are located in Puerto Rico. Although Oriental's business operations were disrupted by major damages to Puerto Rico's critical infrastructure, including its electric power grid and telecommunications network, Oriental's digital channels, core banking and electronic funds transfer systems continued to function uninterrupted during and after the hurricanes. Within days after hurricane Maria, and upon securing a continuing supply of diesel fuel for its electric power generators, Oriental was able to open its main offices and many of its branches and ATMs in addition to its digital and phone trade channels.

As a result of this event, and based on current assessments of information available for the impact of the hurricanes on our credit portfolio, 2017 third and fourth quarter results included an additional loan loss provision of $27.0 million and $5.4 million, respectively.

Oriental implemented its disaster response plan as these storms approached its service areas. To operate in disaster response mode, Oriental incurred expenses for, among other things, buying diesel and generators for electric power, debris removal, security measures, property damages, and emergency communication with customers regarding the status of its banking operations. The estimated total non-credit operating costs as of December 31, 2017 amounted to $6.6 million. No additional losses have been incurred at September 30, 2018.

Oriental maintains insurance for casualty losses as well as for disaster response costs and certain revenue lost through business interruption. Management believes that recovery of $2.2 million incurred costs as of December 31, 2017 is probable. Oriental received a $1.0 million partial payment from the insurance company during the quarter ended December 2017 and a $0.7 million payment during the nine-month period ended September 30, 2018. Accordingly, a receivable of $0.5 million and $1.2 million was included in other assets at September 30, 2018 and December 31, 2017, respectively, for the expected recovery.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 3 – RESTRICTED CASH

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

	September 30, 2018	December 31, 2017
	(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 both September 30, 2018 and December 31, 2017, the Bank's international banking entities, 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. These instruments cannot be withdrawn or transferred by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions of Puerto Rico (the "OCFI").

As part of its derivative activities, Oriental has entered into collateral agreements with certain financial counterparties. At both September 30, 2018 and December 31, 2017, Oriental had delivered approximately $2.0 million of cash as collateral for such derivatives activities.

Oriental has a contract with FNMA which requires collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At both September 30, 2018 and December 31, 2017, Oriental 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 September 30, 2018 was $212.7 million (December 31, 2017 - $189.2 million). At September 30, 2018 and December 31, 2017, the Bank complied with this 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 4 – INVESTMENT SECURITIES

Money Market Investments

Oriental considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At September 30, 2018 and December 31, 2017, money market instruments included as part of cash and cash equivalents amounted to $5.8 million and $7.0 million, respectively.

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by Oriental at September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018				
	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	$ 586,097	$ 20	$ 15,799	$ 570,318	2.59%
GNMA certificates	202,585	300	5,431	197,454	3.06%
CMOs issued by US government-sponsored agencies	69,960	-	3,194	66,766	1.90%
Total mortgage-backed securities	**858,642**	**320**	**24,424**	**834,538**	**2.64%**
Investment securities					
US Treasury securities	10,617	-	157	10,460	1.32%
Obligations of US government-sponsored agencies	2,484	-	89	2,395	1.38%

Other debt securities		1,152		7		-		1,159	2.99%
Total investment securities		**14,253**		**7**		**246**		**14,014**	**1.46%**
Total securities available for sale	**$**	**872,895**	**$**	**327**	**$**	**24,670**	**$**	**848,552**	**2.62%**
Held-to-maturity									
Mortgage-backed securities									
FNMA and FHLMC certificates	**$**	**444,679**	**$**	**-**	**$**	**19,613**	**$**	**425,066**	**2.07%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 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	$ 383,194	$ 1,402	$ 2,881	$ 381,715	2.39%
GNMA certificates	166,436	1,486	584	167,338	2.94%
CMOs issued by US government-sponsored agencies	82,026	-	1,955	80,071	1.90%
Total mortgage-backed securities	**631,656**	**2,888**	**5,420**	**629,124**	**2.47%**
Investment securities					
US Treasury securities	10,276	-	113	10,163	1.25%
Obligations of US government-sponsored agencies	2,927	-	48	2,879	1.38%
Obligations of Puerto Rico government and public instrumentalities	2,455	-	362	2,093	5.55%
Other debt securities	1,486	52	-	1,538	2.97%
Total investment securities	**17,144**	**52**	**523**	**16,673**	**2.04%**
Total securities available-for-sale	**$ 648,800**	**$ 2,940**	**$ 5,943**	**$ 645,797**	**2.46%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	**$ 506,064**	**$ -**	**$ 8,383**	**$ 497,681**	**2.07%**

The amortized cost and fair value of Oriental's investment securities at September 30, 2018, 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)

	September 30, 2018			
	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	$ 4,241	$ 4,142	$ -	$ -
Total due from 1 to 5 years	**4,241**	**4,142**	-	-
Due after 5 to 10 years				
CMOs issued by US government-sponsored agencies	$ 61,590	$ 58,617	$ -	$ -
FNMA and FHLMC certificates	235,031	228,438	-	-
Total due after 5 to 10 years	**296,621**	**287,055**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	$ 346,825	$ 337,738	$ 444,679	$ 425,066
GNMA certificates	202,585	197,454	-	-
CMOs issued by US government-sponsored agencies	8,370	8,149	-	-
Total due after 10 years	**557,780**	**543,341**	**444,679**	**425,066**
Total mortgage-backed securities	**858,642**	**834,538**	**444,679**	**425,066**
Investment securities				
Due less than one year				
US Treasury securities	$ 646	$ 645	$ -	$ -
Total due in less than one year	**646**	**645**	**-**	**-**
Due from 1 to 5 years				
US Treasury securities	$ 9,971	$ 9,815	$ -	$ -
Obligations of US government and sponsored agencies	2,484	2,395	-	-
Total due from 1 to 5 years	**12,455**	**12,210**	**-**	**-**
Due from 5 to 10 years				
Other debt securities	1,152	1,159	-	-
Total due after 5 to 10 years	**1,152**	**1,159**	**-**	**-**
Total investment securities	**14,253**	**14,014**	**-**	**-**
Total	**$ 872,895**	**$ 848,552**	**$ 444,679**	**$ 425,066**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

During the nine month-period ended September 30, 2018, Oriental sold $14.7 million of available-for-sale Government National Mortgage Association ("GNMA") certificates from its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period. During the nine-month period ended September 30, 2017, Oriental sold $166.0 million of mortgage-backed securities and $84.1 million of US Treasury securities, and recorded a net gain on sale of securities of $6.9 million.

	Nine-Month Period Ended September 30, 2018			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
		(In thousands)		
Sale of securities available-for-sale				
Mortgage-backed securities				
GNMA certificates	$ 14,746	$ 14,746	$ -	$ -
Total	**$ 14,746**	**$ 14,746**	**$ -**	**$ -**

	Nine-Month Period Ended September 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	84,202	84,085	117	-
Total mortgage-backed securities	**$ 256,996**	**$ 250,100**	**$ 6,896**	**$ -**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables show Oriental's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at September 30, 2018 and December 31, 2017:

	September 30, 2018		
	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 68,960	$ 3,174	$ 65,786
FNMA and FHLMC certificates	160,420	7,451	152,969
Obligations of US Government and sponsored agencies	2,484	89	2,395
GNMA certificates	28,296	1,606	26,690
US Treasury Securities	9,971	157	9,814
	$ 270,131	**$ 12,477**	**$ 257,654**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 381,941**	**$ 17,619**	**$ 364,322**

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 1,000	$ 20	$ 980
FNMA and FHLMC certificates	425,094	8,348	416,746
GNMA certificates	145,438	3,825	141,613
US Treasury Securities	646	-	646
	$ 572,178	**$ 12,193**	**$ 559,985**
Securities held-to-maturity			
FNMA and FHLMC Certificates	**$ 62,738**	**$ 1,994**	**$ 60,744**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 69,960	$ 3,194	$ 66,766
FNMA and FHLMC certificates	585,514	15,799	569,715
Obligations of US government and sponsored agencies	2,484	89	2,395

GNMA certificates		173,734		5,431		168,303
US Treausury Securities		10,617		157		10,460
	$	**842,309**	**$**	**24,670**	**$**	**817,639**
Securities held-to-maturity						
FNMA and FHLMC certificates	**$**	**444,679**	**$**	**19,613**	**$**	**425,066**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2017		
		12 months or more	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 72,562	$ 1,857	$ 70,705
FNMA and FHLMC certificates	111,635	2,122	109,513
Obligations of US Government and sponsored agencies	2,927	48	2,879
Obligations of Puerto Rico government and public instrumentalities	2,455	362	2,093
GNMA certificates	20,803	499	20,304
US Treasury Securities	9,952	113	9,839
	$ 220,334	**$ 5,001**	**$ 215,333**
Securities available-for-sale			
FNMA and FHLMC certificates	**$ 352,399**	**7,264**	**345,135**

		Less than 12 months	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	9,464	98	9,366
FNMA and FHLMC certificates	125,107	759	124,348
GNMA certificates	14,001	85	13,916
US Treasury Securities	324	-	324
	$ 148,896	**$ 942**	**$ 147,954**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 153,665**	**$ 1,119**	**$ 152,546**

		Total	
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	82,026	1,955	80,071
FNMA and FHLMC certificates	236,742	2,881	233,861
Obligations of Puerto Rico government and public instrumentalities	2,455	362	2,093
	2,927	48	2,879

Obligations of US government and sponsored agencies						
GNMA certificates		34,804		584		34,220
US Treausury Securities		10,276		113		10,163
	$	**369,230**	**$**	**5,943**	**$**	**363,287**
Securities held to maturity						
FNMA and FHLMC certificates	**$**	**506,064**	**$**	**8,383**	**$**	**497,681**

Oriental performs valuations of the investment securities on a monthly basis. Moreover, Oriental 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 Oriental believes that the methodology used to value these exposures is reasonable, the methodology is subject to continuing improvement, 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.

All of the investments ($1.2 billion, amortized cost) with an unrealized loss position at September 30, 2018 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.

NOTE 5 - LOANS

Oriental’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.

The composition of Oriental’s loan portfolio at September 30, 2018 and December 31, 2017 was as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2018	December 31, 2017
	(In thousands)	
Originated and other loans and leases held for investment:		
Mortgage	$ 667,224	$ 683,607
Commercial	1,540,027	1,307,261
Consumer	345,399	330,039
Auto and leasing	1,084,912	883,985
	3,637,562	**3,204,892**
Allowance for loan and lease losses on originated and other loans and leases	(95,236)	(92,718)
	3,542,326	**3,112,174**
Deferred loan costs, net	7,556	6,695
Total originated and other loans held for investment, net	**3,549,882**	**3,118,869**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	2,778	4,380
Consumer	24,914	28,915
Auto	7,494	21,969
	35,186	**55,264**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(2,350)	(3,862)
	32,836	**51,402**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	503,861	532,053
Commercial	190,178	243,092
Consumer	95	1,431
Auto	20,363	43,696
	714,497	**820,272**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(43,875)	(45,755)
	670,622	**774,517**
Total acquired BBVAPR loans, net	**703,458**	**825,919**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	64,785	69,538
Commercial	49,262	53,793
Consumer	895	1,112
Total acquired Eurobank loans	**114,942**	**124,443**
Allowance for loan and lease losses on Eurobank loans	(24,281)	(25,174)
Total acquired Eurobank loans, net	**90,661**	**99,269**

Total acquired loans, net		**794,119**		**925,188**
Total held for investment, net		**4,344,001**		**4,044,057**
Mortgage loans held-for-sale		8,979		12,272
Total loans, net	**$**	**4,352,980**	**$**	**4,056,329**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As a result of the devastation caused by hurricanes Irma and Maria, Oriental offered an automatic three-month moratorium for the payment due on certain loans. The level of delinquencies for mortgage and auto loans as of December 31, 2017 was impacted by the loan moratorium. Aging of current and early delinquent loans in moratorium were frozen at September 30, 2017, throughout the moratorium period. In addition, although the repayment schedule was modified as part of the moratorium, certain borrowers continued to make payments shortly after the moratorium, having an impact on the respective delinquency status at December 31, 2017. At September 30, 2018, all of the loan moratoriums have expired, and total delinquency levels have returned to pre-hurricane levels with some improvements.

Originated and Other Loans and Leases Held for Investment

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

The tables below present the aging of the recorded investment in gross originated and other loans held for investment at September 30, 2018 and December 31, 2017, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2018						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 276	$ 890	$ 3,272	$ 4,438	$ 38,120	$ 42,558	$ 240
Years 2003 and 2004	237	1,740	6,587	8,564	69,146	77,710	-
Year 2005	92	858	3,515	4,465	36,710	41,175	-
Year 2006	348	1,484	4,747	6,579	51,392	57,971	-
Years 2007, 2008 and 2009	178	1,195	7,774	9,147	54,223	63,370	56
Years 2010, 2011, 2012, 2013	258	1,238	7,946	9,442	106,819	116,261	180
Years 2014, 2015, 2016, 2017 and 2018	-	593	1,303	1,896	130,610	132,506	-
	1,389	7,998	35,144	44,531	487,020	531,551	476
Non-traditional	-	117	2,740	2,857	11,842	14,699	-
Loss mitigation program	10,346	5,435	20,797	36,578	70,819	107,397	2,631
	11,735	13,550	58,681	83,966	569,681	653,647	3,107
Home equity secured personal loans	-	-	-	-	252	252	-
GNMA's buy-back option program	-	-	13,325	13,325	-	13,325	-
	11,735	**13,550**	**72,006**	**97,291**	**569,933**	**667,224**	**3,107**
Commercial							
Commercial secured by real estate:							

Corporate	-	-	-	-	306,372	306,372	-
Institutional	-	-	-	-	72,372	72,372	-
Middle market	839	-	5,481	6,320	175,822	182,142	-
Retail	1,242	309	9,245	10,796	210,101	220,897	-
Floor plan	-	-	-	-	3,579	3,579	-
Real estate	-	-	-	-	19,347	19,347	-
	2,081	309	14,726	17,116	787,593	804,709	-
Other commercial and industrial:							
Corporate	-	-	-	-	163,766	163,766	-
Institutional	-	-	-	-	143,886	143,886	-
Middle market	-	3,480	2,751	6,231	91,484	97,715	-
Retail	720	131	792	1,643	287,755	289,398	-
Floor plan	150	-	51	201	40,352	40,553	-
	870	3,611	3,594	8,075	727,243	735,318	-
	2,951	**3,920**	**18,320**	**25,191**	**1,514,836**	**1,540,027**	**-**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2018						
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
	(In thousands)						
Consumer							
Credit cards	$ 580	$ 200	$ 602	$ 1,382	$ 26,342	$ 27,724	$ -
Overdrafts	27	-	-	27	129	156	-
Personal lines of credit	44	3	70	117	1,819	1,936	-
Personal loans	3,864	1,731	1,197	6,792	292,738	299,530	-
Cash collateral personal loans	146	66	-	212	15,841	16,053	-
	4,661	2,000	1,869	8,530	336,869	345,399	-
Auto and leasing	54,888	26,940	12,148	93,976	990,936	1,084,912	-
Total	**$ 74,235**	**$ 46,410**	**$ 104,343**	**$ 224,988**	**$ 3,412,574**	**$ 3,637,562**	**$ 3,107**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2017						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
			(In thousands)				
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 86	$ 938	$ 3,537	$ 4,561	$ 41,579	$ 46,140	$ 467
Years 2003 and 2004	92	1,077	6,304	7,473	75,758	83,231	-
Year 2005	101	383	3,348	3,832	40,669	44,501	68
Year 2006	242	604	5,971	6,817	55,966	62,783	66
Years 2007, 2008 and 2009	358	1,258	8,561	10,177	58,505	68,682	577
Years 2010, 2011, 2012, 2013	233	978	7,393	8,604	116,674	125,278	1,202
Years 2014, 2015, 2016 and 2017	-	75	1,649	1,724	121,194	122,918	-
	1,112	5,313	36,763	43,188	510,345	553,533	2,380
Non-traditional	-	326	3,543	3,869	14,401	18,270	-
Loss mitigation program	7,233	3,331	18,923	29,487	73,793	103,280	4,981
	8,345	8,970	59,229	76,544	598,539	675,083	7,361
Home equity secured personal loans	-	-	-	-	256	256	-
GNMA's buy-back option program	-	-	8,268	8,268	-	8,268	-
	8,345	**8,970**	**67,497**	**84,812**	**598,795**	**683,607**	**7,361**
Commercial							
Commercial secured by real estate:							

Corporate	-	-	-	-	235,426	235,426	-
Institutional	-	-	118	118	44,648	44,766	-
Middle market	765	-	3,527	4,292	225,649	229,941	-
Retail	352	936	9,695	10,983	235,084	246,067	-
Floor plan	-	-	-	-	3,998	3,998	-
Real estate	-	-	-	-	17,556	17,556	-
	1,117	936	13,340	15,393	762,361	777,754	-
Other commercial and industrial:							
Corporate	-	-	-	-	170,015	170,015	-
Institutional	-	-	-	-	125,591	125,591	-
Middle market	-	-	881	881	84,482	85,363	-
Retail	455	103	1,616	2,174	111,078	113,252	-
Floor plan	9	-	51	60	35,226	35,286	-
	464	103	2,548	3,115	526,392	529,507	-
	1,581	**1,039**	**15,888**	**18,508**	**1,288,753**	**1,307,261**	**-**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2017						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	$ 246	$ 130	$ 1,227	$ 1,603	$ 26,827	$ 28,430	$ -
Overdrafts	20	6	31	57	157	214	-
Personal lines of credit	259	54	87	400	1,820	2,220	-
Personal loans	3,778	1,494	223	5,495	278,982	284,477	-
Cash collateral personal loans	103	59	312	474	14,224	14,698	-
	4,406	**1,743**	**1,880**	**8,029**	**322,010**	**330,039**	**-**
Auto and leasing	**21,760**	**10,399**	**4,232**	**36,391**	**847,594**	**883,985**	**-**
Total	**$ 36,092**	**$ 22,151**	**$ 89,497**	**$ 147,740**	**$ 3,057,152**	**$ 3,204,892**	**$ 7,361**

At September 30, 2018 and December 31, 2017, Oriental had a carrying balance of $91.4 million and $94.9 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.

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 the acquisitions of 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 Oriental'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 Oriental'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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables present the aging of the recorded investment in gross acquired BBVAPR loans accounted for under ASC 310-20 as of September 30, 2018 and December 31, 2017, by class of loans:

	September 30, 2018						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Retail	$ -	$ -	$ 54	$ 54	$ -	$ 54	$ -
Floor plan	-	-	899	899	305	1,204	-
	-	-	953	953	305	1,258	-
Other commercial and industrial							
Retail	8	-	25	33	1,485	1,518	-
Floor plan	-	-	2	2	-	2	-
	8	-	27	35	1,485	1,520	-
	8	**-**	**980**	**988**	**1,790**	**2,778**	**-**
Consumer							
Credit cards	330	110	443	883	21,729	22,612	-
Personal loans	23	7	58	88	2,214	2,302	-
	353	**117**	**501**	**971**	**23,943**	**24,914**	**-**
Auto	**665**	**389**	**202**	**1,256**	**6,238**	**7,494**	**-**
Total	**$ 1,026**	**$ 506**	**$ 1,683**	**$ 3,215**	**$ 31,971**	**$ 35,186**	**$ -**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2017						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Retail	$ -	$ -	$ 119	$ 119	$ -	$ 119	$ -
Floor plan	-	-	928	928	393	1,321	-
	-	-	1,047	1,047	393	1,440	-
Other commercial and industrial							
Retail	36	-	221	257	2,681	2,938	-
Floor plan	-	-	2	2	-	2	-
	36	-	223	259	2,681	2,940	-
	36	**-**	**1,270**	**1,306**	**3,074**	**4,380**	**-**
Consumer							
Credit cards	208	127	1,310	1,645	24,822	26,467	-
Personal loans	139	61	45	245	2,203	2,448	-
	347	**188**	**1,355**	**1,890**	**27,025**	**28,915**	**-**
Auto	**602**	**248**	**179**	**1,029**	**20,940**	**21,969**	**-**
Total	**$ 985**	**$ 436**	**$ 2,804**	**$ 4,225**	**$ 51,039**	**$ 55,264**	**$ -**

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 Oriental 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 September 30, 2018 and December 31, 2017 is as follows:

		September 30, 2018		December 31, 2017
		(In thousands)		
Contractual required payments receivable:	$	1,340,064	$	1,481,616
Less: Non-accretable discount		347,173		352,431
Cash expected to be collected		992,891		1,129,185
Less: Accretable yield		278,394		308,913
Carrying amount, gross		714,497		820,272
Less: allowance for loan and lease losses		43,875		45,755
Carrying amount, net	**$**	**670,622**	**$**	**774,517**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2018 and December 31, 2017, Oriental had $44.0 million and $50.3 million, respectively, in loans granted to Puerto Rico municipalities as part of its acquired BBVAPR loans accounted for under ASC 310-30. These loans are primarily secured municipal general obligations.

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 nine-month periods ended September 30, 2018 and 2017:

	Quarter Ended September 30, 2018				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of period	$ 243,903	$ 42,521	$ 1,071	$ 497	$ 287,992
Accretion	(6,722)	(3,977)	(466)	(88)	(11,253)
Change in expected cash flows	-	1,334	3	25	1,362
Transfer from (to) non-accretable discount	1,456	(1,140)	3	(26)	293
Balance at end of period	**$ 238,637**	**$ 38,738**	**$ 611**	**$ 408**	**$ 278,394**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 296,137	$ 11,143	$ 23,645	$ 19,332	$ 350,257
Change in actual and expected losses	(1,860)	(1,125)	181	13	(2,791)
Transfer from accretable yield	(1,456)	1,140	(3)	26	(293)
Balance at end of period	**$ 292,821**	**$ 11,158**	**$ 23,823**	**$ 19,371**	**$ 347,173**

	Nine-Month Period Ended September 30, 2018				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of period	$ 258,498	$ 46,764	$ 2,766	$ 885	$ 308,913
Accretion	(20,710)	(11,259)	(1,991)	(538)	(34,498)
Change in expected cash flows	-	7,265	829	156	8,250

Transfer (to) non-accretable discount		849		(4,032)		(993)		(95)		(4,271)
Balance at end of period	**$**	**238,637**	**$**	**38,738**	**$**	**611**	**$**	**408**	**$**	**278,394**
Non-Accretable Discount Activity:										
Balance at beginning of period	$	299,501	$	10,596	$	23,050	$	19,284	$	352,431
Change in actual and expected losses		(5,831)		(3,470)		(220)		(8)		(9,529)
Transfer from accretable yield		(849)		4,032		993		95		4,271
Balance at end of period	**$**	**292,821**	**$**	**11,158**	**$**	**23,823**	**$**	**19,371**	**$**	**347,173**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2017				
	Mortgage	Commercial	Auto	Consumer	Total
	(In thousands)				
Accretable Yield Activity:					
Balance at beginning of period	$ 270,148	$ 56,038	$ 4,853	$ 1,486	$ 332,525
Accretion	(7,434)	(7,114)	(1,350)	(384)	(16,282)
Change in actual and expected losses	-	3,716	13	37	3,766
Transfer (to) from non-accretable discount	(6,158)	(2,950)	(8)	26	(9,090)
Balance at end of period	**$ 256,556**	**$ 49,690**	**$ 3,508**	**$ 1,165**	**$ 310,919**
Non-Accretable Discount Activity:					
Balance at beginning of period	$ 306,504	$ 16,867	$ 23,960	$ 19,431	$ 366,762
Change in actual and expected losses	(2,310)	(8,679)	(191)	(124)	(11,304)
Transfer from (to) accretable yield	6,158	2,950	8	(26)	9,090
Balance at end of period	**$ 310,352**	**$ 11,138**	**$ 23,777**	**$ 19,281**	**$ 364,548**

	Nine-Month Period Ended September 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	(23,018)	(16,608)	(5,273)	(1,542)	(46,441)
Change in actual and expected losses	2	19,907	163	123	20,195
Transfer (to) from non-accretable discount	(12,543)	(3,975)	80	(1,098)	(17,536)
Balance at end of period	**$ 256,556**	**$ 49,690**	**$ 3,508**	**$ 1,165**	**$ 310,919**
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	(7,806)	(9,802)	1,450	63	(16,095)
Transfer from (to) accretable yield	12,543	3,975	(80)	1,098	17,536

Balance at end of period	**$**	**310,352**	**$**	**11,138**	**$**	**23,777**	**$**	**19,281**	**$**	**364,548**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Eurobank Loans

The carrying amount of acquired Eurobank loans at September 30, 2018 and December 31, 2017 is as follows:

	September 30 2018	December 31 2017
	(In thousands)	
Contractual required payments receivable:	$ 162,204	$ 179,960
Less: Non-accretable discount	4,187	5,845
Cash expected to be collected	158,017	174,115
Less: Accretable yield	43,075	49,672
Carrying amount, gross	114,942	124,443
Less: Allowance for loan and lease losses	24,281	25,174
Carrying amount, net	**$ 90,661**	**$ 99,269**

The following tables describe the accretable yield and non-accretable discount activity of acquired Eurobank loans for the quarters and nine-month periods ended September 30, 2018 and 2017:

	Quarter Ended September 30, 2018					
	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	$ 39,269	4,585	1,224	-	-	45,078
Accretion	(1,440)	(1,883)	-	(7)	(155)	(3,485)
Change in expected cash flows	6	2,063	-	(143)	283	2,209
Transfer (to) from non-accretable discount	188	(412)	(525)	150	(128)	(727)
	$ 38,023	**$ 4,353**	**$ 699**	**$ -**	**$ -**	**$ 43,075**

Balance at end of period												
Non-Accretable Discount Activity:												
Balance at beginning of period	$	2,638		-		981		-		200		3,819
Change in actual and expected losses		63		(412)		-		150		(160)		(359)
Transfer from (to) accretable yield		(188)		412		525		(150)		128		727
Balance at end of period	**$**	**2,513**	**$**	**-**	**$**	**1,506**	**$**	**-**	**$**	**168**	**$**	**4,187**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Nine-Month Period Ended September 30, 2018					
	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 year	$ 41,474	$ 6,751	$ 1,447	$ -	$ -	$ 49,672
Accretion	(4,583)	(5,195)	-	(45)	(369)	(10,192)
Change in expected cash flows	(974)	4,793	-	(317)	697	4,199
Transfer from (to) non-accretable discount	2,106	(1,996)	(748)	362	(328)	(604)
Balance at end of period	**$ 38,023**	**$ 4,353**	**$ 699**	**$ -**	**$ -**	**$ 43,075**
Non-Accretable Discount Activity:						
Balance at beginning of year	$ 4,576	$ 276	$ 758	$ -	$ 235	$ 5,845
Change in actual and expected losses	43	(2,272)	-	362	(395)	(2,262)
Transfer from (to) accretable yield	(2,106)	1,996	748	(362)	328	604
Balance at end of period	**$ 2,513**	**$ -**	**$ 1,506**	**$ -**	**$ 168**	**$ 4,187**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 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	$ 43,012	$ 9,157	$ 1,906	-	$ -	$ 54,075
Accretion	(1,736)	(2,480)	(39)	(11)	(73)	(4,339)
Change in actual and expected losses	18	106	39	(49)	346	460
Transfer from (to) non-accretable discount	1,094	1,448	(142)	60	(273)	2,187
Balance at end of period	**$ 42,388**	**$ 8,231**	**$ 1,764**	**$ -**	**$ -**	**$ 52,383**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 6,687	$ 2,010	$ 299	$ -	$ 14	$ 9,010
Change in actual and expected losses	20	126	(39)	60	(55)	112
Transfer (to) from accretable yield	(1,094)	(1,448)	142	(60)	273	(2,187)
Balance at end of period	**$ 5,613**	**$ 688**	**$ 402**	**$ -**	**$ 232**	**$ 6,935**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Nine-Month Period Ended September 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	(5,564)	(11,051)	(82)	(22)	(268)	(16,987)
Change in expected cash flows	119	1,427	82	(214)	730	2,144
Transfer from (to) non-accretable discount	1,994	1,380	(430)	236	(462)	2,718
Balance at end of period	**$ 42,388**	**$ 8,231**	**$ 1,764**	**$ -**	**$ -**	**$ 52,383**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 8,441	$ 3,880	$ 11	$ -	$ 8	$ 12,340
Change in actual and expected cash flows	(834)	(1,812)	(39)	236	(238)	(2,687)
Transfer (to) from accretable yield	(1,994)	(1,380)	430	(236)	462	(2,718)
Balance at end of period	**$ 5,613**	**$ 688**	**$ 402**	**$ -**	**$ 232**	**$ 6,935**

OFG BANCORP

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 September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	(In thousands)	
<u>Originated and other loans and leases held for investment</u>		
Mortgage		
Traditional (by origination year):		
Up to the year 2002	$ 3,088	$ 3,070
Years 2003 and 2004	6,587	6,380
Year 2005	3,727	3,280
Year 2006	4,778	5,905
Years 2007, 2008 and 2009	7,717	7,984
Years 2010, 2011, 2012, 2013	7,766	6,259
Years 2014, 2015, 2016, 2017 and 2018	1,303	1,649
	34,966	34,527
Non-traditional	2,740	3,543
Loss mitigation program	23,292	16,783
	60,998	54,853
Commercial		
Commercial secured by real estate		
Institutional	10,155	118
Middle market	7,619	11,394
Retail	15,662	14,438
	33,436	25,950
Other commercial and industrial		
Middle market	6,561	6,323
Retail	2,759	2,929
Floor plan	51	51
	9,371	9,303
	42,807	**35,253**
Consumer		
Credit cards	602	1,227
Overdrafts	-	31
Personal lines of credit	80	102
Personal loans	2,434	900
Cash collateral personal loans	-	312

		3,116		2,572
Auto and leasing		12,185		4,232
Total non-accrual originated loans	$	119,106	$	96,910

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2018	December 31, 2017
	(In thousands)	
Acquired BBVAPR loans accounted for under ASC 310-20		
Commercial		
Commercial secured by real estate		
Retail	$ 54	$ 119
Floor plan	899	928
	953	1,047
Other commercial and industrial		
Retail	25	221
Floor plan	2	2
	27	223
	980	**1,270**
Consumer		
Credit cards	443	1,310
Personal loans	58	45
	501	**1,355**
Auto	**202**	**179**
Total non-accrual acquired BBVAPR loans accounted for under ASC 310-20	**1,683**	**2,804**
Total non-accrual loans	**$ 120,789**	**$ 99,714**

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 12 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 September 30, 2018 and December 31, 2017, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $97.7 million and $109.2 million, respectively, as they are performing under their new terms.

At September 30, 2018 and December 31, 2017, loans that are current in their monthly payments, but placed in non-accrual due to credit deterioration amounted to $23.6 million and $20.1 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

Oriental 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 $69.6 million and $72.3 million at September 30, 2018 and December 31, 2017, 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 $7.6 million and $10.6 million at September 30, 2018 and December 31, 2017, respectively. The total investment in impaired mortgage loans that were individually evaluated for impairment was $85.1 million and $85.4 million at September 30, 2018 and December 31, 2017, 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 $10.6 million and $9.1 million at September 30, 2018 and December 31, 2017, respectively.

Originated and Other Loans and Leases Held for Investment

Oriental'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 September 30, 2018 and 2017 are as follows:

	September 30, 2018			
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Coverage**
		(In thousands)		
Impaired loans with specific allowance:				
Commercial	$ 38,650	$ 33,379	$ 7,607	23%
Residential impaired and troubled-debt restructuring	95,673	85,119	10,620	12%
Impaired loans with no specific allowance:				
Commercial	41,393	35,513	N/A	0%
Total investment in impaired loans	**$ 175,716**	**$ 154,011**	**$ 18,227**	**12%**

	December 31, 2017						
		Unpaid Principal		Recorded Investment		Related Allowance	Coverage
				(In thousands)			
Impaired loans with specific allowance:							
Commercial	$	57,922	$	52,585	$	10,573	20%
Residential impaired and troubled-debt restructuring		94,971		85,403		9,121	11%
Impaired loans with no specific allowance							
Commercial		22,022		18,953		N/A	0%
Total investment in impaired loans	**$**	**174,915**	**$**	**156,941**	**$**	**19,694**	**13%**

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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)

Oriental'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 September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 926	$ 747	$ 4	1%
Impaired loans with no specific allowance				
Commercial	$ -	$ -	N/A	0%
Total investment in impaired loans	**$ 926**	**$ 747**	**$ 4**	**1%**

	December 31, 2017			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 926	$ 747	$ 20	3%
Impaired loans with no specific allowance				
Commercial	$ -	$ -	N/A	0%
Total investment in impaired loans	**$ 926**	**$ 747**	**$ 20**	**3%**

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

Oriental'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 September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance:				
Mortgage	$ 510,426	$ 503,860	$ 15,258	3%
Commercial	197,516	189,164	22,256	12%
Consumer	1,016	96	18	19%
Auto	22,079	20,364	6,343	31%
Total investment in impaired loan pools	**$ 731,037**	**$ 713,484**	**$ 43,875**	6%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31 , 2017			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance:				
Mortgage	$ 547,064	$ 532,052	$ 14,085	3%
Commercial	250,451	241,124	23,691	10%
Consumer	2,468	1,431	18	1%
Auto	43,440	43,696	7,961	18%
Total investment in impaired loan pools	**$ 843,423**	**$ 818,303**	**$ 45,755**	6%

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

Oriental's recorded investment in acquired Eurobank loan pools that have recorded impairments and their related allowance for loan and lease losses as of September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018			
	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	$ 72,874	$ 64,785	$ 15,155	23%
Commercial	50,430	49,262	9,122	19%
Consumer	13	4	4	100%
Total investment in impaired loan pools	**$ 123,317**	**$ 114,051**	**$ 24,281**	21%

	December 31, 2017			
	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	$ 81,132	$ 69,538	$ 15,187	22%
Commercial	58,099	53,793	9,983	19%
Consumer	15	4	4	100%
Total investment in impaired loan pools	**$ 139,246**	**$ 123,335**	**$ 25,174**	20%

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 nine-month periods ended September 30, 2018 and 2017:

	Quarter Ended September 30,			
	2018		2017	
	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	$ 150	$ 35,765	$ 306	$ 24,178
Residential troubled-debt restructuring	695	84,787	576	86,694
Impaired loans with no specific allowance				
Commercial	271	31,315	675	36,133
	1,116	**151,867**	**1,557**	**147,005**
Acquired loans accounted for under ASC 310-20:				
Impaired loans with specific allowance				
Commercial	-	747	-	751
Impaired loans with no specific allowance				
Commercial	-	-	-	-
Total interest income from impaired loans	**$ 1,116**	**$ 152,614**	**$ 1,557**	**$ 147,756**

	Nine-Month Period Ended September 30,			
	2018		2017	
	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	$	432	$	44,691	$	612	$	17,298
Residential troubled-debt restructuring		2,028		84,671		1,685		87,951
Impaired loans with no specific allowance								
Commercial		812		23,736		1,350		41,519
Total interest income from impaired loans	**$**	**3,272**	**$**	**153,098**	**$**	**3,647**	**$**	**146,768**
<u>Acquired loans accounted for under ASC 310-20:</u>								
Impaired loans with specific allowance								
Commercial	$	-	$	747	$	-	$	810
Impaired loans with no specific allowance								
Total interest income from impaired loans	**$**	**3,272**	**$**	**153,845**	**$**	**3,647**	**$**	**147,578**

Modifications

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables present the troubled-debt restructurings in all loan portfolios during the quarters and nine-month periods ended September 30, 2018 and 2017.

	Quarter Ended September 30, 2018						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	21	$ 2,621	5.42%	373	$ 2,579	4.19%	344
Commercial	5	3,007	5.79%	71	3,002	5.10%	83
Consumer	52	758	15.06%	66	765	12.04%	73
Auto	2	40	10.28%	37	40	10.28%	37

	Nine-Month Period Ended September 30, 2018						
	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	104	$ 14,087	5.61%	382	$ 13,597	4.82%	344
Commercial	13	10,341	5.50%	53	10,332	5.74%	60
Consumer	101	1,469	15.58%	59	1,477	11.51%	72
Auto	2	40	10.28%	37	40	10.28%	37

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 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	15	$ 1,796	6.18%	401	$ 1,804	4.28%	409
Commercial	2	154	7.99%	53	154	8.45%	51
Consumer	30	383	11.52%	61	383	11.21%	68
Auto	2	23	6.42%	63	23	8.13%	31

	Nine-Month Period Ended September 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	74	$ 9,149	6.27%	390	$ 9,132	4.26%	384
Commercial	20	3,527	6.51%	55	3,528	5.55%	66
Consumer	93	1,262	11.87%	64	1,301	10.79%	70
Auto	9	134	7.24%	66	135	11.75%	37

The following table presents troubled-debt restructurings for which there was a payment default during the twelve-month periods ended September 30, 2018 and 2017:

	Twelve-Month Period Ended September 30,			
	2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Mortgage	19	$ 2,756	28	$ 2,663
Commercial	2	$ 281	8	$ 868
Consumer	11	$ 107	22	$ 248

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Credit Quality Indicators

Oriental 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.

Oriental uses the following definitions for risk ratings:

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

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

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of September 30, 2018 and December 31, 2017, 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:

	September 30, 2018 Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 306,372	$ 263,522	$ 26,887	$ 15,963	$ -	$ -
Institutional	72,372	62,021	-	10,351	-	-
Middle market	182,142	133,506	31,912	16,724	-	-
Retail	220,897	194,554	4,024	22,319	-	-
Floor plan	3,579	2,281	-	1,298	-	-
Real estate	19,347	19,347	-	-	-	-
	804,709	675,231	62,823	66,655	-	-
Other commercial and industrial:						
Corporate	163,766	135,269	28,497	-	-	-
Institutional	143,886	143,886	-	-	-	-
Middle market	97,715	74,204	4,948	18,563	-	-
Retail	289,398	286,090	213	3,095	-	-
Floor plan	40,553	37,766	2,736	51	-	-
	735,318	677,215	36,394	21,709	-	-
Total	1,540,027	1,352,446	99,217	88,364	-	-
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						

Retail	54	-	-	54	-	-
Floor plan	1,204	305	-	899	-	-
	1,258	305	-	953	-	-
Other commercial and industrial:						
Retail	1,518	1,518	-	-	-	-
Floor plan	2	-	-	2	-	-
	1,520	1,518	-	2	-	-
Total	2,778	1,823	-	955	-	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2018					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Retail - originated and other loans held for investment						
Mortgage:						
Traditional	531,551	496,407	-	35,144	-	-
Non-traditional	14,699	11,959	-	2,740	-	-
Loss mitigation program	107,397	86,600	-	20,797	-	-
Home equity secured personal loans	252	252	-	-	-	-
GNMA's buy-back option program	13,325	-	-	13,325	-	-
	667,224	595,218	-	72,006	-	-
Consumer:						
Credit cards	27,724	27,122	-	602	-	-
Overdrafts	156	129	-	27	-	-
Unsecured personal lines of credit	1,936	1,865	-	71	-	-
Unsecured personal loans	299,530	298,334	-	1,196	-	-
Cash collateral personal loans	16,053	16,053	-	-	-	-
	345,399	343,503	-	1,896	-	-
Auto and Leasing	1,084,912	1,072,764	-	12,148	-	-
Total	2,097,535	2,011,485	-	86,050	-	-
Retail - acquired loans (accounted for under ASC 310-20)						
Consumer:						
Credit cards	22,612	22,169	-	443	-	-
Personal loans	2,302	2,244	-	58	-	-
	24,914	24,413	-	501	-	-
Auto	7,494	7,292	-	202	-	-
	32,408	31,705	-	703	-	-
	$ 3,672,748	**$ 3,397,459**	**$ 99,217**	**$ 176,072**	**$ -**	**$ -**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

		December 31, 2017 Risk Ratings				
	Balance Outstanding	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**
			(In thousands)			
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 235,426	$ 200,395	$ 33,094	$ 1,937	$ -	$ -
Institutional	44,766	33,856	-	10,910	-	-
Middle market	229,941	196,058	4,749	29,134	-	-
Retail	246,067	215,121	8,058	22,888	-	-
Floor plan	3,998	2,678	1,320	-	-	-
Real estate	17,556	17,556	-	-	-	-
	777,754	665,664	47,221	64,869	-	-
Other commercial and industrial:						
Corporate	170,015	157,683	12,332	-	-	-
Institutional	125,591	125,591	-	-	-	-
Middle market	85,363	71,222	6,386	7,755	-	-
Retail	113,252	109,477	562	3,213	-	-
Floor plan	35,286	32,165	3,070	51	-	-
	529,507	496,138	22,350	11,019	-	-
Total	1,307,261	1,161,802	69,571	75,888	-	-
Commercial - acquired loans						
(under ASC 310-20)						
Commercial secured by real estate:						
Retail	119	-	-	119	-	-
Floor plan	1,321	393	-	928	-	-
	1,440	393	-	1,047	-	-
Other commercial and industrial:						

Retail	2,938	2,933	-	5	-	-
Floor plan	2	-	-	2	-	-
	2,940	2,933	-	7	-	-
Total	4,380	3,326	-	1,054	-	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2017 Risk Ratings					
	Balance Outstanding	Pass	Special Mention (In thousands)	Substandard	Doubtful	Loss
Retail - originated and other loans held for investment						
Mortgage:						
Traditional	553,533	516,770	-	36,763	-	-
Non-traditional	18,270	14,727	-	3,543	-	-
Loss mitigation program	103,280	84,357	-	18,923	-	-
Home equity secured personal loans	256	256	-	-	-	-
GNMA's buy-back option program	8,268	-	-	8,268	-	-
	683,607	616,110	-	67,497	-	-
Consumer:						
Credit cards	28,430	27,203	-	1,227	-	-
Overdrafts	214	158	-	56	-	-
Unsecured personal lines of credit	2,220	2,133	-	87	-	-
Unsecured personal loans	284,477	284,255	-	222	-	-
Cash collateral personal loans	14,698	14,386	-	312	-	-
	330,039	328,135	-	1,904	-	-
Auto and Leasing	883,985	879,753	-	4,232	-	-
Total	1,897,631	1,823,998	-	73,633	-	-
Retail - acquired loans						
(under ASC 310-20)						
Consumer:						
Credit cards	26,467	25,156	-	1,311	-	-
Personal loans	2,448	2,402	-	46	-	-
	28,915	27,558	-	1,357	-	-
Auto	21,969	21,790	-	179	-	-
Total	50,884	49,348	-	1,536	-	-
	$ 3,260,156	**$ 3,038,474**	**$ 69,571**	**$ 152,111**	**$ -**	**$ -**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of Oriental's allowance for loan and lease losses at September 30, 2018 and December 31, 2017 was as follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Allowance for loans and lease losses:		
Originated and other loans and leases held for investment:		
Mortgage	$ 19,545	$ 20,439
Commercial	32,491	30,258
Consumer	15,715	16,454
Auto and leasing	27,485	25,567
Total allowance for originated and other loans and lease losses	**95,236**	**92,718**
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	17	42
Consumer	2,140	3,225
Auto	193	595
	2,350	**3,862**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	15,258	14,085
Commercial	22,256	23,691
Consumer	18	18
Auto	6,343	7,961
	43,875	**45,755**
Total allowance for acquired BBVAPR loans and lease losses	**46,225**	**49,617**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	15,155	15,187
Commercial	9,122	9,983
Consumer	4	4
Total allowance for acquired Eurobank loan and lease losses	**24,281**	**25,174**
Total allowance for loan and lease losses	**$ 165,742**	**$ 167,509**

Oriental 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. Oriental'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 Oriental'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)

As discussed in Note 2, during 2017, hurricanes Irma and Maria caused catastrophic damages throughout Puerto Rico. Management performed an evaluation of the loan portfolios to assess the impact on repayment sources and underlying collateral that could result in additional losses.

For the commercial portfolio, the framework for the analysis was based on our current ALLL methodology with additional considerations according to the estimated impact categorized as low, medium or high. From this impact assessment, additional reserve levels were estimated by increasing default probabilities ("PD") and loss given default expectations ("LGD") of each allowance segment.

As part of the process, Oriental contacted its clients to evaluate the impact of the hurricanes on their business operations and collateral. The impact was then categorized as follows: (i) low risk, for clients that had no business impact or relatively insignificant impact; (ii) medium risk, for clients that had a business impact on their primary or secondary sources of repayment, but still had adequate cash flow to cover operations and to satisfy their obligations; or (iii) high risk, for clients that had potentially significant problems that affected primary, secondary and tertiary (collateral) sources of repayment. This criterion was used to model adjusted PDs and LGDs considering internal and external sources of information available to support our estimation process and output.

During the fourth quarter of 2017, Oriental performed an update of the initial estimate, taking into consideration the most recent available information gathered through additional visits and interviews with clients and the economic environment in Puerto Rico.

For the retail portfolios, mortgage, consumer and auto, the assumptions established in the initial estimate were based on the historical losses of each ALLL segment and then further adjusted based on parameters used as key risk indicators, such as the industry of employment for all portfolios and the location of the collateral for mortgage loans. During the fourth quarter of 2017, Oriental performed additional procedures to evaluate the reasonability of the initial estimate based on the payment experience percentage of borrowers for which the deferral period expired. The analysis took into consideration historical payment behavior and loss experience of borrowers (PDs and LGDs) of each portfolio segment to develop a range of estimated potential losses. Management understands that this approach is reasonable given the lack of historical information related to the behavior of local borrowers in such an unprecedented event. The amount used in the analysis represents the average of potential outcomes of expected losses.

During the first quarter of 2018, Oriental updated the previous performed analysis to estimate probable losses related to the hurricanes. Analyses were based on the payment experience percentage of borrowers for which the deferral period expired in retail portfolios. For commercial portfolio, no changes in the level of impact assessed were identified based on communications with credit officers. During the second and third quarter of 2018, Oriental continued its monitoring process of the performance of those affected borrowers. As information became available, it was incorporated into the allowance framework.

At September 30, 2018 and December 31, 2017, Oriental's allowance for loan and lease losses incorporated all risks associated to our loan portfolio, including the impact of hurricanes Irma and Maria.

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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 present 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 September 30, 2018				
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Total**
			(In thousands)		
Allowance for loan and lease losses for originated and other loans:					
Balance at beginning of period	$ 19,323	$ 31,480	$ 16,192	$ 27,223	$ 94,218
Charge-offs	(1,429)	(3,249)	(4,591)	(9,111)	(18,380)
Recoveries	139	119	278	5,442	5,978
Provision for loan and lease losses	1,512	4,141	3,836	3,931	13,420
Balance at end of period	**$ 19,545**	**$ 32,491**	**$ 15,715**	**$ 27,485**	**$ 95,236**

	Nine-Month Period Ended September 30, 2018				
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Total**
			(In thousands)		
Allowance for loan and lease losses for originated and other loans:					
Balance at beginning of period	$ 20,439	$ 30,258	$ 16,454	$ 25,567	$ 92,718
Charge-offs	(3,727)	(6,396)	(13,438)	(31,842)	(55,403)
Recoveries	919	528	757	14,498	16,702
Provision for loan and lease losses	1,914	8,101	11,942	19,262	41,219
Balance at end of period	**$ 19,545**	**$ 32,491**	**$ 15,715**	**$ 27,485**	**$ 95,236**

	September 30, 2018			
	Mortgage	**Commercial**	**Consumer**	**Total**

		Auto and Leasing			
		(In thousands)			
Allowance for loan and lease losses on originated and other loans:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 10,620	$ 7,607	$ -	$ -	$ 18,227
Collectively evaluated for impairment	8,925	24,884	15,715	27,485	77,009
Total ending allowance balance	**$ 19,545**	**$ 32,491**	**$ 15,715**	**$ 27,485**	**$ 95,236**
Loans:					
Individually evaluated for impairment	$ 85,119	$ 68,892	$ -	$ -	$ 154,011
Collectively evaluated for impairment	582,105	1,471,135	345,399	1,084,912	3,483,551
Total ending loan balance	**$ 667,224**	**$ 1,540,027**	**$ 345,399**	**$ 1,084,912**	**$ 3,637,562**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 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	$ 18,664	$ 17,279	$ 14,981	$ 18,742	$ -	$ 69,666
Charge-offs	(834)	(727)	(4,424)	(9,387)	-	(15,372)
Recoveries	341	654	168	2,394	-	3,557
Provision (recapture) for originated and other loan and lease losses	4,137	7,072	5,068	13,413	-	29,690
Balance at end of period	**$ 22,308**	**$ 24,278**	**$ 15,793**	**$ 25,162**	**$ -**	**$ 87,541**

	Nine-Month Period Ended September 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	(5,375)	(6,424)	(11,792)	(24,726)	-	(48,317)
Recoveries	458	880	1,113	9,864	-	12,315
Provision (recapture) for originated and other loan and lease losses	9,881	20,827	13,405	20,561	(431)	64,243
Balance at end of period	**$ 22,308**	**$ 24,278**	**$ 15,793**	**$ 25,162**	**$ -**	**$ 87,541**

	December 31, 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	$	9,121	$	10,573	$	-	$	-	$	-	$	19,694
Collectively evaluated for impairment		11,318		19,685		16,454		25,567		-		73,024
Total ending allowance balance	**$**	**20,439**	**$**	**30,258**	**$**	**16,454**	**$**	**25,567**	**$**	**-**	**$**	**92,718**
Loans:												
Individually evaluated for impairment	$	85,403	$	71,538	$	-	$	-	$	-	$	156,941
Collectively evaluated for impairment		598,204		1,235,723		330,039		883,985		-		3,047,951
Total ending loan balance	**$**	**683,607**	**$**	**1,307,261**	**$**	**330,039**	**$**	**883,985**	**$**	**-**	**$**	**3,204,892**

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:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2018			
	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	$ 86	$ 2,357	$ 283	$ 2,726
Charge-offs	(1)	(638)	(72)	(711)
Recoveries	3	95	169	267
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	(71)	326	(187)	68
Balance at end of period	**$ 17**	**$ 2,140**	**$ 193**	**$ 2,350**

	Nine-Month Period Ended September 30, 2018			
	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	$ 42	$ 3,225	$ 595	$ 3,862
Charge-offs	(6)	(2,080)	(285)	(2,371)
Recoveries	18	243	641	902
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	(37)	752	(758)	(43)
Balance at end of period	**$ 17**	**$ 2,140**	**$ 193**	**$ 2,350**

	September 30, 2018			
	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	$ 4	$ -	$ -	$ 4
Collectively evaluated for impairment	13	2,140	193	2,346
Total ending allowance balance	**$ 17**	**$ 2,140**	**$ 193**	**$ 2,350**
Loans:				
Individually evaluated for impairment	$ 747	$ -	$ -	$ 747
Collectively evaluated for impairment	2,031	24,914	7,494	34,439
Total ending loan balance	**$ 2,778**	**$ 24,914**	**$ 7,494**	**$ 35,186**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 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	$ 41	$ 2,623	$ 684	$ 3,348
Charge-offs	-	(711)	(222)	(933)
Recoveries	1	33	202	236
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	(1)	646	67	712
Balance at end of period	**$ 41**	**$ 2,591**	**$ 731**	**$ 3,363**

	Nine-Month Period Ended September 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)	(2,367)	(705)	(3,204)
Recoveries	6	392	1,251	1,649
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	(2)	1,538	(918)	618
Balance at end of period	**$ 41**	**$ 2,591**	**$ 731**	**$ 3,363**

	December 31, 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:				
Individually evaluated for impairment	$ 20	$ -	$ -	$ 20
Collectively evaluated for impairment	22	3,225	595	3,842
Total ending allowance balance	**$ 42**	**$ 3,225**	**$ 595**	**$ 3,862**
Loans:				
Individually evaluated for impairment	$ 747	$ -	$ -	$ 747
Collectively evaluated for impairment	3,633	28,915	21,969	54,517
Total ending loan balance	**$ 4,380**	**$ 28,915**	**$ 21,969**	**$ 55,264**

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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, Oriental 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 September 30, 2018				
	Mortgage	Commercial	Consumer	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	$ 14,567	$ 23,019	$ 18	$ 6,572	44,176
Provision for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	746	61	-	-	807
Allowance de-recognition	(55)	(824)	-	(229)	(1,108)
Balance at end of period	**$ 15,258**	**$ 22,256**	**$ 18**	**$ 6,343**	**43,875**

	Nine-Month Period Ended September 30, 2018				
	Mortgage	Commercial	Consumer	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	$ 14,085	$ 23,691	$ 18	$ 7,961	45,755
Provision (recapture) for acquired BBVAPR loans and	1,296	2,119	-	(887)	2,528

lease losses accounted for under ASC 310-30								
Allowance de-recogntion		(123)		(3,554)		-		(731)	(4,408)
Balance at end of period	**$**	**15,258**	**$**	**22,256**	**$**	**18**	**$**	**6,343**	**43,875**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 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	$ 4,141	$ 25,614	$ 7,739	$ 37,494
Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	4,790	6,810	(501)	11,099
Allowance de-recognition	-	(8,483)	-	(8,483)
Balance at end of period	**$ 8,931**	**$ 23,941**	**$ 7,238**	**$ 40,110**

	Nine-Month Period Ended September 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 for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	6,345	9,768	2,685	18,798
Allowance de-recogntion	(96)	(9,279)	(369)	(9,744)
Balance at end of period	**$ 8,931**	**$ 23,941**	**$ 7,238**	**$ 40,110**

Allowance for Acquired Eurobank Loan Losses

The changes in the allowance for loan and lease losses on acquired Eurobank loans for the quarters and nine-month periods ended September 30, 2018 and 2017 were as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2018			
	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	$ 15,170	$ 9,140	$ 4	$ 24,314
Provision for loan and lease losses, net	231	75	-	306
Allowance de-recognition	(246)	(93)	-	(339)
Balance at end of period	**$ 15,155**	**$ 9,122**	**$ 4**	**$ 24,281**

	Nine-Month Period Ended September 30, 2018			
	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	$ 15,187	$ 9,983	$ 4	$ 25,174
Provision for loan and lease losses, net	1,015	95	-	1,110
Allowance de-recognition	(1,047)	(956)	-	(2,003)
Balance at end of period	**$ 15,155**	**$ 9,122**	**$ 4**	**$ 24,281**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 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	$ 13,651	$ 8,131	$ 4	$ 21,786
Provision for (recapture) acquired Eurobank loan and lease losses, net	1,139	1,402	-	2,541
Allowance de-recognition	(571)	(611)	-	(1,182)
Balance at end of period	**$ 14,219**	**$ 8,922**	**$ 4**	**$ 23,145**

	Nine-Month Period Ended September 30, 2017			
	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	$ 11,947	$ 9,328	$ 6	$ 21,281
Provision for (recapture) acquired Eurobank loan and lease losses, net	4,011	562	-	4,573
Allowance de-recognition	(1,739)	(968)	(2)	(2,709)
Balance at end of period	**$ 14,219**	**$ 8,922**	**$ 4**	**$ 23,145**

NOTE 7- FDIC SHARED-LOSS AGREEMENTS

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8 — FORECLOSED REAL ESTATE

The following tables present the activity related to foreclosed real estate for the quarters and nine-months periods ended September 30, 2018 and 2017:

	Quarter Ended September 30, 2018			
	Originated and other loans and leases held for investment	Acquired BBVAPR loans	Acquired Eurobank loans	Total
	(In thousands)			
Balance at beginning of period	**$ 12,186**	**$ 17,492**	**$ 10,873**	**$ 40,551**
Decline in value	(359)	(244)	(302)	(905)
Additions	1,547	2,476	928	4,951
Sales	(3,080)	(2,680)	(969)	(6,729)
Balance at end of period	**$ 10,294**	**$ 17,044**	**$ 10,530**	**$ 37,868**

	Quarter Ended September 30, 2017			
	Originated and other loans and leases held for investment	Acquired BBVAPR loans	Acquired Eurobank loans	Total
	(In thousands)			
Balance at beginning of period	**$ 15,842**	**$ 21,671**	**$ 12,710**	**$ 50,223**
Decline in value	(592)	(680)	(340)	(1,612)
Additions	1,482	2,122	665	4,269
Sales	(1,996)	(2,410)	(1,108)	(5,514)
Other adjustments	(59)	(32)	-	(91)
Balance at end of period	**$ 14,677**	**$ 20,671**	**$ 11,927**	**$ 47,275**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Nine-Month Period Ended September 30, 2018			
	Originated and other loans and leases held for investment	Acquired BBVAPR loans	Acquired Eurobank loans	Total
	(In thousands)			
Balance at beginning of period	**$ 14,283**	**$ 18,347**	**$ 11,544**	**$ 44,174**
Decline in value	(1,017)	(1,758)	(1,054)	(3,829)
Additions	4,816	7,401	2,868	15,085
Sales	(7,788)	(6,946)	(2,828)	(17,562)
Balance at end of period	**$ 10,294**	**$ 17,044**	**$ 10,530**	**$ 37,868**

	Nine-Month Period Ended September 30, 2017			
	Originated and other loans and leases held for investment	Acquired BBVAPR loans	Acquired Eurobank loans	Total
	(In thousands)			