OFG BANCORP
Form 10-K
March 10, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 31, 2016

or

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

For the Transition Period from to to .

Commission File No. 001-12647

OFG Bancorp

Incorporated in the Commonwealth of Puerto Rico

IRS Employer Identification No. 66-0538893

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

Common Stock ($1.00 par value per share)

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer .	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of OFG Bancorp (the "Company") was approximately $364.5 million as of June 30, 2016 based upon 44,913,719 shares outstanding and the reported closing price of $8.30 on the New York Stock Exchange on that date.

As of February 28, 2017, the Company had 43,914,844 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement relating to the 2017 annual meeting of shareholders are incorporated herein by reference in response to Items 10 through 14 of Part III, except for certain information set forth herein under Item 12.

OFG Bancorp

FORM 10-K

For the Year Ended December 31, 2016

TABLE OF CONTENTS

PART I

PART II

PART III

PART IV

FORWARD-LOOKING STATEMENTS

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

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

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

Puerto Rico;

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

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

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

ITEM 1. ***BUSINESS***

General

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

The Company provides comprehensive banking and financial services to its clients through a complete range of banking and financial solutions, including commercial, consumer, auto, and mortgage lending; checking and savings accounts; financial planning, insurance, financial services, and investment brokerage; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Wealth Management, and Treasury, differentiating the Oriental brand through customer segmentation and innovative solutions, primarily in Puerto Rico. The Company provides these services through various subsidiaries including, a commercial bank, Oriental Bank ("the Bank"), a securities broker-dealer, Oriental Financial Services Corp. ("Oriental Financial Services"), an insurance agency, Oriental Insurance, LLC ("Oriental Insurance"), and a retirement plan administrator, Oriental Pension Consultants, Inc. ("OPC"). All of our subsidiaries are based in San Juan, Puerto Rico, except for OPC which is based in Boca Raton, Florida. The Company has 48 branches in Puerto Rico. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

The Company's strategy involves:

- Expanding its ability to attract deposits and build relationships with customers by refining service delivery and providing innovative banking technologies for day-to-day customer transactions, and achieving sustainable levels of differentiation in the market;

- Focusing on greater growth in commercial, consumer and mortgage lending, trust and financial services and insurance products;

- Improving operating efficiencies, and continuing to maintain effective asset-liability management;

- Implementing a broad ranging effort to instill in employees and make customers aware of the Company's determination to effectively serve and advise its customer base in a responsive and professional manner; and

- Matching its portfolio of investment securities with the related funding to achieve favorable spreads, and primarily investing in U.S. government-sponsored agency obligations.

Together with a highly experienced group of senior and mid-level executives and the benefits from the acquisitions of Eurobank Puerto Rico and the Puerto Rico operations of Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), this strategy has resulted in sustained growth in the Company's deposit-taking activities, commercial, consumer and mortgage lending and financial service activities, allowing the Company to distinguish itself in a highly competitive industry. The Company is not immune from general and local financial and economic conditions. Past experience is not necessarily indicative of future performance, but given market uncertainties and on a reasonable time horizon of three to five years, this strategy is expected to maintain its steady progress towards the Company's long-term goal.

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

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

Segment Disclosure

The Company has three reportable segments: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Company’s organizational structure, nature of products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established annual goals involving different financial parameters such as net income, interest rate spread, loan production, and fees generated.

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

Banking Activities

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

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

The Company's mortgage banking activities are conducted through a division of the Bank. The mortgage banking activities include the origination of mortgage loans for the Bank's own portfolio, and the sale of loans directly into the secondary market or the securitization of conforming loans into mortgage-backed securities. The Bank originates Federal Housing Administration ("FHA") insured mortgages, Veterans Administration ("VA") guaranteed mortgages, and Rural Housing Service ("RHS") guaranteed loans that are primarily securitized for issuance of Government National Mortgage Association ("GNMA") mortgage-backed securities which can be resold to individual or institutional investors in the secondary market. Conventional loans that meet the underwriting requirements for sale or exchange under standard Federal National Mortgage Association (the "FNMA") or the Federal Home Loan Mortgage Corporation (the "FHLMC") programs are referred to as conforming mortgage loans and are also securitized for issuance of FNMA or FHLMC mortgage-backed securities. The Bank is an approved seller of FNMA, as well as FHLMC, mortgage loans for issuance of FNMA and FHLMC mortgage-backed securities. The Bank is also an approved issuer of GNMA mortgage-backed securities. The Company outsources the servicing of the residential mortgage loan portfolio acquired in the BBVA Acquisition and services the GNMA, FNMA, and FHLMC pools that issues, and the rest of its residential mortgage loan portfolio.

Loan Underwriting

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

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

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

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

Wealth Management Activities

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

Oriental Financial Services is a Puerto Rico corporation and the Company's subsidiary engaged in securities brokerage activities in accordance with the Company's strategy of providing fully integrated financial solutions, covering various investment alternatives such as tax-advantaged fixed income securities, mutual funds, stocks, and bonds to retail and institutional clients. It also offers separately-managed accounts and mutual fund asset allocation programs sponsored by unaffiliated professional asset managers. These services are designed to meet each client's specific needs and preferences, including transaction-based pricing and asset-based fee pricing. It has managed and participated in public offerings and private placements of debt and equity securities in Puerto Rico and has engaged in municipal securities business with the Commonwealth of Puerto Rico and its instrumentalities, municipalities, and public corporations. Oriental Financial Services, a member of FINRA and the Securities Investor Protection Corporation, is a registered securities broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. The broker-dealer does not carry customer accounts and is, accordingly, exempt from the Customer Protection Rule (SEC Rule 15c3-3) pursuant to subsection (k)(2)(ii) of such rule. It clears securities transactions through Pershing LLC, a clearing agent that carries the accounts of its customers on a "fully disclosed" basis.

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

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

Corporate and individual trust services are carried by the Bank's trust division.

Treasury Activities

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

Market Area and Competition

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

Regulation and Supervision

General

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

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

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

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

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

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

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

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

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act implements a variety of far-reaching changes and has been described as the most sweeping reform of the financial services industry since the 1930's. It has a broad impact on the financial services industry, including significant regulatory and compliance changes, such as: (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) enhanced lending limits strengthening the existing limits on a depository institution's credit exposure to one borrower; (iii) increased capital and liquidity requirements; (iv) increased regulatory examination fees; (v) changes to assessments to be paid to the FDIC for federal deposit insurance; (vi) prohibiting bank holding companies, such as the Company, from including in regulatory Tier 1 capital future issuances of trust preferred securities or other hybrid debt and equity securities; and (vii) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve Board, the Office of the Comptroller of the Currency and the FDIC. Further, the Dodd-Frank Act addresses many corporate governance and executive compensation matters that affect most U.S. publicly traded companies, including the Company. A few provisions of the Dodd-Frank Act became effective immediately, while various provisions have become effective in stages. Many of the requirements called for in the Dodd-Frank Act have been implemented over time and most are subject to implementing regulations.

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

Holding Company Structure

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

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

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

Dividend Restrictions

The principal source of funds for the Company is the dividends from the Bank. The ability of the Bank to pay dividends on its common stock is restricted by the Puerto Rico Banking Act of 1933, as amended (the "Banking Act"), the Federal Deposit Insurance Act, as amended (the "FDIA"), and the FDIC regulations. In general terms, the Banking Act provides that when the expenditures of a bank are greater than its receipts, the excess of expenditures over receipts shall be charged against the undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If there is no sufficient reserve fund to cover such balance in whole or in part, the outstanding amount shall be charged against the bank's capital account. The Banking Act provides that until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends. In general terms, the FDIA and the FDIC regulations restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding a bank.

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

Federal Home Loan Bank System

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

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

Prompt Corrective Action Regulations

Pursuant to the Dodd-Frank Act, federal banking agencies have adopted capital rules that became effective January 1, 2014 for advanced approaches banking organizations (i.e., those with consolidated assets greater than $250 billion or consolidated on-balance sheet foreign exposures of at least $10 billion) and January 1, 2015 for all other covered organizations (subject to certain phase-in periods through January 1, 2019) and that will replace their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules.

The new capital rules provide certain changes to the prompt corrective action regulations adopted by the agencies under Section 38 of the FDIA, as amended by FDICIA. These regulations are designed to place restrictions on U.S. insured depository institutions if their capital levels begin to show signs of weakness. The five capital categories established by the agencies under their prompt corrective action framework are: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized".

The new capital rules expand such categories by introducing a common equity tier 1 capital requirement for all depository institutions, revising the minimum risk-based capital ratios and, beginning in 2018, the proposed supplementary leverage requirement for advanced approaches banking organizations. The common equity tier 1 capital ratio is a new minimum requirement designed to ensure that banking organizations hold sufficient high-quality regulatory capital that is available to absorb losses on a going-concern basis. Under the new rules, an insured depository institution is:

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

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

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

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

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

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

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

FDIC Insurance Assessments

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

The Dodd-Frank Act contains several important deposit insurance reforms, including the following: (i) the maximum deposit insurance amount was permanently increased to $250,000; (ii) the deposit insurance assessment is now based on the insured depository institution's average consolidated assets minus its average tangible equity, rather than on its deposit base; (iii) the minimum reserve ratio for the Deposit Insurance Fund was raised from 1.15% to 1.35% of estimated insured deposits by September 30, 2020; (iv) the FDIC is required to "offset the effect" of increased assessments on insured depository institutions with total consolidated assets of less than $10 billion; (v) the FDIC is no longer required to pay dividends if the Deposit Insurance Fund's reserve ratio is greater than the minimum ratio; and (vi) the FDIC temporarily insured the full amount of qualifying "noninterest-bearing transaction accounts" until December 31, 2012. As defined in the Dodd-Frank Act, a "noninterest-bearing transaction account" is a deposit or account maintained at a depository institution with respect to which interest is neither accrued nor paid, on which the depositor or account holder is permitted to make withdrawals by negotiable or transferrable instrument, payment orders of withdrawals, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others, and on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal.

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

Dodd-Frank Act is larger than the current assessment base, the new assessment rates adopted by the FDIC are lower than the former rates.

In 2016, the FDIC adopted two new rules to require large institutions to bear the burden of raising the reserve ratio from 1.15% to 1.35% and amended the pricing for small institutions after the reserve ratio reaches 1.15%. Once the reserve ratio reaches 1.38%, small institutions will receive credits to offset their contribution to raising the reserve ratio above 1.35%. Effective June 30, 2016, the reserve ratio reached 1.15%, and assessment collections decreased for small institutions like the Bank.

Brokered Deposits

FDIC regulations adopted under the FDIA govern the receipt of brokered deposits by banks. Well capitalized institutions are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the interest paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. As of December 31, 2016, the Bank is a well capitalized institution and is therefore not subject to these limitations on brokered deposits.

Regulatory Capital Requirements

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

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

Failure to meet the capital guidelines could subject an institution to a variety of enforcement actions including the termination of deposit insurance by the FDIC and to certain restrictions on its business. At December 31, 2016, the Company was in compliance with all applicable capital requirements. For more information, please refer to the accompanying consolidated financial statements.

Safety and Soundness Standards

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

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

Activities and Investments of Insured State-Chartered Banks

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

Transactions with Affiliates and Related Parties

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

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

Community Reinvestment Act

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

USA Patriot Act

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

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

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

Privacy Policies

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

Sarbanes-Oxley Act

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

The Company has included in this annual report on Form 10-K management's assessment regarding the effectiveness of the Company's internal control over financial reporting. The internal control report includes a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Company; management's assessment as to the effectiveness of the Company's internal control over financial reporting based on management's evaluation as of year-end; and the framework used by management as criteria for evaluating the effectiveness of the Company's internal control over financial reporting. As of December 31, 2016 the Company's management concluded that its internal control over financial reporting was effective.

Puerto Rico Banking Act

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

The Banking Act requires that a minimum of 10% of the Bank's net income for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid-in capital on common and preferred stock. At December 31, 2016 and 2015, legal surplus amounted to $76.3 million and $70.4 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

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

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

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

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

The Puerto Rico Finance Board is composed of the Commissioner of Financial Institutions of Puerto Rico; the Presidents of the Government Development Bank for Puerto Rico, the Economic Development Bank for Puerto Rico and the Planning Board; the Puerto Rico Secretaries of Commerce and Economic Development, Treasury and Consumer Affairs; the Commissioner of Insurance; and the President of the Public Corporation for Insurance and Supervision of Puerto Rico Credit Unions. It has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and unincorporated businesses in the Commonwealth. The current regulations of the Puerto Rico Finance Board provide that the applicable interest rate on loans to individuals and unincorporated businesses is to be determined by free competition. The Puerto Rico Finance Board also has the authority to regulate maximum finance charges on retail installment sales contracts and for credit card purchases. There is presently no maximum rate for retail installment sales contracts and for credit card purchases.

Puerto Rico Internal Revenue Code

On July 2014, the Governor signed into law Act No. 77-2014, known as “Ley de Ajustes al Sistema Contributivo” (Act of Adjustments to the Tax System). The main purpose of this legislation is to increase government collections in order to alleviate the structural budget deficit. Its most relevant provisions, as applicable to the Company, and effective for transactions held after June 30, 2014, are as follows: (1) the capital tax rate was increased from 15% to 20% and (2) for an asset to be considered long term capital asset, the holding period must be over a year, which before was defined with a holding period of over six months.

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

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

International Banking Center Regulatory Act of Puerto Rico

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

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

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

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

Volcker Rule

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

Employees

At December 31, 2016, the Company had 1,416 employees. None of its employees is represented by a collective bargaining group. The Company considers its employee relations to be good.

Internet Access to Reports

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

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

ITEM 1A. *RISK FACTORS*

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

ECONOMIC AND MARKET CONDITIONS RISK

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

Our loan and deposit activities are directly affected by economic conditions within Puerto Rico. Because a significant portion of our credit risk exposure on our loan portfolio, which is the largest component of our interest-earning assets, is concentrated in Puerto Rico, our profitability and financial condition may be adversely affected by an extended economic recession, adverse political, fiscal or economic developments in Puerto Rico, or the effects of a natural disaster, all of which could result in a reduction in loan originations, an increase in non-performing assets, an increase in foreclosure losses on mortgage loans, and a reduction in the value of our loans and loan servicing portfolio.

The Puerto Rico economy has been in a recession since 2006, and the Commonwealth government currently faces a severe fiscal and liquidity crisis as a result of many years of significant budget deficits, among other factors. Puerto Rico also faces high unemployment, unprecedented population decline, and high levels of government debt and pension obligations. In anticipation of a widespread default on the Puerto Rico government's debt, the United States federal government enacted the Puerto Rico Oversight, Management, and Economic Stability Act to create a Fiscal Oversight Board with broad powers over the Puerto Rico government's finances, to create a legal process to restructure the Puerto Rico government's debts, and to temporarily stay the enforcement of debts.

Economic activity is expected to be constrained as a result of anticipated severe austerity measures and continued increasing migration trends. A further deterioration in local economic conditions or in the financial condition of an industry on which the local market depends could adversely affect factors such as unemployment rates and real estate vacancy and values. This could result in, among other things, a reduction of creditworthy borrowers seeking loans, an increase in loan delinquencies, defaults and foreclosures, an increase in classified and non-accrual loans, a decrease in the value of collateral for loans, and a decrease in core deposits. Any of these factors could materially impact our business.

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

Changes in interest rates could reduce the Company’s net interest income

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

Changes in interest rates are one of the principal market risks affecting us. Our earnings are dependent to a large degree on net interest income, which is the difference between the interest rates earned on interest-earning assets, such as loans and investment securities, and the interest rates paid on interest-bearing liabilities, such as deposits and borrowings. Depending on the duration and repricing characteristics of the assets, liabilities and off-balance sheet items, changes in interest rates could either increase or decrease the level of net interest income. For any given period, the pricing structure of the assets and liabilities is matched when an equal amount of such assets and liabilities mature or reprice in that period. Like all financial institutions, our financial position is affected by fluctuations in interest rates. Volatility in interest rates can also result in the flow of funds away from financial institutions. We may suffer losses or experience lower spreads than anticipated if we are not effective in managing our interest rate risk.

CREDIT RISK

We are exposed to credit risk in connection with our loans to certain municipalities of Puerto Rico, and the restructuring of the government could adversely affect the value of such loans.

At December 31, 2016, we had approximately $197.9 million of credit exposure to five Puerto Rico municipalities. This credit exposure consists of collateralized loans or obligations that have special additional property tax revenues pledged for their repayment.

The Puerto Rico government faces a number of severe economic and fiscal challenges that are expected to require a significant restructuring of the government as well as severe austerity measures to close the significant deficit.

If the government restructuring affects the ability of the municipalities to pay their obligations to us as they become due, or under certain other circumstances, we may be required to adversely classify such loans and increase the provision for loan losses in connection therewith. Such provision may significantly impact our earnings.

Heightened credit risk could require us to increase our provision for credit losses, which could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

From the time that we fund the mortgage loans originated to the time that they are sold, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loans, the risk of loss from mortgage loan defaults and foreclosures passes to the purchaser or insurer of the mortgage loans. However, in the ordinary course of business, we make representations and warranties to the purchasers and insurers of mortgage loans relating to the validity of such loans. If there is a breach of any of these representations or warranties, we may be required to repurchase the mortgage loan and bear any subsequent loss on the mortgage loan. We also may be required to repurchase mortgage loans in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. For the year ended December 31, 2016, we repurchased $4.2 million of loans from GNMA and FNMA. Any such repurchases in the future may negatively impact our liquidity and operating results. Termination of our ability to sell mortgage products to the U.S government-sponsored entities would have a material adverse effect on our results of operations and financial condition. In addition, we may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, including securities fraud claims, and the amount of such losses could exceed the purchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans. In addition, we incur higher liquidity risk with respect to mortgage loans not eligible to be purchased or insured by FNMA, GNMA or FHLMC, due to a lack of secondary market in which to sell these loans.

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

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

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

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

Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the price received on the sale of such loans, and the value of the mortgage loan portfolio, all of which could have a negative impact on our results of operations and financial condition. In addition, any material decline in real estate values would weaken our collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults. For a discussion of the impact of the Puerto Rico economy on our business operations, see "Most of our business is conducted in Puerto Rico, which is experiencing a deep economic recession, downturn in the real estate market, and a government fiscal and liquidity crisis."

OPERATIONS AND BUSINESS RISK

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

Financial institutions are required under the USA Patriot Act and Bank Secrecy Acts to develop programs to prevent financial institutions from being used for money-laundering and terrorist activities. Financial institutions are obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. We have developed a compliance program reasonably designed to ensure compliance with such laws and regulations. Failure or the inability to comply with these regulations could result in enforcement actions, fines or penalties, curtailment of expansion opportunities, intervention or sanctions by regulators, costly litigation, or expensive additional controls and systems.

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

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

Such incidents may include unauthorized access to our digital systems for purposes of misappropriation of assets, gaining access to sensitive information, corrupting data, or causing operational disruption. Although our information technology structure continue to be subject to cyber attacks, we have not experience a breach of cyber-security. Such an event could compromise our confidential information as well as that of our customers and third parties with whom we interact with and may result in negative consequences.

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

We rely on third parties to provide services and systems essential to the operation of our business, and any failure, interruption or termination of such services or systems could have a material adverse affect on our financial condition and results of operations.

Our business relies on the secure, successful and uninterrupted functioning of our core banking platform, information technology, telecommunications, and loan servicing. We outsource some of our major systems, such as customer data and deposit processing, part of our mortgage loan servicing, internet and mobile banking, and electronic fund transfer systems. The failure or interruption of such systems, or the termination of a third-party software license or any service agreement on which any of these systems or services is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such systems fail or experience interruptions. In addition, replacing third party service providers could also entail significant delay and expense.

If sustained or repeated, a failure, denial or termination of such systems or services could result in a deterioration of our ability to process new loans, service existing loans, gather deposits and/or provide customer service. It could also compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability. Any of the foregoing could have a material adverse effect on our financial condition and results of operations.

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

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

LIQUIDITY RISK

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

Our business requires continuous access to various funding sources. We are able to fund our operations through deposits as well as through advances from the FHLB-NY and FRB-NY; however, our business is significantly dependent upon other wholesale funding sources, such as repurchase agreements and brokered deposits, which consisted of approximately 23% of our total interest-bearing liabilities as of December 31, 2016.

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

We expect to have continued access to credit from the foregoing sources of funds. However, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In a period of financial disruption, or if negative developments occur with respect to us, the availability and cost of funding sources could be adversely affected. In that event, our cost of funds may increase, thereby reducing the net interest income, or we may need to dispose of a portion of the investment portfolio, which, depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon the dispositions. The interest rates that we pay on our securities are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Our efforts to monitor and manage liquidity risk may not be successful to deal with dramatic or unanticipated changes in the global securities markets or other reductions in liquidity driven by us or market related events. In the event that such sources of funds are reduced or eliminated and we are not able to replace them on a cost-effective basis, we may be forced to curtail or cease our loan origination business and treasury activities, which would have a material adverse effect on our operations and financial condition.

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

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

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

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

COMPETITIVE AND STRATEGIC RISK

Competition with other financial institutions could adversely affect our profitability.

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

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

Our operations are subject to extensive regulation by federal and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. For example, the Dodd-Frank Act has a broad impact on the financial services industry, including significant regulatory and compliance changes, as discussed under the subheading "Dodd-Frank Wall Street Reform and Consumer Protection Act" in Item 1of this annual report. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business.

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

Competition in attracting talented people could adversely affect our operations.

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

Reputational risk and social factors may impact our results.

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

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

ACCOUNTING AND TAX RISK

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

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

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

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

Based on our annual goodwill impairment test, we determined that no impairment charges were necessary. As of December 31, 2016, we had on our consolidated balance sheet $86.1 million of goodwill in connection with the BBVAPR Acquisition and the FDIC-assisted Eurobank acquisition, $4.3 million of core deposit intangible in connection with the FDIC-assisted Eurobank acquisition and the BBVAPR Acquisition, and $1.9 million of customer relationship intangible in connection with the BBVAPR Acquisition. There can be no assurance that future evaluations of such goodwill or intangibles will not result in any impairment charges. Among other factors, further declines in our common stock as a result of macroeconomic conditions and the general weakness of the Puerto Rico economy, could lead to an impairment of such assets. If such assets become impaired, it could have a negative impact on our results of operations.

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

In an effort to address the Commonwealth's ongoing fiscal problems, the Government has enacted tax reform in the past and is expected to do so in the future. In 2014, the Government of Puerto Rico approved an amendment to the Internal Revenue Code, which, among other things, changed the income tax rate for capital gains from 15% to 20%. In addition, in May 2015, the Government approved an increase in the state sales and use tax rate, effective July 1, 2015, from 6% to 10.5% (the municipal sales and use tax remained at a 1% rate), expanded the sales and use tax to certain business-to-business services that were previously exempt, and provided for a transition to a value-added tax that became effective on June 1, 2016. Legislative changes, particularly changes in tax laws, could adversely impact our results of operations.

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

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

The Company owns a fifteen-story office building located at 254 Muñoz Rivera Avenue, San Juan Puerto Rico, known as Oriental Center. The Company operates a full service branch at the plaza level and our centralized units and subsidiaries occupy approximately 64% of the office floor space. Approximately 29% of the office space is leased to outside tenants and 7% is available for lease.

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

At December 31, 2016, the aggregate future rental commitments under the terms of the leases, exclusive of taxes, insurance and maintenance expenses payable by the Company, was $38.7 million.

The Company's investment in premises and equipment, exclusive of leasehold improvements at December 31, 2016, was $110.2 million, gross of accumulated depreciation.

ITEM 3. ***LEGAL PROCEEDINGS***

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

ITEM 4. ***MINE SAFETY DISCLOSURE***

Not applicable.

PART II

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

The Company’s common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “OFG”. Information concerning the range of high and low sales prices for the Company’s common stock for each quarter in the years ended December 31, 2016 and 2015, as well as cash dividends declared for such periods is set forth under the sub-heading “Stockholders’ Equity” in the “Analysis of Financial Condition” caption in the Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”).

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

As of December 31, 2016, the Company had approximately 3,662 holders of record of its common stock, including all directors and officers of the Company, and beneficial owners whose shares are held in “street” name by securities broker-dealers or other nominees.

Stock Performance Graph

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

The cumulative total stockholder return was obtained by dividing the sum of (i) the cumulative amount of dividends per share, assuming dividend reinvestment, for the measurement period beginning December 31, 2011, and (ii) the difference between the share price at the beginning and the end of the measurement period, by the share price at the beginning of the measurement period.

Comparison of 5 Year Cumulative Total Return

Assumes Initial Investment of $100

Index	**12/31/2011**	**12/31/2012**	**12/31/2013**	**12/31/2014**	**12/31/2015**	**12/31/2016**
OFG Bancorp	100.00	112.55	148.47	145.47	66.03	121.33
Russell 2000	100.00	116.35	161.52	169.43	161.95	196.45

SNL Bank	100.00	134.95	185.28	207.12	210.65	266.16

ITEM 6. ***SELECTED FINANCIAL DATA***

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

OFG Bancorp
SELECTED FINANCIAL DATA
YEARS ENDED DECEMBER 31, 2016, 2015, 2014, 2013, AND 2012

	Year Ended December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
EARNINGS DATA:	(In thousands, except per share data)				
Interest income	$ 356,592	$ 406,568	$ 485,257	$ 493,632	$ 260,808
Interest expense	57,165	69,196	76,782	83,960	103,518
Net interest income	**299,427**	**337,372**	**408,475**	**409,672**	**157,290**
Provision for loan and lease losses	65,076	161,501	60,640	72,894	23,681
Net interest income after provision for loan and leases losess	**234,351**	**175,871**	**347,835**	**336,778**	**133,609**
Non-interest income	66,819	52,472	17,323	17,095	26,057
Non-interest expenses	215,990	248,401	242,725	264,136	131,810
Income (loss) before taxes	**85,180**	**(20,058)**	**122,433**	**89,737**	**27,856**
Income tax (benefit) expense	25,994	(17,554)	37,252	(8,709)	3,301
Net income (loss)	**59,186**	**(2,504)**	**85,181**	**98,446**	**24,555**
Less: dividends on preferred stock	(13,862)	(13,862)	(13,862)	(13,862)	(9,939)
Income (loss) available to common shareholders	**$ 45,324**	**$ (16,366)**	**$ 71,319**	**$ 84,584**	**$ 14,616**
PER SHARE DATA:					
Basic	**$ 1.03**	**$ (0.37)**	**$ 1.58**	**$ 1.85**	**$ 0.35**
Diluted	**$ 1.03**	**$ (0.37)**	**$ 1.50**	**$ 1.73**	**$ 0.35**
Average common shares outstanding	**43,913**	**51,455**	**45,024**	**45,706**	**41,626**
Average common shares outstanding and equivalents	**51,088**	**44,231**	**52,326**	**53,033**	**45,304**
Book value per common share	**$ 17.18**	**$ 16.67**	**$ 17.40**	**$ 15.74**	**$ 15.31**
Tangible book value per common share	**$ 15.08**	**14.53**	**15.25**	**13.60**	**13.10**
Market price at end of period	**$ 13.10**	**7.32**	**16.65**	**17.34**	**13.35**
Cash dividends declared per common share	**$ 0.24**	**0.36**	**0.34**	**0.26**	**0.24**
Cash dividends declared on common shares	**$ 10,544**	**15,932**	**15,286**	**11,875**	**10,067**
PERFORMANCE RATIOS:					
Return on average assets (ROA)	**0.88%**	**-0.03%**	**1.10%**	**1.15%**	**0.37%**
Return on average tangible common stockholders' equity	**6.94%**	**-2.47%**	**10.91%**	**14.01%**	**2.32%**
Return on average common equity (ROE)	**6.08%**	**-2.16%**	**9.50%**	**12.03%**	**2.29%**
Equity-to-assets ratio	**14.16%**	**12.64%**	**12.65%**	**10.85%**	**9.38%**
Efficiency ratio	**57.82%**	**60.00%**	**49.90%**	**53.45%**	**64.05%**
Interest rate spread	**4.74%**	**4.95%**	**5.79%**	**5.46%**	**2.59%**

Interest rate margin	**4.82%**	**5.03%**	**5.84%**	**5.46%**	**2.67%**

	December 31,				
	2016	2015	2014	2013	2012
PERIOD END BALANCES AND CAPITAL RATIOS:	(In thousands, except per share data)				
Investments and loans					
Investment securities	$ 1,362,511	$ 1,615,872	$ 1,402,056	$ 1,614,809	$ 2,233,265
Loans and leases, net	4,147,692	4,434,213	4,826,646	5,019,419	5,157,637
Total investments and loans	**$ 5,510,203**	**$ 6,050,085**	**$ 6,228,702**	**$ 6,634,228**	**$ 7,390,902**
Deposits and borrowings					
Deposits	$ 4,664,487	$ 4,717,751	$ 4,924,406	$ 5,383,265	$ 5,690,579
Securities sold under agreements to repurchase	653,756	934,691	980,087	1,267,618	1,695,247
Other borrowings	141,598	436,843	439,919	439,816	791,417
Total deposits and borrowings	**$ 5,459,841**	**$ 6,089,285**	**$ 6,344,412**	**$ 7,090,699**	**$ 8,177,243**
Stockholders' equity					
Preferred stock	$ 176,000	$ 176,000	$ 176,000	$ 176,000	$ 176,000
Common stock	52,626	52,626	52,626	52,707	52,671
Additional paid-in capital	540,948	540,512	539,311	538,071	537,453
Legal surplus	76,293	70,435	70,435	61,957	52,143
Retained earnings	177,808	148,886	181,184	133,629	70,734
Treasury stock, at cost	(104,860)	(105,379)	(97,070)	(80,642)	(81,275)
Accumulated other comprehensive income	1,596	13,997	19,711	3,191	55,880
Total stockholders' equity	**$ 920,411**	**$ 897,077**	**$ 942,197**	**$ 884,913**	**$ 863,606**
Per share data					
Book value per common share	**$ 17.18**	**$ 16.67**	**$ 17.40**	**$ 15.74**	**$ 15.31**
Tangible book value per common share	**$ 15.08**	**$ 14.53**	**$ 15.25**	**$ 13.60**	**$ 13.10**
Market price at end of period	**$ 13.10**	**$ 7.32**	**$ 16.65**	**$ 17.34**	**$ 13.35**
Capital ratios					
Leverage capital	**12.99%**	**11.18%**	**10.61%**	**9.06%**	**6.55%**
Tier 1 common equity to risk-weighted assets	**N/A**	**N/A**	**11.88%**	**10.46%**	**8.76%**
Common equity Tier 1 capital ratio	**14.05%**	**12.14%**	**N/A**	**N/A**	**N/A**
Tier 1 risk-based capital	**18.35%**	**15.99%**	**16.02%**	**14.38%**	**13.18%**
Total risk-based capital	**19.62%**	**17.29%**	**17.57%**	**16.16%**	**15.40%**
Financial assets managed					
Trust assets managed	$ 2,850,494	$ 2,691,423	$ 2,841,111	$ 2,796,923	$ 2,514,401
Broker-dealer assets gathered	2,350,718	2,374,709	2,622,001	2,493,324	2,722,197
Total assets managed	**$ 5,201,212**	**$ 5,066,132**	**$ 5,463,112**	**$ 5,290,247**	**$ 5,236,598**

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

	Year Ended Decemb			
	2016	**2015**	**2014**	**201**
Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends				
Excluding interests on deposits	2.60x	(A)	2.81x	2.2
Including interests on deposits	1.97x	(A)	2.16x	1.7

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Loans and Leases

Originated and Other Loans and Leases Held in Portfolio

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

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

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

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

Included in the review of individual loans are those that are impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Loans are individually evaluated for impairment, except large groups of small balance homogeneous loans that are collectively evaluated for impairment and loans that are recorded at fair value or at the lower of cost or fair value. The Company measures for impairment all commercial loans over $250 thousand (i) that are either over 90 days past due or adversely classified, or (ii) when deemed necessary by management and TDR's. The portfolios of mortgage loans, auto and leasing, and consumer loans are considered homogeneous and are evaluated collectively for impairment.

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

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

Acquired Loans and Leases

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

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

- Loans that were 90 days or more past due,

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

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

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

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

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

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

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

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

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

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

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

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

The Company writes-off the loan's recorded investment and derecognizes the associated allowance for loan and lease losses for loans that exit the acquired pools.

Effective February 6, 2017, the Company and the FDIC agreed to terminate the loss and recovery sharing agreements in connection with a portfolio of loans acquired in an FDIC assisted transaction. As of December 31, 2016, these agreements continued in effect, and therefore, their terms and conditions are considered in the accounting of these loans referred to herein as "covered loans." Because of the loss protection provided by the FDIC under these agreements, the risk of these covered loans are significantly different from other loans. Covered loans are accounted for under ASC 310-30. To the extent credit deterioration occurs after the date of acquisition, the Company increases both the allowance for loan and lease losses and the FDIC shared-loss indemnification asset for the expected reimbursement from the FDIC under the shared-loss agreement. As of December 31, 2016 and 2015, covered loans are no longer a material amount. Therefore, the Company changed its current and prior year disclosures to group together covered loans with other acquired loans.

Allowance for Loan and Lease Losses

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

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

As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the year 2016 the following assumptions were reviewed:

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

- During the third quarter of 2016, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of their impact to our portfolio, taking into consideration the current evolution of the portfolios and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others.

- During the third quarter of 2016 the loss realization period was revised to 2.10 years from 1.60 in 2015 for commercial real estate portfolio, other portfolios remained at one year.

This change in the allowance for loan and lease losses' loss realization period for the commercial portfolio is considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments are made prospectively.

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

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

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

Commercial loans: The commercial portfolio is segmented by business line (corporate, institutional, middle market, corporate retail, floor plan, and real estate) and by collateral type (secured by real estate and other commercial and industrial assets). The loss factor used for the GVA of these loans is established considering the Bank's past 36 month historical loss experience of each segment adjusted for the loss realization period and the consideration of environmental factors. The sum of the adjusted loss experience and the environmental factors is the GVA factor used for the determination of the allowance for loan and lease losses on each segment.

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

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

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

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

When current information and events indicate that it is probable that we will be unable to collect all amounts of principal and interest due under the original terms of a business or commercial real estate loan greater than $250 thousand, such loan will be classified as impaired. Additionally, all loans modified in a troubled debt restructuring ("TDR") are considered impaired. The need for specific valuation allowances are determined for impaired loans and recorded as necessary. For impaired loans, we consider the fair value of the underlying collateral, less estimated costs to sell, if the loan is collateral dependent, or we use the present value of estimated future cash flows in determining the estimates of impairment and any related allowance for loan losses for these loans. Confirmed losses are charged off immediately. Prior to a loan becoming impaired, we typically would obtain an appraisal through our internal loan grading process to use as the basis for the fair value of the underlying collateral.

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

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

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

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

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

Financial Instruments

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

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

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

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

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

OVERVIEW OF FINANCIAL PERFORMANCE

OFG Bancorp generated consistent results in 2016 despite the challenging economic environment.

Fully diluted earnings per share (EPS) grew to $0.27 in the fourth quarter and to $1.03 for the year, a notable turnaround from prior periods. This was accomplished by growing interest income from originated loans and non-interest income, while reducing both interest and non-interest expenses.

In 2016, we introduced the Oriental Biz mobile app, adding mobile check capture for small business customers, and cardless cash, for making retail ATM withdrawals even faster.

Proactive credit servicing capabilities significantly improved asset quality, reducing the early and total delinquency rates, allowance for loan and lease losses, and the non-performing loan rate.

At the end of the year, our tangible book value per common share grew to $15.08.

Other highlights of 2016 are:

- Net income available to shareholders was $45.3 million, or $1.03 per share fully diluted, compared to a loss of $16.4 million, or ($0.37) per share, in 2015.
- 8.4% increase in interest income from originated loans to $199.2 million as average balances expanded to $3.1 billion, an increase of 5.4%, due to growth in higher yielding retail loans.
- 17.4% decrease in total interest expense to $57.2 million and a 32.0% decline in average borrowings.
- Sale of the Bank's last major Puerto Rico government related loan, a participation in a Puerto Rico Electric Power Authority (PREPA) line of credit, eliminating $183.0 million of non-performing assets and requiring an additional provision of only $2.9 million during 2016.
- A $5.0 million recovery from a claim of losses suffered from an investment in a private label collateralized mortgage obligation.
- Capital continued to grow as tangible book value per common share expanded 3.8% to $15.08 and book value per common share grew 3.1% to $17.18.

ANALYSIS OF RESULTS OF OPERATIONS

The following tables show major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the years ended 2016 and 2015:

TABLE 1 - YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Interest		Average rate		Average balance	
	December 2016	December 2015	December 2016	December 2015	December 2016	December 2015
			(Dollars in thousands)			
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 356,592**	**$ 406,568**	**5.74%**	**6.06%**	**$ 6,210,003**	**$ 6,704,995**
Tax equivalent adjustment	4,724	6,891	0.08%	0.10%	-	-
Interest-earning assets - tax equivalent	**361,316**	**413,459**	**5.82%**	**6.16%**	**6,210,003**	**6,704,995**
Interest-bearing liabilities	57,165	69,196	1.00%	1.11%	5,703,927	6,226,042
Tax equivalent net interest income / spread	**304,151**	**344,263**	**4.82%**	**5.05%**	**506,076**	**478,953**
Tax equivalent interest rate margin			**4.90%**	**5.13%**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	32,109	37,596	2.39%	2.49%	1,345,926	1,508,819
Trading securities	37	70	11.04%	8.25%	335	848
Interest bearing cash and money market investments	2,501	1,280	0.52%	0.26%	484,586	491,051
Total investments	**34,647**	**38,946**	**1.89%**	**1.95%**	**1,830,847**	**2,000,718**
Non-acquired loans						
Mortgage	39,621	39,778	5.33%	5.16%	743,838	771,322
Commercial	63,186	60,931	4.56%	4.56%	1,385,421	1,336,510
Consumer	27,214	21,003	10.75%	10.35%	253,069	202,971
Auto and leasing	69,152	62,108	9.65%	9.86%	716,373	629,910
Total non-acquired loans	**199,173**	**183,820**	**6.43%**	**6.25%**	**3,098,701**	**2,940,713**
Acquired loans:						
Acquired BBVAPR						
Mortgage	32,833	34,842	5.60%	5.55%	586,100	628,340
Commercial	26,288	48,730	8.70%	10.65%	302,323	457,767
Consumer	12,136	13,187	18.09%	16.35%	67,082	80,666
Auto	21,016	34,633	11.34%	9.03%	185,280	383,583
Total acquired BBVAPR loans	**92,273**	**131,392**	**8.09%**	**8.47%**	**1,140,785**	**1,550,356**
Acquired Eurobank	**30,499**	**52,410**	**21.84%**	**24.58%**	**139,670**	**213,208**
Total loans	**321,945**	**367,622**	**7.35%**	**7.81%**	**4,379,156**	**4,704,277**
Total interest earning assets	**356,592**	**406,568**	**5.74%**	**6.06%**	**6,210,003**	**6,704,995**

37

	Interest		Average rate		Average balance	
	December 2016	December 2015	December 2016	December 2015	December 2016	December 2015
			(Dollars in thousands)			
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	5,086	4,451	0.42%	0.38%	1,200,394	1,163,424
Savings and money market	5,441	6,504	0.49%	0.52%	1,114,931	1,256,909
Individual retirement accounts	1,914	2,482	0.71%	0.88%	267,969	281,197
Retail certificates of deposits	6,115	5,397	1.28%	1.32%	476,035	409,038
Total core deposits	18,556	18,834	0.61%	0.61%	3,059,329	3,110,568
Institutional deposits	2,553	2,790	1.00%	1.04%	255,227	268,678
Brokered deposits	7,450	4,900	1.20%	0.78%	619,569	624,210
Total wholesale deposits	10,003	7,690	1.14%	0.86%	874,796	892,888
	28,559	26,524	0.73%	0.66%	3,934,125	4,003,456
Non-interest bearing deposits	-	-	0.00%	0.00%	781,877	769,460
Deposits fair value premium amortization	(340)	(660)	0.00%	0.00%	-	-
Core deposit intangible amortization	1,034	1,170	0.00%	0.00%	-	-
Total deposits	**29,253**	**27,034**	0.62%	0.57%	**4,716,002**	**4,772,916**
Borrowings:						
Securities sold under agreements to repurchase	18,805	29,567	2.83%	2.92%	663,845	1,012,756
Advances from FHLB and other borrowings	6,186	9,072	2.60%	2.68%	238,366	338,299
Subordinated capital notes	2,921	3,523	3.41%	3.45%	85,714	102,071
Total borrowings	**27,912**	**42,162**	2.83%	2.90%	**987,925**	**1,453,126**
Total interest bearing liabilities	**57,165**	**69,196**	1.00%	1.11%	**5,703,927**	**6,226,042**
Net interest income / spread	**$ 299,427**	**$ 337,372**	**4.74%**	**4.95%**		
Interest rate margin			**4.82%**	**5.03%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 506,077**	**$ 478,953**
Average interest-earning assets to average interest-bearing liabilities ratio					**108.87%**	**107.69%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
		(In thousands)	
Interest Income:			
Investments	$ (3,307)	$ (992)	$ (4,299)
Loans	(35,735)	(9,942)	(45,677)
Total interest income	**(39,042)**	**(10,934)**	**(49,976)**
Interest Expense:			
Deposits	(322)	2,541	2,219
Repurchase agreements	(10,186)	(576)	(10,762)
Other borrowings	(3,327)	(161)	(3,488)
Total interest expense	**(13,835)**	**1,804**	**(12,031)**
Net Interest Income	**$ (25,207)**	**$ (12,738)**	**$ (37,945)**

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

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

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

C - CHANGES IN NET INTEREST INCOME DUE TO:

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

Net Interest Income

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

Comparison for the years ended December 31, 2016 and 2015

Table 1 above shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the years ended December 31, 2016 and 2015. Net interest income of $299.4 million decreased 11.2% compared with $337.4 million reported during the same period in 2015, reflecting decreases of 12.4% in interest income from loans and 11.0% in interest income from investments.

Interest rate spread decreased 21 basis points from 4.95% to 4.74%. This decrease is mainly due to the net effect of a 32 basis point decrease in the average yield of interest-earning assets from 6.06% to 5.74% and an 11 basis point decrease in average costs of interest-bearing liabilities from 1.11% to 1.00%.

Interest income decreased to $356.6 million from $406.6 million in the same period in 2015. Such decrease reflects decreases of $38.7 million and $11.2 million in the volume and interest rate, respectively, of interest-earning assets. Interest income from loans decreased 12.4% to $321.9 million, reflecting a decrease in volume and interest rate of $35.4 million and $10.2 million, respectively, primarily due to lower acquired loan balances, yields and cost recoveries. Our loan portfolio is transitioning as originated loans with lower yields grow at a slower pace than higher-yielding acquired loans decrease due to repayments and maturities. In addition, cost recoveries on acquired loans decreased to $7.5 million in 2016, from $22.8 million in 2015. Interest income from investments decreased 11.0% to $34.6 million, reflecting a decrease in volume and interest rate of $3.3 million and $992 thousand, respectively.

Originated loans interest income increased 8.4% to $199.2 million as average balances grew 5.4% and yields increased to 6.43%, mainly from higher yielding retail categories. Acquired BBVAPR loans interest income declined 29.8% to $92.3 million as average balances declined 26.1% and yields decreased 41 basis points to 8.06%. Acquired Eurobank loans interest income fell 41.8% to $30.5 million as average balances declined 34.5% and yields decreased 274 basis points to 21.84%.

The average balance of total interest-earning assets was $6.210 billion, a decrease of 7.3% from the same period in 2015. The decrease in average balance of interest-earning assets was mainly attributable to a decrease of 6.8% in average loans. The decrease in average loans is mostly related to the bulk sale on September 28, 2015, of a portion of covered non-performing commercial loans amounting to $197.1 million unpaid principal balance ($100.0 million carrying amount), the strategic decrease of government exposures, and the repayment and maturities of acquired loans. Also, the decrease reflects the sale of the PREPA line of credit, which amounted to $190.3 million at December 31, 2015, and was not accruing interests since the second quarter of 2015.

Interest expense decreased 17.4% to $57.2 million, primarily because of a $13.8 million decrease in the volume of interest-bearing liabilities, partially offset by an increase of $1.8 million in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease in repurchase agreements volume and rate of $10.2 million and $576 thousand, respectively, and the decrease in other borrowings volume and rate of $3.3 million and $161 thousand, respectively, which was partially offset by an increase in deposit interest rate of $2.5 million and a decrease in volume of $322 thousand. During the first quarter of 2016, the Company made a partial unwinding of a repurchase agreement amounting to $268.0 million, which carried a cost of 4.78%. In addition, during the third quarter of 2016, $227.0 million in short term FHLB advances were repaid at maturity. The cost of deposits slightly increased 5 basis point to 0.62%, compared to 0.57% for the same period in 2015. The cost of borrowings decreased 7 basis points to 2.83% from 2.90%.

Comparison of years ended December 31, 2015 and 2014

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

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

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

Interest expense decreased 9.9% to $69.2 million, primarily because of a $3.9 million decrease in the volume of interest-bearing liabilities and a decrease of $3.7 million in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease of $2.6 million in deposits volume and $4.3 million in interest rate, a decrease of $815 thousand in repurchase agreements volume which was partially offset by an increase of $728 thousand in interest rate, and a decrease in other borrowings volume of $453 thousand and $126 thousand in interest rate. The cost of interest bearing deposits before fair value amortization and core deposit intangible amortization decreased 18 basis points to 0.66%, compared to 0.84% for 2014. The decrease in the cost of deposits was partially offset by an increase in the cost of borrowings, which increased 4 basis points to 2.90% from 2.86%.

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

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Year Ended December 31,			
	2016	**2015**	**Variance**	**2014**
	(Dollars in thousands)			
Banking service revenue	$ 41,647	$ 41,466	0.4%	$ 40,712
Wealth management revenue	27,433	29,040	-5.5%	29,855
Mortgage banking activities	5,021	6,128	-18.1%	7,381
Total banking and financial service revenue	**74,101**	**76,634**	**-3.3%**	**77,948**
Total other-than-temporary impairment losses on investment securities	-	(4,662)	100.0%	-
Portion of loss recognized in other comprehensive income, before taxes	-	3,172	-100.0%	-
Net impairment losses recognized in earnings	-	(1,490)	100.0%	-

FDIC shared-loss expense, net	(13,581)	(42,808)	68.3%	(65,756)
Reimbursement from FDIC shared-loss coverage in sale of loans	-	20,000	-100.0%	-
Net gain (loss) on:				
Sale of securities available for sale	12,207	2,572	374.6%	4,366
Derivatives	(71)	(190)	62.6%	(608)
Early extinguishment of debt	(12,000)	-	-100.0%	-
Other non-interest income (loss)	6,163	(2,246)	374.4%	1,373
	(7,282)	(24,162)	69.9%	(60,625)
Total non-interest income, net	**$ 66,819**	**$ 52,472**	**27.3%**	**$ 17,323**

Non-Interest Income

Non-interest income is affected by the level of trust assets under management, transactions generated by clients' financial assets serviced by the securities broker-dealer and insurance agency subsidiaries, the level of mortgage banking activities, and the fees generated from loans and deposit accounts. It is also affected by the FDIC shared-loss expense, which varies depending on the results of the on-going evaluation of expected cash flows of the loan portfolio acquired in the FDIC-assisted acquisition. In addition, it is affected by the amount of securities, derivatives, trading and other transactions.

Comparison of years ended December 31, 2016 and 2015

As shown in Table 2 above, the Company recorded non-interest income, net, in the amount of $66.8 million, compared to $52.5 million for the same period in 2015, an increase of 27.3%, or $14.3 million.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services increased slightly to $41.6 million from $41.5 million when compared to the same period in 2015. Electronic banking fees increased $831 thousand, which was partially offset by a decrease of $487 thousand in other fees and $160 thousand in deposit account fees.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 5.5% to $27.4 million, compared to $29.0 million for the same period in 2015. Such decrease reflects a reduction in some securities brokerage activities of $1.1 million, mainly from lower mutual fund and over-the-counter trading and bond sales, and a reduction in trust fees from the IRA portfolio of $550 thousand from a decrease in portfolio balance.

Income generated from mortgage banking activities decreased 18.1% to $5.0 million, compared to $6.1 million for the same period in 2015. Mortgage banking activities decreased mostly due to decreased sales, as a result of the Company retaining securitized GNMA pools.

During 2015, the Company recognized an other-than-temporary impairment charge on its portfolio of investment securities available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions. The Company determined that $1.5 million of the unrealized loss carried by these securities was attributed to estimated credit losses. These investment securities were sold during 2016.

During the third quarter of 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a sale of loss share assets covered under the non-single family loss share agreement and paid $20.0 million in loss share coverage with respect to the aggregate loss resulting from the bulk sale of covered non-performing commercial loans, as reflected in Table 2. The net FDIC shared-loss expense decreased to $13.6 million as compared to $42.8 million for the year ended December 31, 2015, primarily from the expiration of the FDIC commercial and non-single family loans loss share coverage at June 30, 2015.

During the first quarter of 2016, the Company capitalized on favorable market conditions to partially unwind a high-rate repurchase agreement amounting to $268.0 million at a cost of $12.0 million, included as a loss on early extinguishment of debt in the consolidated statements of operations. In addition, the Company sold $277.2 million in mortgage backed securities and $11.1 million in Puerto Rico government bonds. Resulting in net gain on sale of securities of $12.2 million. During 2015, the Company recorded a net gain on sale of securities of $2.6 million.

Other non-interest income increased $8.4 million, as the Company recovered $5.0 million during the third quarter of 2016 from a loss in 2009 related to a private label collateralized mortgage obligation. In addition, during the year ended December 31, 2015 the Company recognized a $2.7 million loss related to the mortgage servicing asset sold.

Comparison of years ended December 31, 2015 and 2014

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

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

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

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

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

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

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

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

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Year Ended December 31,			
	2016	2015	Variance %	2014
	(Dollars in thousands)			
Compensation and employee benefits	$ 76,934	$ 79,172	-2.8%	$ 85,283
Professional and service fees	14,935	16,217	-7.9%	15,996
Occupancy and equipment	30,966	34,186	-9.4%	34,710
Insurance	9,109	9,567	-4.8%	8,830
Electronic banking charges	20,707	21,893	-5.4%	19,081
Information technology expenses	7,116	5,648	26.0%	6,019
Advertising, business promotion, and strategic initiatives	5,485	6,452	-15.0%	7,014
Foreclosure, repossession and other real estate expenses	15,702	37,522	-58.2%	25,125
Loan servicing and clearing expenses	8,068	9,075	-11.1%	7,567
Taxes, other than payroll and income taxes	9,782	9,460	3.4%	14,409
Communication	2,715	3,086	-12.0%	3,430
Printing, postage, stationery and supplies	2,557	2,575	-0.7%	2,533
Director and investor relations	1,086	1,091	-0.5%	1,106
Other operating expenses	10,828	12,457	-13.1%	11,622
Total non-interest expenses	**$ 215,990**	**$ 248,401**	**-13.0%**	**$ 242,725**
Relevant ratios and data:				
Efficiency ratio	**57.82%**	**60.00%**		**49.90%**
Compensation and benefits to non-interest expense	**35.62%**	**31.87%**		**35.14%**
Compensation to average total assets owned	**1.15%**	**1.08%**		**1.10%**
Average number of employees	**1,446**	**1,496**		**1,567**
Average compensation per employee	**$ 53.2**	**$ 52.9**		**$ 54.4**
Average loans per average employee	**$ 3,031**	**$ 3,145**		**$ 3,170**

Non-Interest Expenses

Comparison of years ended December 31, 2016 and 2015

Non-interest expense for 2016 was $216.0 million, representing a decrease of 13.0% compared to $248.4 million in the previous year.

Foreclosure, repossession and other real estate expenses decreased 58.2% to $15.7 million, as compared to $37.5 million in the same period of the previous year, primarily as a result of the bulk sale of non-performing assets in the third quarter of 2015. The year ended December 31, 2015 included $9.1 million of other real estate owned and other mortgage properties markdowns, as part of 2015 de-risking efforts. Also, 2015 included a loss of $4.8 million on the sale of repossessed assets, contrasting with 2016 which included a gain of $1.6 million, mainly due to efficiencies in the selling process.

Occupancy and equipment expenses decreased 9.4% to $31.0 million reflecting a reduction in depreciation of leasehold improvements, rent expense, security equipment rent and maintenance, and building maintenance, as a consequence of the closing of seven branches during 2015.

Compensation and employee benefits decreased 2.8%, or $2.2 million, to $76.9 million, mostly due to the decrease in average employees. In addition, during year ended December 31, 2015, the Company offered a voluntary early retirement program for qualified employees and accumulated an additional compensation expense related to this program.

Professional and service fees decreased 7.9%, or $1.3 million, to $14.9 million, mostly due to lower legal expenses from strategic initiatives performed in 2015, lower collection services due to in-house collection efforts, and lower billings, consulting and outsourcing fees due to non-recurring expenses in 2015.

The decreases in the foregoing non-interest expenses were partially offset by increases in information technology.

Information technology expenses increased 26.0% to $7.1 million, as compared to $5.6 million in the same period of 2015, mainly due to an increase in data processing expenses.

The efficiency ratio improved to 57.82% from 60.00% for the same period in 2015. The efficiency ratio measures how much of the Company's revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, FDIC shared-loss expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income that are excluded from efficiency ratio computation for the year ended December 31, 2016 and 2015 amounted to $7.3 million and $24.2 million, respectively.

Comparison of years December 31, 2015 and 2014

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

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

Electronic banking charges increased 14.7% to $21.9 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business.

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

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

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

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

Efficiency ratio was 60.00% compared to 49.90% for 2014. The efficiency ratio measures how much of the Company's revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, credit-related other-than-temporary impairment losses, FDIC shared-loss expense, FDIC reimbursement, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest losses that are excluded from the efficiency ratio computation amounted to losses of $24.2 million, compared to $53.7 million in 2014.

Provision for Loan and Lease Losses

Comparison of years ended December 31, 2016 and 2015

Provision for loan and lease losses decreased 59.7%, or $96.4 million, to $65.1 million. Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for the year was adequate to maintain the allowance for loan and lease losses at an appropriate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for originated and other loan and lease losses decreased 54.6%, or $54.3 million, to $45.1 million from $99.3 million when compared with the same period in 2015. The provision was high in the 2015 period because the Company changed to non-accrual status the PREPA line of credit and recorded a $53.3 million provision for loan and lease losses related thereto. This decrease was partially offset by a $2.9 million provision related to the sale of the PREPA credit and another $2.9 million provision for a single commercial loan recorded during 2016.

Total charge-offs on originated and other loans increased 112.3% to $112.5 million, as compared to $53.0 million for the same period in 2015. Commercial charge-offs increased $56.9 million to $62.4 million as a result of a $56.2

million charge-off in connection with the sale of the PREPA credit in 2016. Consumer charge-offs increased $2.9 million to $11.6 million. Mortgage charge-offs increased $1.4 million to $6.8 million. Auto and leasing charge-offs decreased $1.6 million to $31.7 million. Total recoveries on originated and other loans decreased from $14.9 million to $14.1 million. Net charge-off rate increased 188 basis points to 3.18% due to the aforementioned sale of the PREPA credit.

Provision for acquired loan and lease losses decreased 67.8%, or $42.1 million, to $20.0 million from $62.2 million when compared with the same period in 2015. Provision for acquired BBVAPR loan and lease losses decreased $6.4 million to $17.8 million from $24.1 million, which included a provision of $5.2 million related to the sale of certain non-performing commercial loans during the third quarter of 2015. During the third quarter of 2016, the Company recognized a $4.4 million provision in connection with a loan to the Puerto Rico Housing Finance Authority (PRHFA). Provisions for acquired Eurobank loan and lease losses decreased $35.8 million from $38.0 million to $2.3 million. The provision was higher in 2015 because of a provision of $32.9 million related to the sale of certain non-performing commercial loans during the third quarter of 2015.

Comparison of years ended December 31, 2015 and 2014

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

Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for 2015 was adequate in order to maintain the allowance for loan and lease losses at an adequate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for loan and lease losses, excluding acquired loans, increased 216.1%, or $67.9 million, to $99.3 million from $31.4 million when compared with 2014. Such increase was primarily due to the classification of a $200 million participation in the PREPA line of credit on non-accrual status and the recognition of a $53.3 million provision for loan and lease losses on such credit facility during 2015.

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

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

Provision for acquired loan and lease losses increased 113.0%, or $33.0 million, to $62.2 million from $29.2 million when compared with 2014. Provision for acquired BBVAPR loan and lease losses increased 2.5% to $24.1 million, compared to $23.5 million for 2014. An additional provision of $5.2 million was recorded as a result of the sale of certain non-performing commercial loans from the BBVAPR Acquisition, during the third quarter of 2015. Provision for acquired Eurobank loan and lease losses increased $32.4 million from $5.7 million to $38.0 million. Such increase reflects an additional provision of $32.9 million recorded as a result of the sale of a portfolio of non-performing commercial loans acquired in the Eurobank transaction with an unpaid principal balance of $197.1 million ($100.0 million carrying amount) during the third quarter of 2015.

The provision for loan and lease losses for loans accounted for under ASC 310-30 reflects the Company's revision of the expected cash flows in the covered loan portfolio considering actual experiences and changes in the Company's expectations for the remaining terms of the loan pools.

Income Taxes

Comparison of years ended December 31, 2016 and 2015

Income tax expense was $26.0 million, compared to an income tax benefit of $17.6 million for the same period in 2015. The effective tax rate for 2016 was 30.5% compared to 87.52% for 2015 due to final year-end tax accounting.

Comparison of years ended December 31, 2015 and 2014

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

Business Segments

The Company segregates its businesses into the following major reportable segments: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Company's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated. The Company's methodology for allocating non-interest expenses among segments is based on several factors such as revenue, employee headcount, occupied space, dedicated services or time, among others. Following are the results of operations and the selected financial information by operating segment for 2016, 2015 and 2014.

	Year Ended December 31, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 321,868	$ 65	$ 34,659	$ 356,592	$ -	$ **356,592**
Interest expense	(27,838)	-	(29,327)	(57,165)	-	**(57,165)**
Net interest income	294,030	65	5,332	299,427	**-**	**299,427**
Provision for loan and lease losses	(65,076)	-	-	(65,076)	-	**(65,076)**
Non-interest income	35,587	26,788	4,444	66,819	-	**66,819**
Non-interest expenses	(193,156)	(17,443)	(5,391)	(215,990)	-	**(215,990)**
Intersegment revenue	1,521	-	883	2,404	(2,404)	-
Intersegment expenses	(883)	(1,108)	(413)	(2,404)	2,404	-
Income (loss) before income taxes	**$ 72,023**	**$ 8,302**	**4,855**	**$ 85,180**	**$ -**	**$ 85,180**
Total assets	**$ 5,584,866**	**$ 23,315**	**$ 1,837,514**	**$ 7,445,695**	**$ (943,871)**	**$ 6,501,824**

	Year Ended December 31, 2015					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 367,620	$ 95	$ 38,853	$ 406,568	$ -	$ **406,568**
Interest expense	(28,425)	-	(40,771)	(69,196)	-	**(69,196)**
Net interest income	339,195	95	(1,918)	337,372	-	**337,372**
Provision for loan and lease losses	(161,501)	-	-	(161,501)	-	**(161,501)**
Non-interest income	23,900	28,288	284	52,472	-	**52,472**
Non-interest expenses	(219,415)	(22,564)	(6,422)	(248,401)	-	**(248,401)**
Intersegment revenue	1,427	-	948	2,375	(2,375)	-
Intersegment expenses	(948)	(1,027)	(400)	(2,375)	2,375	-

(Loss) income before income taxes	**$**	**(17,342)**	**$**	**4,792**		**(7,508)**	**$**	**(20,058)**	**$**	**-**	**$**	**(20,058)**
Total assets	**$**	**5,867,874**	**$**	**22,349**	**$**	**2,126,921**	**$**	**8,017,144**	**$**	**(917,995)**	**$**	**7,099,149**

49

	Year Ended December 31, 2014					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
			(In thousands)			
Interest income	$ 435,580	$ 174	$ 49,503	$ 485,257	$ -	$ **485,257**
Interest expense	(34,721)	-	(42,061)	(76,782)	-	**(76,782)**
Net interest income	400,859	174	7,442	408,475	-	**408,475**
Provision for loan and lease losses	(60,640)	-	-	(60,640)	-	**(60,640)**
Non-interest income (loss)	(13,389)	28,525	2,187	17,323	-	**17,323**
Non-interest expenses	(213,935)	(21,748)	(7,042)	(242,725)	-	**(242,725)**
Intersegment revenue	1,410	-	327	1,737	(1,737)	-
Intersegment expenses	(327)	(1,089)	(321)	(1,737)	1,737	-
Income before income taxes	**$ 113,978**	**$ 5,862**	**$ 2,593**	**$ 122,433**	**$ -**	**$ 122,433**
Total assets	**$ 6,454,015**	**$ 21,644**	**$ 1,940,504**	**$ 8,416,163**	**(967,054)**	**$ 7,449,109**

Comparison of years ended December 31, 2016 and 2015

Banking

Net interest income of the Company's Banking segment decreased $45.2 million for 2016, or 13.3%, as a result of a decrease in interest income from loans of $45.7 million, or 12.4%, to $321.9 million. Such decrease reflects decreases in volume and interest rate of $35.4 million and $10.2 million, respectively, primarily due to lower acquired loan balances from repayments and maturities, and a decrease in cost recoveries on acquired loans to $7.5 million in 2016 from $22.8 million in 2015.

Originated loans interest income increased 8.4% to $199.2 million as average balances grew 5.4% and yields increased to 6.43%, mainly from higher yielding retail categories. Acquired BBVAPR loans interest income declined 29.8% to $92.3 million as average balances declined 26.1% and yields decreased 41 basis points to 8.06%. Acquired Eurobank loans interest income fell 41.8% to $30.5 million as average balances declined 34.5% and yields decreased 274 basis points to 21.84%.

Provision for loan and lease losses decreased 59.7%, or $96.4 million, to $65.1 million. Provision for originated and other loan and lease losses decreased 54.6%, or $54.3 million, to $45.1 million from $99.3 million when compared with the same period in 2015. The provision was higher in the 2015 period because the Company changed to non-accrual status the PREPA line of credit and recorded a $53.3 million provision for loan and lease losses related thereto. This decrease was partially offset by a $2.9 million provision related to the sale of the PREPA credit and another $2.9 million provision for a single commercial loan recorded during 2016.

Provision for acquired loan and lease losses decreased 67.8%, or $42.1 million, to $20.0 million from $62.2 million when compared with the same period in 2015. Provision for acquired BBVAPR loan and lease losses decreased $6.4 million to $17.8 million from $24.1 million, which included a provision of $5.2 million related to the sale of certain non-performing commercial loans during the third quarter of 2015. During the third quarter of 2016 the Company recognized a $4.4 million provision in connection with a loan to the PRHFA. Provisions for acquired Eurobank loan and lease losses decreased $35.8 million from $38.0 million to $2.3 million. The provision was higher in 2015 because of a provision of $32.9 million related to the sale of certain non-performing commercial loans during the third quarter of 2015.

Non-interest income, net, is affected by the level of mortgage banking activities and fees generated from loans and deposit accounts. It is also affected by the FDIC shared-loss expense, which varies depending on the results of the on-going evaluation of expected cash flows of the loan portfolio acquired in the FDIC-assisted acquisition.

During 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a sale of loss share assets covered under the non-single family loss share agreement and paid $20.0 million in loss share coverage with respect to the aggregate loss resulting from the bulk sale of covered non-performing commercial loans, as reflected in Table 2. The net FDIC shared-loss expense decreased to $13.6 million as compared to $42.8 million for the year ended December 31, 2015, primarily from the expiration of the FDIC commercial and non-single family loans loss share coverage at June 30, 2015.

Non-interest expense of $193.2 million decreased 12.0%, or $26.3 million, when compared to the same period in 2015, primarily reflecting a decrease in foreclosure, repossession and other real estate expenses of $21.8 million to $15.7 million, as compared to $37.5 million in the same period for the previous year, primarily as a result of the bulk sale of non-performing assets in the third quarter of 2015. The year ended December 31, 2015 included a $9.1 million increase in other real estate owned and other mortgage properties markdowns, as part of 2015 de-risking efforts. Also, the year ended December 31, 2015 included a loss of $4.8 million on the sale of repossessed assets, contrasting with 2016 which included a gain of $1.6 million, mainly due to efficiencies in the selling process.

Wealth Management

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 5.3% to $26.8 million, compared to $28.3 million for the same period in 2015. Such decrease reflects a reduction in some securities brokerage activities and a reduction in fees from the IRA portfolio.

Non-interest expenses decreased by 22.7% to $17.4 million, mainly due to a payment of $2.1 million required by the broker-dealer's regulator during 2015 and a reduction in compensation expense from lower commissions as a result of lower brokerage activity.

Treasury

Treasury income before taxes, which consists of the Company's asset/liability management activities, such as purchase and sale of investment securities, interest rate risk management, derivatives, and borrowings, increased to $4.9 million, compared to a loss of $7.5 million in the same period in 2015.

Net interest income increased $7.3 million to $5.3 million, mainly from a reduction in interest expenses. Interest income from investments decreased 11.0% to $34.6 million, reflecting a decrease in volume and interest rate of $3.3 million and $992 thousand, respectively. Decreases in both, interest income and expenses were affected by a partial unwinding of a high-rate repurchase agreement amounting to $268.0 million, which carried a cost of 4.78%, and the sale of $272.1 million of mortgage backed securities and $11.1 million of Puerto Rico government bonds during the first quarter of 2016. Also, during the third quarter of 2016, $227.0 million of short term FHLB advances were repaid at maturity.

Non--interest income increased from $284 thousand to $4.4 million, as the Company recovered $5.0 million in 2016 from a loss related to a private label collateralized mortgage obligation.

Comparison of years ended December 31, 2015 and 2014

Banking

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

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

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

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

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

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

Wealth Management

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

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

Treasury

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

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At December 31, 2016, the Company’s total assets amounted to $6.502 billion representing a decrease of 8.4% when compared to $7.099 billion at December 31, 2015. This reduction is mainly due to a decrease in the loan portfolio and in the investment portfolio of $286.5 million and $ $253.4 million, respectively.

The Company’s loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate located in Puerto Rico, other commercial and industrial loans, consumer loans, and auto loans. At December 31, 2016, the Company’s loan portfolio decreased $286.5 million from $4.434 billion at December 31, 2015 to $4.148 billion, primarily due to the sale of the PREPA line of credit during 2016, which had an unpaid principal balance of $190.3 million and an allowance for loan and lease losses of $53.3 million at December 31, 2015. In addition, this decrease was also due to a decrease in acquired loan balances. Our loan portfolio is transitioning as originated loans grow at a slower pace than acquired loans decrease, due to repayments and maturities. At December 31, 2016, the originated loan portfolio decreased $10.4 million, mainly from the aforementioned sale of PREPA, partially offset by an increase of $98.5 million in our retail loan portfolios. The acquired BBVAPR loan portfolio decreased $262.8 million, or 20.7%, and the acquired Eurobank loan portfolio decreased $12.2 million, or 8.3%, from December 31, 2015.

The investment portfolio decreased $253.4 million from $1.616 billion at December 31, 2015 to $1.363 billion at December 31, 2016, reflecting decreases in investment securities available-for-sale portfolio by $223.1 million and in investment securities held-to-maturity portfolio by $20.3 million. Investment securities available-for-sale portfolio decreased primarily because of the sale of $277.2 million in mortgage backed securities and $11.1 million in Puerto Rico government bonds during the first half of 2016. Investment securities held-to-maturity portfolio decreased $20.3 million to $599.9 million reflecting the maturity of $25.0 million US Treasury securities during the fourth quarter of 2016.

At December 31, 2016, loans represented 75% of total interest-earning assets while investments represented 25%, compared to 73% and 27%, respectively, at December 31, 2015.

Financial Assets Managed

The Company’s financial assets include those managed by the Company’s trust division, retirement plan administration subsidiary, and assets gathered by its broker-dealer subsidiary. The Company’s trust division offers various types of individual retirement accounts ("IRA"s) and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while the retirement plan administration subsidiary, OPC, manages private retirement plans. At December 31, 2016, total assets managed by the Company's trust division and OPC amounted to $2.850 billion, compared to $2.691 billion at December 31, 2015. Oriental Financial Services offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At December 31, 2016, total assets gathered by Oriental Financial Services from its customer investment accounts increased to $2.351 billion, compared to $2.375 billion at December 31, 2015. Changes in trust and broker-dealer related assets primarily reflect changes in portfolio balances and differences in market values.

Goodwill

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

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

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

As of December 31, 2016, the Company had $86.1 million of goodwill allocated as follows: $84.1 million to the Banking unit and $2.0 million to the Wealth Management unit. During the last quarter of 2016, based on its annual goodwill impairment test, the Company determined that the Banking unit failed step one of the two-step impairment test and that the Wealth Management unit passed such step. As a result of step one, the Banking unit’s adjusted net book value exceeded its fair value by approximately $140.7 million, or 15%. Accordingly, the Company proceeded to perform step two of the analysis. Based on the results of step two, the Company determined that the carrying value of the goodwill allocated to the Banking unit was not impaired as of the valuation date. For additional details related to such goodwill impairment test, please refer to "Goodwill and Intangible Assets" under Note 1 of the accompanying consolidated financial statements.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION

	December 31,		Variance
	2016	2015	%
	(Dollars in thousands)		
Investments:			
FNMA and FHLMC certificates	$ 1,025,370	$ 1,354,802	-24.3%
Obligations of US government-sponsored agencies	3,884	5,093	-23.7%
US Treasury securities	49,054	25,032	96.0%
CMOs issued by US government-sponsored agencies	101,831	135,073	-24.6%
GNMA certificates	165,235	58,495	182.5%
Puerto Rico government and public instrumentalities	4,073	13,731	-70.3%
FHLB stock	10,793	20,783	-48.1%
Other debt securities	1,921	2,572	-25.3%
Other investments	350	291	20.3%
Total investments	**1,362,511**	**1,615,872**	**-15.7%**
Loans	**4,147,692**	**4,434,213**	**-6.5%**
Total investments and loans	**5,510,203**	**6,050,085**	**-8.9%**
Other assets:			
Cash and due from banks (including restricted cash)	507,863	535,359	-5.1%
Money market investments	5,606	4,699	19.3%
FDIC indemnification asset	14,411	22,599	-36.2%
Foreclosed real estate	47,520	58,176	-18.3%
Accrued interest receivable	20,227	20,637	-2.0%
Deferred tax asset, net	124,200	145,901	-14.9%
Premises and equipment, net	70,407	74,590	-5.6%
Servicing assets	9,858	7,455	32.2%
Derivative assets	1,330	3,025	-56.0%
Goodwill	86,069	86,069	0.0%
Other assets and customers' liability on acceptances	104,130	90,554	15.0%
Total other assets	**991,621**	**1,049,064**	**-5.5%**
Total assets	**$ 6,501,824**	**$ 7,099,149**	**-8.4%**
Investments portfolio composition:			
FNMA and FHLMC certificates	75.2%	83.9%	
Obligations of US government-sponsored agencies	0.3%	0.3%	
US Treasury securities	3.6%	1.5%	
CMOs issued by US government-sponsored agencies	7.5%	8.4%	
GNMA certificates	12.1%	3.6%	
Puerto Rico government and public instrumentalities	0.3%	0.8%	
FHLB stock	0.8%	1.3%	
Other debt securities and other investments	0.2%	0.2%	
	100.0%	**100.0%**	

TABLE 5 — LOANS RECEIVABLE COMPOSITION

	December 31,	
	2016	201
	(In thousands)	
Originated and other loans and leases held for investment:		
Mortgage	$ 721,494	$ 757
Commercial	1,277,866	1,441
Consumer	290,515	242
Auto and leasing	756,395	669
	3,046,270	**3,111**
Allowance for loan and lease losses on originated and other loans and leases	(59,300)	(112
	2,986,970	**2,998**
Deferred loan costs, net	5,766	4
Total originated and other loans loans held for investment, net	**2,992,736**	**3,003**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	5,562	7
Consumer	32,862	38
Auto	53,026	106
	91,450	**152**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20 (b)	(4,300)	(5
	87,150	**147**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	569,253	608
Commercial	222,856	287
Construction	69,708	88
Consumer	4,301	11
Auto	85,676	153
	951,794	**1,149**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(31,056)	(25
	920,738	**1,123**
Total acquired BBVAPR loans, net	**1,007,888**	**1,270**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	73,018	92
Commercial and construction	81,460	142
Consumer	1,372	2
	155,850	**236**
Allowance for loan and lease losses on Eurobank loans	(21,281)	(90
Total acquired Eurobank loans, net	**134,569**	**146**
Total acquired loans, net	**1,142,457**	**1,417**
Total held for investment, net	**4,135,193**	**4,420**
Mortgage loans held for sale	**12,499**	**13**
Total loans, net	**$ 4,147,692**	**$ 4,434**

The Company's loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred to as "originated and other" loans) and loans acquired (referred to as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans. Acquired Eurobank loans were purchased subject to loss-sharing agreements with the FDIC, which was terminated in February 2017. The FDIC loss-sharing coverage, related to acquired Eurobank commercial loans expired on June 30, 2015. The coverage for the single-family residential loans was set to expire on June 30, 2020. At December 31, 2016, the remaining covered loans amounting to $61.1 million, net carrying amount, are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties." At December 31, 2015, covered loans amounted to $67.2 million, net carrying amount, and also included under the name "loans secured by 1-4 family residential properties." At December 31, 2016 and 2015, covered loans were no longer a material amount.

As shown in Table 5 above, total loans, net, amounted to $4.148 billion at December 31, 2016 and $4.434 billion at December 31, 2015. The Company's originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to $721.5 million (23.7% of the gross originated loan portfolio) compared to $757.8 million (24.4% of the gross originated loan portfolio) at December 31, 2015. Mortgage loan production totaled $208.2 million for the year ended December 31, 2016, which represents a decrease of 15.8%, from $247.2 million. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $9.7 million and $7.9 million at December 31, 2016 and 2015, respectively. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

- Commercial loan portfolio amounted to $1.278 billion (42.0% of the gross originated loan portfolio) compared to $1.442 billion (46.3% of the gross originated loan portfolio) at December 31, 2015. Commercial loan production decreased 19.2% to $295.0 million for the year ended December 31, 2016, from $365.2 million in 2015.

- Consumer loan portfolio amounted to $290.5 million (9.5% of the gross originated loan portfolio) compared to $243.0 million (7.8% of the gross originated loan portfolio) at December 31, 2015. Consumer loan production increased 13.6% to $159.8 million for the year ended December 31, 2016, from $140.7 million in 2015.

- Auto and leasing portfolio amounted to $756.4 million (24.8% of the gross originated loan portfolio) compared to $669.2 million (21.5% of the gross originated loan portfolio) at December 31, 2015. Auto and leasing production increased by 9.2% to $284.8 million for the year ended December 31, 2016, compared to $260.8 million 2015.

The following table summarizes the remaining contractual maturities of the Company's total gross non-covered loans, excluding loans accounted for under ASC 310-30, segmented to reflect cash flows as of December 31, 2016. Contractual maturities do not necessarily reflect the period of resolution of a loan, considering prepayments.

			Maturities From One to Five Years		After Five Years	
	Balance Outstanding at December 31, 2016	**One Year or Less**	**Fixed Interest Rates**	**Variable Interest Rates**	**Fixed Interest Rates**	**Variable Interest Rates**
			(Dollars in thousands)			
Originated and other loans:						
Mortgage	$ 721,492	$ 1,594	$ 15,023	$ -	$ 704,875	$ -
Commercial	1,277,867	739,738	395,985	-	142,144	-
Consumer	290,516	34,044	200,813	-	55,659	-
Auto and leasing	756,395	4,249	392,315	-	359,831	-
Total	**$ 3,046,270**	**779,625**	**1,004,136**	**-**	**1,262,509**	**-**
Acquired loans accounted under ASC 310-20						
Commercial	3,029	3,029	-	-	-	-
Commercial secured by real estate	2,533	2,353	180	-	-	-
Consumer	32,862	32,862	-	-	-	-
Auto	53,026	8,645	44,381	-	-	-
Total	**$ 91,450**	**$ 46,889**	**$ 44,561**	**$ -**	**-**	**$ -**
	58					

TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	December 31, 2016								
	Higher-Risk Residential Mortgage Loans*								
	Junior Lien Mortgages			Interest Only Loans			High Loan-to-Value Ratio Mortgages LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 10,610	$ 259	2.44%	$ 10,473	$ 920	8.78%	$ 80,449	$ 1,503	1.87%
90 - 119 days	94	1	1.06%	366	39	10.66%	2,141	38	1.77%
120 - 179 days	39	3	7.69%	-	-	0.00%	1,088	61	5.61%
180 - 364 days	75	1	1.33%	1,263	366	28.98%	2,472	316	12.78%
365+ days	349	59	16.91%	2,030	447	22.02%	9,343	681	7.29%
Total	$ 11,167	$ 323	2.89%	$ 14,132	$ 1,772	12.54%	$ 95,493	$ 2,599	2.72%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.36%			0.45%			3.04%		
Refinanced or Modified Loans:									
Amount	$ 2,140	$ 188	8.79%	$ 556	$ 47	8.45%	$ 18,080	$ 1,094	6.05%
Percentage of Higher-Risk Loan Category	19.16%			3.93%			18.93%		
Loan-to-Value Ratio:									
Under 70%	$ 6,930	$ 186	2.68%	$ 793	$ 70	8.83%	$ -	$ -	-
70% - 79%	2,144	98	4.57%	2,822	255	9.04%	-	-	-
80% - 89%	205	20	9.76%	3,887	537	13.82%	-	-	-
90% and over	1,888	19	1.01%	6,630	910	13.73%	95,493	2,599	2.72%
	$ 11,167	$ 323	2.89%	$ 14,132	$ 1,772	12.54%	$ 95,493	$ 2,599	2.72%

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

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

TABLE 7 - PUERTO RICO GOVERNMENT RELATED LOANS AND SECURITIES

	December 31, 2016				
		Maturity			
Loans and Securities:	**Carrying Value**	**Less than 1 Year**	**1 to 3 Years**	**More than 3 Years**	**Comments**
		(In thousands)			
Central government	$ 10,850	$ -	$ -	$ 10,850	Repayment sources include abandoned and unclaimed funds escheated to the Commonwealth
Public corporations	100	100	-	-	
Municipalities	191,831	307	69,289	122,235	Repayment from property taxes
Investment securities	4,680	-	4,680	-	Remaining position is PRHTA security issued for P3 Project Teodoro Moscoso Bridge operated by private companies that have the payment obligation
Total	**$ 207,461**	**$ 407**	**$ 73,969**	**$ 133,085**	

Some highlights follow regarding the data included above:

- Loans to municipalities are secured by a pledge of their unlimited taxing power for special additional real and personal property taxes.

- Deposits from municipalities, central government and other government entities totaled $170.7 million at December 31, 2016.

- The outstanding balance of credit facilities to central government and public corporations decreased by $200.9 million during 2016 mainly as a result of the sale of the PREPA fuel line of credit which had an outstanding balance of $190.3 million at December 31, 2015.

Credit Risk Management

Allowance for Loan and Lease Losses

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company’s allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. At December 31, 2016, the Company’s allowance for loan and lease losses amounted to $115.9 million, a $118.2 million decrease from $234.1 million at December 31, 2015, mainly related to the de-recognition of $84.4 million for a portion of the allowance for credit impaired loans due to a revision in policy during the second quarter of 2016 and a $56.2 million charge-off during the third quarter of 2016. The allowance for loan and lease losses was charged-off in connection with PREPA participation that was provisioned in 2016 ($2.9 million) and in 2015 ($53.3 million).

Effective June 30, 2016, pursuant to supervisory direction, the Company revised the purchase credit impaired policy for all loans accounted for under ASC 310-30. Under the revised policy, the Company writes-off the loan’s recorded investment and derecognizes the associated allowance for loan and lease losses for loans that exit the pools. The revised policy implementation was performed prospectively due to the immaterial impact for retrospective adoption. Prior to June 30, 2016, the pool’s carrying value and allowance was determined by discounting expected cash flows at the pool’s effective yield. The allowance for loan and lease losses was maintained until all of the loans in the pool were paid off or charged-off. The transition to this revised policy on June 30, 2016 resulted in the de-recognition of loans recorded investment balance and associated allowance for loans and lease losses that had exited the pools with no impact to the provision for loan and lease losses.

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

At December 31, 2016, $59.3 million of the allowance corresponded to originated and other loans held for investment, or 1.95% of total originated and other loans held for investment, compared to $112.6 million, or 3.62% of total originated and other loans held for investment at December 31, 2015. The allowance decreased mainly as a result of the recognition of a $56.2 million charge-off in connection with the sale of the PREPA participation during the third quarter of 2016. Provision for loan and lease losses of $45.1 million and recoveries of $14.1 million, were offset by charge-offs of $112.5 million during the year ended December 31, 2016. The allowance for residential mortgage loans decreased by 5.5% (or $1.0 million), when compared with the balances recorded at December 31, 2015. The allowance for consumer loans and auto and leases increased by 16.7% (or $1.9 million) and 6.6% (or $1.2 million), respectively, when compared with the balances recorded at December 31, 2015. The allowance for commercial loans decreased 86.1% (or $55.8 million), when compared with the balances recorded at December 31, 2015, mainly from the sale of the PREPA participation.

Allowance for loan and lease losses recorded for acquired BBVAPR loans accounted for under the provisions of ASC 310-20 at December 31, 2016 was $4.3 million compared to $5.5 million at December 31, 2015, a 22.4% decrease. The allowance decreased as a result of $5.8 million in charge-offs, which were partially offset by a $2.3 million provision for loan and lease losses and $2.3 million of recoveries during the year ended December 31, 2016. The allowance for commercial loans increased by 546.2% (or $142 thousand), when compared with the balance recorded at December 31, 2015. The allowance for consumer loans decreased by 11.7% (or $401 thousand) and auto loans decreased by 47.2% (or $984 thousand), respectively, when compared with the balances recorded at December 31, 2015, due to the normal amortization of credit discount of these acquired loans.

Allowance for loan and lease losses recorded for acquired BBVAPR loans accounted for under ASC-310-30 at December 31, 2016 was $31.1 million as compared to $25.8 million at December 31, 2015. The allowance increased mainly as a result of a $15.5 million provision for loan and lease losses, partially offset by $10.0 million in allowance de-recognition from revised purchased credit impaired loan policy and by loan pools fully charged-off of $282 thousand during the year ended December 31, 2016.

Allowance for loan and lease losses recorded for acquired Eurobank loans at December 31, 2016 was $21.3 million as compared to $90.2 million at December 31, 2015. The allowance decreased as a result of $74.4 million in allowance de-recognition from revised purchased credit impaired loan policy and by $134 thousand in loan pools fully charged-off, partially offset by a $2.3 million provision for loan and lease losses and by $3.4 million for the FDIC shared-loss portion of provision for covered loan and lease losses. The allowance for loan and lease losses on acquired Eurobank loans is accounted for under the provisions of ASC 310-30. The portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increased the FDIC indemnification asset.

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

Non-performing Assets

The Company’s non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At December 31, 2016 and 2015, the Company had $104.1 million and $300.1 million, respectively, of non-accrual loans, including acquired BBVAPR loans accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium). The decline of $195.8 million is directly related to the sale of the PREPA participation, which had an outstanding balance of $190.3 million at December 31, 2015.

At December 31, 2016 and 2015, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $98.1 million and $93.6 million, respectively.

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

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

At December 31, 2016, the Company’s non-performing assets decreased by 57.3% to $156.9 million (2.88% of total assets, excluding acquired loans with deteriorated credit quality) from $367.8 million (6.31% of total assets, excluding acquired loans with deteriorated credit quality) at December 31, 2015. The Company does not expect non-performing loans to result in significantly higher losses. At December 31, 2016, the allowance for originated loan and lease losses to non-performing loans coverage ratio was 56.30% (37.15% at December 31, 2015).

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

The following items comprise non-performing assets:

- Originated and other loans held for investment:

Residential mortgage loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 18 months or more past due. At December 31, 2016, the Company's originated non-performing mortgage loans totaled $74.5 million (68.9% of the Company's non-performing loans), a 4.3% decrease from $77.9 million (25.5% of the Company's non-performing loans) at December 31, 2015.

Commercial loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At December 31, 2016, the Company's originated non-performing commercial loans amounted to $19.8 million (18.3% of the Company's non-performing loans), a 90.8% decrease from $215.3 million at December 31, 2015 (70.5% of the Company's non-performing loans), mainly from the sale of the PREPA participation. Most of this portfolio is collateralized by commercial real estate properties.

Consumer loans — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days in personal loans and 180 days in credit cards and personal lines of credit. At December 31, 2016, the Company's originated non-performing consumer loans totaled $2.0 million (1.8% of the Company's non-performing loans), a 21.8% increase from $1.6 million (0.5% of the Company's non-performing loans) at December 31, 2015.

Auto loans and leases — are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At December 31, 2016, the Company's originated non-performing auto loans and leases amounted to $9.1 million (8.4% of the Company's total non-performing loans), an increase of 7.5% from $8.4 million at December 31, 2015 (2.8% of the Company's total non-performing loans).

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

Commercial revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any.

At December 31, 2016, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $1.4 million (1.3% of the Company's non-performing loans), a 60.8% increase from $880 thousand at December 31, 2015 (0.3% of the Company's non-performing loans).

Consumer revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 180 days. At December 31, 2016, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $828 thousand (0.8% of the Company's non-performing loans), a 54.8% increase from $535 thousand at December 31, 2015 (0.2% of the Company's non-performing loans).

Auto loans acquired at premium - are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At December 31, 2016, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled $552 thousand (0.5% of the Company's non-performing loans), a 33.6% decrease from $831 thousand at December 31, 2015 (0.2% of the Company's non-performing loans).

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

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

The Non-traditional Mortgage Loan Program is for non-traditional mortgages, including balloon payment, interest only/interests first, variable interest rate, adjustable interest rate and other qualified loans. Non-traditional mortgage loan portfolios are segregated into the following categories: performing loans that meet secondary market requirement and are refinanced under the credit underwriting guidelines of FHA/VA/FNMA/ FHLMC, and performing loans not meeting secondary market guidelines processed by the Company's current credit and underwriting guidelines. The Company achieved an affordable and sustainable monthly payment by taking specific, sequential, and necessary steps such as reducing the interest rate, extending the loan term, capitalizing arrearages, deferring the payment of principal or, if the borrower qualifies, refinancing the loan.

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

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES BREAKDOWN

	December 31,		Variance
	2016	2015	%
	(Dollars in thousands)		
<u>Originated and other loans held for investment</u>			
Allowance balance:			
Mortgage	$ 17,344	$ 18,352	-5.5%
Commercial	8,995	64,791	-86.1%
Consumer	13,067	11,197	16.7%
Auto and leasing	19,463	18,261	6.6%
Unallocated allowance	431	25	1624.0%
Total allowance balance	**$ 59,300**	**$ 112,626**	**-47.3%**
Allowance composition:			