

OFG BANCORP
Form 10-Q
August 09, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from _____ to _____

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

45,640,105 common shares (\$1.00 par value per share) outstanding as of July 31, 2013

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FORWARD-LOOKING STATEMENTS

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

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

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

- possible legislative, tax or regulatory changes; and
- difficulties in integrating the acquired Puerto Rico operations of Banco Bilbao Vizcaya Argentaria, S. A. (“BBVAPR”) into the Company’s operations.

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

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

Item 1. Financial Statements**OFG BANCORP****UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****AS OF JUNE 30, 2013 AND DECEMBER 31, 2012**

	June 30, 2013	December 31, 2012
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 737,330	\$ 855,490
Money market investments	10,983	13,205
Total cash and cash equivalents	748,313	868,695
Securities purchased under agreements to resell	-	80,000
Investments:		
Trading securities, at fair value, with amortized cost of \$2,286 (December 31, 2012 - \$508)	2,209	495
Investment securities available-for-sale, at fair value, with amortized cost of \$1,807,335 (December 31, 2012 - \$2,118,825)	1,836,229	2,194,286
Federal Home Loan Bank (FHLB) stock, at cost	22,156	38,411
Other investments	66	73
Total investments	1,860,660	2,233,265
Securities sold but not yet delivered	16,732	-
Loans:		
Mortgage loans held-for-sale, at lower of cost or fair value	78,350	64,145
Loans not covered under shared-loss agreements with the FDIC, net of allowance for loan and lease losses of \$46,625 (December 31, 2012 - \$39,921)	4,543,299	4,709,778
Loans covered under shared-loss agreements with the FDIC, net of allowance for loan and lease losses of \$53,992 (December 31, 2012 - \$54,124)	369,380	395,307
Total loans, net	4,991,029	5,169,230
Other assets:		
FDIC shared-loss indemnification asset	236,472	286,799
Foreclosed real estate covered under shared-loss agreements with the FDIC	25,193	22,283
Foreclosed real estate not covered under shared-loss agreements with the FDIC	56,496	51,233
Accrued interest receivable	17,508	17,554
Deferred tax asset, net	155,165	122,501
Premises and equipment, net	84,301	84,997
Customers' liability on acceptances	30,571	26,996
Servicing assets	12,994	10,795
Derivative assets	19,655	21,889
Goodwill	76,383	76,383

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Other assets		104,462		123,642
Total assets	\$	8,435,934	\$	9,196,262
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Demand deposits	\$	2,294,635	\$	2,447,152
Savings accounts		1,006,558		634,819
Certificates of deposit		2,363,845		2,607,588
Total deposits		5,665,038		5,689,559
Borrowings:				
Short term borrowings		-		92,210
Securities sold under agreements to repurchase		1,313,870		1,695,247
Advances from FHLB and other borrowings		322,300		554,177
Subordinated capital notes		98,961		146,038
Total borrowings		1,735,131		2,487,672
Other liabilities:				
Derivative liabilities		16,701		26,260
Acceptances executed and outstanding		30,571		26,996
Accrued expenses and other liabilities		117,569		102,169
Total liabilities		7,565,010		8,332,656
Commitments and contingencies (See Notes 14 and 15)				
Stockholders' equity:				
Preferred stock; 10,000,000 shares authorized; 1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D issued and outstanding, (December 31, 2012 - 1,340,000; 1,380,000; and 960,000) \$25 liquidation value		92,000		92,000
84,000 shares of Series C issued and outstanding (December 31, 2012 - 84,000); \$1,000 liquidation value		84,000		84,000
Common stock, \$1 par value; 100,000,000 shares authorized; 52,688,584 shares issued; 45,640,105 shares outstanding (December 31, 2012 - 52,670,878; 45,580,281)		52,689		52,671
Additional paid-in capital		538,105		537,453
Legal surplus		57,906		52,143
Retained earnings		111,292		70,734
Treasury stock, at cost, 7,048,479 shares (December 31, 2012 - 7,090,597 shares)		(80,834)		(81,275)
Accumulated other comprehensive income, net of tax of -\$174 (December 31, 2012 - \$1,802)		15,766		55,880
Total stockholders' equity		870,924		863,606
Total liabilities and stockholders' equity	\$	8,435,934	\$	9,196,262
See notes to unaudited consolidated financial statements.				

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2013 AND 2012

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Interest income:				
Loans not covered under shared-loss agreements with the FDIC	\$ 90,611	\$ 17,223	\$ 170,874	\$ 35,345
Loans covered under shared-loss agreements with the FDIC	23,999	20,342	44,228	41,884
Total interest income from loans	114,610	37,565	215,102	77,229
Mortgage-backed securities	9,080	21,573	19,898	49,636
Investment securities and other	2,118	1,650	4,436	3,843
Total interest income	125,808	60,788	239,436	130,708
Interest expense:				
Deposits	9,973	7,885	20,451	17,008
Securities sold under agreements to repurchase	7,109	16,500	14,357	34,070
Advances from FHLB and other borrowings	2,187	2,926	3,847	5,930
FDIC-guaranteed term notes	-	-	-	909
Subordinated capital notes	1,170	321	2,830	649
Total interest expense	20,439	27,632	41,485	58,566
Net interest income	105,369	33,156	197,951	72,142
Provision for non-covered loan and lease losses	37,527	3,800	45,443	6,800
Provision for covered loan and lease losses, net	1,211	1,467	1,883	8,624
Total provision for loan and lease losses	38,738	5,267	47,326	15,424
Net interest income after provision for loan and lease losses	66,631	27,889	150,625	56,718
Non-interest income:				
Financial service revenue	8,030	5,903	15,690	11,791
Banking service revenue	13,334	3,145	25,716	6,225
Mortgage banking activities	2,525	2,436	5,679	4,938
Total banking and financial service revenues	23,889	11,484	47,085	22,954
FDIC shared-loss expense, net	(19,965)	(5,583)	(32,836)	(10,410)
Net gain (loss) on:				
Sale of securities	-	11,979	-	19,338
Derivatives	1,569	(107)	1,271	(108)
Early extinguishment of subordinated capital notes	-	-	1,061	-

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Other	2,303	63	2,349	(779)
Total non-interest income, net	7,796	17,836	18,930	30,995
Non-interest expense:				
Compensation and employee benefits	24,089	11,184	47,338	21,550
Professional and service fees	7,710	5,222	16,832	10,643
Occupancy and equipment	8,066	4,292	17,282	8,501
Insurance	2,723	1,442	5,401	3,262
Electronic banking charges	4,094	1,609	7,822	3,166
Advertising, business promotion, and strategic initiatives	1,670	1,564	3,079	2,412
Merger and restructuring charges	5,274	-	10,808	-
Foreclosure, repossession and other real estate expenses	2,156	936	3,661	1,686
Loan servicing and clearing expenses	1,884	955	3,360	1,923
Taxes, other than payroll and income taxes	5,132	(107)	7,754	1,067
Loss on sale of foreclosed real estate and other repossessed assets	1,696	886	3,573	1,282
Communication	835	392	1,699	781
Printing, postage, stationary and supplies	851	322	2,017	630
Director and investor relations	377	342	613	651
Other	2,265	671	4,393	1,555
Total non-interest expense	68,822	29,710	135,632	59,109
Income before income taxes	5,605	16,015	33,923	28,604
Income tax expense (benefit)	(31,934)	1,057	(24,808)	2,994
Net income	37,539	14,958	58,731	25,610
Less: dividends on preferred stock	(3,466)	(1,201)	(6,931)	(2,401)
Income available to common shareholders	\$ 34,073	\$ 13,757	\$ 51,800	\$ 23,209
Earnings per common share:				
Basic	\$ 0.75	\$ 0.34	\$ 1.14	\$ 0.57
Diluted	\$ 0.68	\$ 0.34	\$ 1.05	\$ 0.57
Average common shares outstanding and equivalents	52,968	40,808	52,929	40,986
Cash dividends per share of common stock	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTERS AND SIX-MONTHS PERIODS ENDED JUNE 30, 2013 AND 2012

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Net income	\$ 37,539	\$ 14,958	\$ 58,731	\$ 25,610
Other comprehensive loss before tax:				
Unrealized (gain) loss on securities available-for-sale	(35,576)	7,059	(46,568)	9,000
Realized gain on investment securities included in net income	-	(11,979)	-	(19,338)
Unrealized loss (gain) on cash flow hedges	3,016	(6,791)	4,477	(8,792)
Other comprehensive loss before taxes	(32,560)	(11,711)	(42,091)	(19,130)
Income tax effect	1,275	2,875	1,977	3,260
Other comprehensive loss after taxes	(31,285)	(8,836)	(40,114)	(15,870)
Comprehensive income	\$ 6,254	\$ 6,122	\$ 18,617	\$ 9,740

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2013 AND 2012

	Six-Month Period Ended June 30,	
	2013	2012
	(In thousands)	
Preferred stock:		
Balance at beginning and end of period	\$ 176,000	\$ 68,000
Common stock:		
Balance at beginning of year	52,671	47,809
Exercised stock options	18	33
Balance at end of period	52,689	47,842
Additional paid-in capital:		
Balance at beginning of year	537,453	499,096
Stock-based compensation expense	888	787
Exercised stock options	167	361
Lapsed restricted stock units	(364)	(392)
Common stock issuance costs	(16)	-
Preferred stock issuance costs	(23)	-
Balance at end of period	538,105	499,852
Legal surplus:		
Balance at beginning of year	52,143	50,178
Transfer from retained earnings	5,763	2,490
Balance at end of period	57,906	52,668
Retained earnings:		
Balance at beginning of year	70,734	68,149
Net income	58,731	25,610
Cash dividends declared on common stock	(5,479)	(4,886)
Cash dividends declared on preferred stock	(6,931)	(2,401)
Transfer to legal surplus	(5,763)	(2,490)
Balance at end of period	111,292	83,982
Treasury stock:		
Balance at beginning of year	(81,275)	(74,808)
Stock repurchased	-	(7,022)
Lapsed restricted stock units	364	392
Stock used to match defined contribution plan	77	35
Balance at end of period	(80,834)	(81,403)
Accumulated other comprehensive income, net of tax:		
Balance at beginning of year	55,880	37,131
Other comprehensive loss, net of tax	(40,114)	(15,870)
Balance at end of period	15,766	21,261
Total stockholders' equity	\$ 870,924	\$ 692,202

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2013 AND 2012

	Six-Month Period Ended June 30,	
	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 58,731	\$ 25,610
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan origination fees, net of costs	486	297
Amortization of fair value discounts on acquired loans	3,504	-
Amortization of investment securities premiums, net of accretion of discounts	12,624	25,558
Amortization of core deposit and customer relationship intangibles	1,288	75
Amortization of fair value premiums on acquired deposits	9,649	-
FDIC shared-loss expense, net	32,836	10,410
Amortization of prepaid FDIC assessment	-	2,613
Other impairments on securities	7	-
Depreciation and amortization of premises and equipment	5,265	2,373
Deferred income taxes, net	(30,776)	(420)
Provision for covered and non-covered loan and lease losses, net	47,326	15,424
Stock-based compensation	888	787
(Gain) loss on:		
Sale of securities	-	(19,338)
Sale of mortgage loans held for sale	(1,771)	(2,898)
Derivatives	(1,271)	108
Early extinguishment of subordinated capital notes	(1,061)	-
Foreclosed real estate	3,109	1,284
Sale of other repossessed assets	464	-
Sale of premises and equipment	-	(86)
Originations of loans held-for-sale	(179,127)	(93,940)
Proceeds from sale of loans held-for-sale	68,809	49,388
Net (increase) decrease in:		
Trading securities	(1,714)	(34)
Accrued interest receivable	46	2,924
Servicing assets	(2,199)	(322)
Other assets	20,730	4,259
Net increase (decrease) in:		
Accrued interest on deposits and borrowings	(995)	(4,498)
Accrued expenses and other liabilities	12,093	(13,167)
Net cash provided by operating activities	58,941	6,407
Cash flows from investing activities:		
Purchases of:		

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Investment securities available-for-sale	(17,802)	(558,201)
Investment securities held-to-maturity	-	(119,025)
FHLB stock	(12,465)	-
Maturities and redemptions of:		
Investment securities available-for-sale	313,866	378,144
Investment securities held-to-maturity	-	102,251
FHLB stock	28,720	911
Proceeds from sales of:		
Investment securities available-for-sale	75,660	553,602
Foreclosed real estate	18,219	4,639
Other repossessed assets	12,912	1,941
Premises and equipment	1,667	368
Origination and purchase of loans, excluding loans held-for-sale	(422,590)	(112,974)
Principal repayment of loans, including covered loans	528,274	128,340
Reimbursements from the FDIC on shared-loss agreements	18,696	39,729
Additions to premises and equipment	(6,237)	(1,225)
Net change in securities purchased under agreements to resell	80,000	(225,000)
Net cash provided by investing activities	618,920	193,500

OFG BANCORP**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)****FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2013 AND 2012**

	Six-Month Period Ended June 30,	
	2013	2012
	(In thousands)	
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	(36,125)	(212,846)
Short term borrowings	(92,210)	-
Securities sold under agreements to repurchase	(381,358)	-
FHLB advances	(231,617)	5,070
Subordinated capital notes	(46,017)	-
FDIC-guaranteed term notes	-	(105,000)
Exercise of stock options	185	394
Issuance of common stock costs	(16)	-
Issuance of preferred stock costs	(23)	-
Purchase of treasury stock	-	(7,022)
Termination of derivative instruments	1,348	(124)
Dividends paid on preferred stock	(6,931)	(2,401)
Dividends paid on common stock	(5,479)	(4,886)
Net cash used in financing activities	(798,243)	(326,815)
Net change in cash and cash equivalents	(120,382)	(126,908)
Cash and cash equivalents at beginning of period	868,695	591,487
Cash and cash equivalents at end of period	\$ 748,313	\$ 464,579
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:		
Interest paid	\$ 40,491	\$ 63,266
Income taxes paid	\$ 378	\$ 8,031
Mortgage loans securitized into mortgage-backed securities	\$ 89,590	\$ 37,730
Transfer from loans to foreclosed real estate and other repossessed assets	\$ 45,714	\$ 11,723
Securities sold but not yet delivered	\$ 16,732	\$ -
Reclassification of loans held for investment portfolio to held for sale portfolio	\$ 40,328	\$ 5,182

See notes to unaudited consolidated financial statements

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

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

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

Basis of Presentation and Use of Estimates

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

The unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information and should be read in conjunction with the audited consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2012 (“2012 Form 10-K”). All significant intercompany balances and transactions have been eliminated in consolidation. These unaudited statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts

reported in the unaudited consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Interim period results are not necessarily indicative of the results to be expected for the full year.

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

Significant Accounting Policies

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

Offsetting Financial Assets and Liabilities - In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The ASU is intended to enhance current disclosure requirements on offsetting financial assets and liabilities. The new disclosures enable financial statement users to compare balance sheets prepared under GAAP and IFRS, which are subject to different offsetting models. The guidance requires disclosure of both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosures are required irrespective of whether such instruments are presented gross or net on the balance sheet. In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, which clarify that the scope of this guidance applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amended guidance was effective for annual and

interim reporting periods beginning on or after January 1, 2013, with comparative retrospective disclosures required for all periods presented. We adopted the guidance in the first quarter of 2013. Our adoption of the guidance had no effect on our financial condition, results of operations or liquidity since it only impacts disclosures only. The new disclosures required by the amended guidance are included in “Note 17 – Offsetting Arrangements” hereto.

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Future Application of Accounting Standards

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

Other Potential Amendments to Current Accounting Standards - The FASB and International Accounting Standards Board, either jointly or separately, are currently working on several major projects, including amendments to existing accounting standards governing financial instruments, leases, and consolidation and investment companies. As part of the joint financial instruments project, the FASB has issued a proposed ASU that would result in significant changes to the guidance for recognition and measurement of financial instruments, in addition to the proposed ASU that would change the accounting for credit losses on financial instruments discussed above. The FASB is also working on a joint project that would require substantially all leases to be capitalized on the balance sheet. Additionally, the FASB has issued a proposal on principal-agent considerations that would change the way the Company needs to evaluate whether to consolidate Variable Interest Entities ("VIE") and non-VIE partnerships. Furthermore, the FASB has issued a proposed ASU that would change the criteria used to determine whether an entity is subject to the accounting and reporting requirements of an investment company. The principal-agent consolidation proposal would require all VIEs, including those that are investment companies, to be evaluated for consolidation under the same requirements. All of these projects may have significant impacts for the Company. Upon completion of the standards, the Company will need to reevaluate its accounting and disclosures. However, due to ongoing deliberations of the standard setters, the Company is currently unable to determine the effect of future amendments or proposals.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – BUSINESS COMBINATIONS***BBVAPR Acquisition***

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

The assets acquired and liabilities assumed as of December 18, 2012 were presented at their fair value. In many cases, the determination of these fair values required management to make estimates about discount rates, expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. The fair values initially assigned to the assets acquired and liabilities assumed were preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values became available. During the quarter ended June 30, 2013, the Company recorded retrospective adjustments to the preliminary estimated fair values of certain acquired loans, foreclosed real estate, deferred income taxes, and other assets acquired, to reflect new information obtained during the measurement period (as defined by ASC Topic 805), about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements. As detailed in the table below, the main adjustment occurred in the loans acquired. The adjustment resulted from in-depth reviews of the actual terms and amortization schedules. The original cash flows were revised to reflect the results of this review.

Net-assets acquired and their respective measurement period adjustments are reflected in the table below:

	Book Value December 18, 2012	Fair Value Adjustments, net	Fair Value December 18, 2012 (In thousands)	Measurement Period Adjustments, net June 30, 2013	Fair Value as Remeasured June 30, 2013
Assets					
Cash and cash equivalents	\$ 394,638	\$ -	\$ 394,638	\$ -	\$ 394,638
Investments	561,623	-	561,623	-	561,623
Loans	3,678,979	(118,913)	3,560,066	(12,798)	3,547,268
Accrued interest receivable	19,133	(18,252)	881	-	881
Foreclosed real estate	44,853	(8,896)	35,957	(1,932)	34,025
Deferred tax asset, net	35,327	50,005	85,332	5,300	90,632
Premises and equipment	37,412	29,067	66,479	-	66,479
Legacy goodwill	116,353	(116,353)	-	-	-

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Core deposit intangible	-	8,473	8,473	-	8,473
Customer relationship intangible	-	5,060	5,060	-	5,060
Other assets	119,286	(7,663)	111,623	(2,936)	108,687
Total assets acquired	5,007,604	(177,472)	4,830,132	(12,366)	4,817,766
Liabilities assumed					
Deposits	3,472,951	21,489	3,494,440	-	3,494,440
Securities sold under agreements to repurchase	338,020	20,465	358,485	-	358,485
Other borrowings	348,624	1,108	349,732	-	349,732
Subordinated capital notes	117,000	(7,159)	109,841	-	109,841
Accrued expenses and other liabilities	80,392	(1,438)	78,954	-	78,954
Total liabilities assumed	4,356,987	34,465	4,391,452	-	4,391,452
Net assets acquired	\$ 650,617	\$ (211,937)	\$ 438,680	\$ (12,366)	\$ 426,314
Cash consideration	\$ 500,000	\$ -	\$ 500,000	\$ -	\$ 500,000
Goodwill			\$ 61,320	\$ 12,366	\$ 73,686

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Merger and Restructuring Charges

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

The following table presents severance and employee-related charges, systems integrations and other merger-related charges in connection with the BBVAPR Acquisition for the quarter and six-month period ended June 30, 2013:

	Quarter Ended June 30, 2013 (In thousands)	Six-Month Period Ended June 30, 2013 (In thousands)
Severance and employee-related charges	\$ 400	\$ 1,150
Systems integrations and related charges	2,231	3,177
Other-contract cancellation fee	2,643	6,481
Total merger and restructuring charges	\$ 5,274	\$ 10,808

Restructuring Reserve

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

The following table presents the changes in restructuring reserves for the quarter and six-month period ended June 30, 2013:

	Quarter Ended June 30, 2013 (In thousands)	Six-Month Period Ended June 30, 2013 (In thousands)
Balance at the beginning of the period	\$ 6,336	\$ 4,202
Merger and restructuring charges	5,274	10,808
Cash payments and other	(11,334)	(14,734)
Balance at the end of the period	\$ 276	\$ 276

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

The Bank agreed to make a true-up payment, also known as clawback liability, to the FDIC on the date that is 45 days following the last day (such day, the “True-Up Measurement Date”) of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of \$906.0 million (or \$181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or \$227.5 million); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of \$16.9 million and \$15.5 million, net of discount, as of June 30, 2013 and December 31, 2012, respectively. This estimated liability is accounted for as a reduction of the indemnification asset.

The FDIC shared-loss indemnification asset activity for the six-month periods ended June 30, 2013 and 2012 follows:

	Six-Month Period Ended June 30,	
	2013	2012
	(In thousands)	
Balance at beginning of period	\$ 286,799	\$ 392,367
Shared-loss agreements reimbursements from the FDIC	(18,696)	(39,729)
Increase (decrease) in expected credit losses to be		
covered under shared-loss agreements, net	(2,015)	12,748
FDIC shared-loss expense, net	(32,836)	(10,410)
Incurred expenses to be reimbursed under shared-loss agreements	3,220	4,791
Balance at end of period	\$ 236,472	\$ 359,767

During the quarter ended June 30, 2013, the Company recorded \$7.1 million in additional amortization of the FDIC indemnification asset from stepped up costs recoveries on certain construction and leasing pools.

OFG BANCORP**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****NOTE 3 – SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND INVESTMENTS*****Money Market Investments***

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At June 30, 2013 and December 31, 2012, money market instruments included as part of cash and cash equivalents amounted to \$11.0 million and \$13.2 million, respectively.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell consist of short-term investments and are carried at the amounts at which the assets will be subsequently resold as specified in the respective agreements. At December 31, 2012, securities purchased under agreements to resell amounted to \$80.0 million. The fair value of the collateral securities held by the Company on these transactions as of December 31, 2012 was approximately \$82.1 million. On June 30, 2013 the Company had no securities purchased under agreements to resell.

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at June 30, 2013 and December 31, 2012 were as follows:

	Amortized Cost	Gross Unrealized Gains	June 30, 2013 Gross Unrealized Losses (In thousands)	Fair Value	Weighted Average Yield
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	\$ 1,358,834	\$ 36,112	\$ 4,324	\$ 1,390,622	2.92%
GNMA certificates	10,590	604	13	11,180	4.88%
CMOs issued by US Government sponsored agencies	250,806	85	2,528	248,363	1.81%
	1,620,230	36,801	6,865	1,650,165	2.76%

Total mortgage-backed securities					
Investment securities					
US Treasury securities	26,499	2	-	26,501	0.08%
Obligations of US Government sponsored agencies	15,078	35	-	15,113	1.23%
Obligations of Puerto Rico Government and political subdivisions	120,989	-	1,294	119,695	4.42%
Other debt securities	24,539	216	-	24,755	3.45%
Total investment securities	187,105	253	1,294	186,064	3.42%
Total securities available for sale	\$ 1,807,335	\$ 37,054	\$ 8,159	\$ 1,836,229	2.83%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The amortized cost and fair value of the Company's investment securities at June 30, 2013, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2013	
	Available-for-sale	
	Amortized Cost	Fair Value
	(In thousands)	
Mortgage-backed securities		
Due after 5 to 10 years		
FNMA and FHLMC certificates	\$ 32,779	\$ 33,345
Total due after 5 to 10 years	32,779	33,345
Due after 10 years		
FNMA and FHLMC certificates	1,326,055	1,357,277
GNMA certificates	10,590	11,180
CMOs issued by US Government sponsored agencies	250,806	248,363
Total due after 10 years	1,587,451	1,616,820
Total mortgage-backed securities	1,620,230	1,650,165
Investment securities		
Due in less than one year		
US Treasury securities	26,499	26,501
Other debt securities	20,000	20,058
Total due in less than one year	46,499	46,559
Due from 1 to 5 years		
Obligations of Puerto Rico Government and political subdivisions	412	399
Total due from 1 to 5 years	412	399
Due after 5 to 10 years		
Obligations of Puerto Rico Government and political subdivisions	11,425	11,053
Obligations of US Government and sponsored agencies	15,078	15,113
Total due after 5 to 10 years	26,503	26,166
Due after 10 years		
Obligations of Puerto Rico Government and political subdivisions	109,152	108,243
Other debt securities	4,539	4,697
Total due after 10 years	113,691	112,940
Total investment securities	187,105	186,064
Total securities available-for-sale	\$ 1,807,335	\$ 1,836,229

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The BBVAPR Acquisition and the related deleverage of the investment securities portfolio that the Company completed during the second half of 2012 reduced the interest rate risk profile of the Company. During the six-month period ended June 30, 2013, the Company did not execute any sale of securities from its portfolio other than \$92.4 million of available-for-sale GNMA certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales produced a nominal gain during such period. During the six-month period ended June 30, 2012, there were certain sales of available-for-sale securities because the Company believed that gains could be realized and that there were good opportunities to invest the proceeds in other investment securities with attractive yields and terms that would allow the Company to continue protecting its net interest margin.

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

For the six-month period ended June 30, 2012, the Company recorded a net gain on sale of securities of \$19.3 million. The table below presents the gross realized gains by category for such period:

Six-Month period Ended June 30, 2012					
<u>Description</u>	Sale Price	Book Value	Gross Gains	Gross Losses	
		at Sale			
(In thousands)					
Sale of securities available-for-sale					
Mortgage-backed securities and CMOs					
FNMA and FHLMC certificates	\$ 367,971	\$ 349,400	\$ 18,581	\$ -	
GNMA certificates	39,484	39,483	1	-	
CMOs issued by US Government sponsored agencies	19,725	18,372	1,353	-	
Total mortgage-backed securities and CMOs	427,180	407,255	19,935	-	
Investment securities					
Obligations of U.S. Government sponsored agencies	80,000	80,000	-	-	
Obligations of Puerto Rico Government and political subdivisions	35,882	36,478	31	628	
Structured credit investments	10,530	10,530	-	-	
Total investment securities	126,412	127,008	31	628	
Total	\$ 553,592	\$ 534,263	\$ 19,966	\$ 628	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2013 and December 31, 2012:

	Amortized Cost	June 30, 2013 12 months or more Unrealized Loss (In thousands)	Fair Value
Securities available-for-sale			
Obligations of Puerto Rico Government and political subdivisions	\$ 1,712	61	1,651
CMOs issued by US Government sponsored agencies	2,094	171	1,923
	\$ 3,806	\$ 232	\$ 3,574

	Amortized Cost	Less than 12 months Unrealized Loss (In thousands)	Fair Value
Securities available-for-sale			
Obligations of Puerto Rico Government and political subdivisions	\$ 20,588	\$ 1,233	\$ 19,355
CMOs issued by US Government sponsored agencies	203,524	2,357	201,167
FNMA and FHLMC certificates	219,983	4,324	215,659
GNMA certificates	206	13	193
	\$ 444,301	\$ 7,927	\$ 436,374

	Amortized Cost	Total Unrealized Loss (In thousands)	Fair Value
Securities available-for-sale			
Obligations of Puerto Rico Government and political subdivisions	\$ 22,300	\$ 1,294	\$ 21,006
CMOs issued by US Government sponsored agencies	205,618	2,528	203,090
FNMA and FHLMC certificates	219,983	4,324	215,659
GNMA certificates	206	13	193
	\$ 448,107	\$ 8,159	\$ 439,948

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

Securities in an unrealized loss position at June 30, 2013 are mainly composed of highly liquid securities that in most cases have a large and efficient secondary market. Valuations are performed on a monthly basis. The Company's management believes that the unrealized losses of such securities at June 30, 2013 are temporary and are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. At June 30, 2013, the Company does not have the intent to sell these investments in an unrealized loss position.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

For a summary of the accounting policy related to loans, interest recognition and allowance for loan and lease losses, please refer to the summary of significant accounting policies included in Note 1 of our 2012 Form 10-K under "Notes to Consolidated Financial Statements".

The composition of the Company's loan portfolio at June 30, 2013 and December 31, 2012 was as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Loans not covered under shared-loss agreements with FDIC:		
Originated and other loans and leases held for investment:		
Mortgage	\$ 755,298	\$ 804,942
Commercial	702,074	353,930
Auto and leasing	233,092	50,720
Consumer	89,608	48,136
	1,780,072	1,257,728
Acquired loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or		
acquired at a premium)		
Commercial	140,234	317,244
Commercial secured by real estate	14,519	29,215
Auto	373,587	457,894
Consumer	62,751	68,878
	591,091	873,231

Accounted for under ASC 310-30 (Loans acquired with deteriorated**credit quality, including those by analogy)**

Commercial	747,077	942,267
Construction	140,060	196,692
Mortgage	781,389	810,135
Auto	462,691	554,938
Consumer	88,375	118,171
	2,219,592	2,622,203
	4,590,755	4,753,162
Deferred loan fees, net	(831)	(3,463)
Loans receivable	4,589,924	4,749,699
Allowance for loan and lease losses on non-covered loans	(46,625)	(39,921)
Loans receivable, net	4,543,299	4,709,778
Mortgage loans held-for-sale	78,350	64,145
Total loans not covered under shared-loss agreements with FDIC, net	4,621,649	4,773,923
Loans covered under shared-loss agreements with FDIC:		
Loans secured by 1-4 family residential properties	123,507	128,811
Construction and development secured by 1-4 family residential properties	16,478	15,969
Commercial and other construction	275,489	289,070
Leasing	943	7,088
Consumer	6,955	8,493
Total loans covered under shared-loss agreements with FDIC	423,372	449,431
Allowance for loan and lease losses on covered loans	(53,992)	(54,124)
Total loans covered under shared-loss agreements with FDIC, net	369,380	395,307
Total loans, net	\$ 4,991,029	\$ 5,169,230

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

The following table presents the aging of the recorded investment in gross originated and other loans held for investment as of June 30, 2013 and December 31, 2012 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

June 30, 2013							Loans 90+ Days Past Due and Still Accruing
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due (In thousands)	Current	Total Loans	
Mortgage							
Traditional (by origination year):							
Up to the year	\$ -	\$ 2,937	\$ 6,993	\$ 9,930	\$ 79,666	\$ 89,596	\$ 6
2002							
Years 2003	-	5,413	3,429	8,842	117,754	126,596	-
and 2004							
Year 2005	-	2,136	1,431	3,567	65,196	68,763	-
Year 2006	-	3,369	2,838	6,207	87,614	93,821	-
Years 2007,							
2008	-	2,863	3,407	6,270	104,169	110,439	433
and 2009							

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Years 2010, 2011, 2012	-	391	2,115	2,506	96,270	98,776	76
and 2013	-	17,109	20,213	37,322	550,669	587,991	515
Non-traditional	-	1,520	2,212	3,732	42,695	46,427	-
Loss	-	4,993	14,287	19,280	68,335	87,615	1,606
mitigation program	-	23,622	36,712	60,334	661,699	722,033	2,121
Home equity	-	-	12	12	740	752	-
secured personal	-	-	12	12	740	752	-
loans	-	-	12	12	740	752	-
GNMA's	-	-	32,513	32,513	-	32,513	-
buy-back option	-	-	32,513	32,513	-	32,513	-
program	-	-	32,513	32,513	-	32,513	-
	-	23,622	69,237	92,859	662,439	755,298	2,121
Commercial							
Commercial	11,033	1,381	12,694	25,108	386,236	411,344	-
secured by real	11,033	1,381	12,694	25,108	386,236	411,344	-
estate							
Other	324	66	753	1,143	289,587	290,730	-
commercial and	324	66	753	1,143	289,587	290,730	-
industrial							
	11,357	1,447	13,447	26,251	675,823	702,074	-
Consumer	670	165	370	1,205	88,403	89,608	-
Auto and leasing	8,826	2,075	1,096	11,997	221,095	233,092	-
Total	\$ 20,853	\$ 27,309	\$ 84,150	\$ 132,312	\$ 1,647,760	\$ 1,780,072	\$ 2,121

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012

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

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

During the quarter ended June 30, 2013, the Company transferred \$55.0 million of non-performing residential mortgage loans held-for-investment to held-for-sale at a fair value of \$27.0 million. The difference between fair value and book value was recorded as charge-off to the mortgage portfolio. The provision for loan and lease losses during the quarter and six-month period ended June 30, 2013 increased to provide the coverage necessary under the allowance policy for the remaining mortgage loans, following the effects that the aforementioned reclassification had on the mortgage portfolio allowance level.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

The following table presents the aging of the recorded investment in gross acquired loans accounted for under ASC 310-20 as of June 30, 2013 and December 31, 2012 by class of loans:

June 30, 2013