OFG BANCORP
Form 10-K
March 13, 2018

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, 2017

or

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

For the transition period from ______________ to ______________

Commission File 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, a smaller reporting company, or an emerging growth 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
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Ac.t

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 $439.5 million as of June 30, 2017 based upon 43,947,442 shares outstanding and the reported closing price of $10.00 on the New York Stock Exchange on that date.

As of February 28, 2018, the Company had 43,968,342 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement relating to the 2018 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, 2017

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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 "Oriental"), including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Oriental's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "continues," "expect," "estimate," "intend," "project" and similar expre and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions are generally intended to identify forward-looking statements.

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

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

- the relative strength or weakness of the commercial and consumer credit sectors and the real estate market in Puerto Rico;

- the performance of the stock and bond markets;

- competition in the financial services industry; and

- possible legislative, tax or regulatory changes.

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

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

ITEM 1. ***BUSINESS***

General

Oriental 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. Oriental 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").

Oriental 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. Oriental 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. Oriental 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"), a retirement plan administrator, Oriental Pension Consultants, Inc. ("OPC"), and a commercial lender, OFG USA LLC ("OFG USA"), which is part of the Bank. All of our subsidiaries are based in San Juan, Puerto Rico, except for OPC which is based in Boca Raton, Florida and OFG USA which is based in Cornelius, North Carolina. Oriental has 48 branches in Puerto Rico. Oriental'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.

Oriental'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 and consumer 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 Oriental'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 Oriental's deposit-taking activities, commercial, consumer and mortgage lending and financial service activities, allowing Oriental to distinguish itself in a highly competitive industry. Oriental 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 Oriental's long-term goal.

Oriental'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

Oriental 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 Oriental's organizational structure, nature of products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. Oriental 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 Oriental's operating segments, please refer to Note 27 in Oriental's accompanying consolidated financial statements.

Banking Activities

The Bank, Oriental'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 has an operating subsidiary, OFG USA, which is organized in Delaware. It also has two international banking entities (each an "IBE") organized in Puerto Rico 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.

Oriental’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. Oriental outsources the servicing of the residential mortgage loan portfolio acquired in 2012 as part of its acquisition of the Puerto Rico operations of Banco Bilbao Vizcaya Argentaria (the "BBVAPR Acquisition") and services the GNMA, FNMA, and FHLMC pools that issues, and the rest of its residential mortgage loan portfolio.

Loan Underwriting

Auto loans: Oriental provides financing for the purchase of new or used motor vehicles. These loans are generated mainly through dealers authorized and approved by the auto credit department committee of Oriental. 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 Oriental'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 Oriental's retail banking network or purchased from third parties, must be underwritten in accordance with Oriental'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. Oriental'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. Oriental's underwriting personnel, while operating within Oriental's loan offices, make underwriting decisions independent of Oriental'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, Oriental'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.

Sale of Loans and Securitization Activities

Oriental may engage in the sale or securitization of the residential mortgage loans that it originates. Oriental is an approved issuer of GNMA-guaranteed mortgage-backed securities which involves the packaging of FHA loans, RHS loans and VA loans into pools. Oriental can also act as issuer in the case of conforming conventional loans which involves grouping these types of loans into pools and issuing FNMA or FHLMC mortgage-backed securities. The issuance of mortgage-backed securities provides Oriental with the flexibility of either selling the security into the open market or retaining it on books. In the case of conforming conventional loans, Oriental may also sell such loans through the FNMA and FHLMC cash window programs.

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 Oriental's subsidiary engaged in securities brokerage activities in accordance with Oriental'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 Oriental's subsidiary engaged in insurance agency services. It was established by Oriental 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 Oriental's existing customer base.

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

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

Treasury Activities

Treasury activities encompass all of Oriental's treasury-related functions. Oriental'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 Oriental 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. Oriental 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. Oriental encounters intense competition in attracting and retaining deposits and in its consumer and commercial lending activities. Management believes that Oriental 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. Oriental'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

Oriental 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."

Oriental elected to be treated as a financial holding company as permitted by the Gramm-Leach-Bliley Act. Under the Gramm-Leach-Bliley Act, if Oriental 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 Oriental 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.

Oriental 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.

Oriental'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, servicing 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. Oriental 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.

Oriental 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 Oriental, 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 Oriental. 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 Oriental), 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 Oriental), 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 Oriental, 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 Oriental.

Since Oriental 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 Oriental is a creditor with recognized claims against the subsidiary.

Dividend Restrictions

The principal source of funds for Oriental 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 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) replaced 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, 2017, 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, which phase-out commenced 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 Oriental, 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, 2017, Oriental 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 is also 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 a greater-than-10% shareholder of a bank and certain of their related interests (collectively "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 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. Oriental 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 Oriental, 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. Oriental 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. Oriental and its subsidiaries have established policies and procedures to assure Oriental'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 Oriental 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.

Oriental has included in this annual report on Form 10-K management's assessment regarding the effectiveness of Oriental'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 Oriental; management's assessment as to the effectiveness of Oriental'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 Oriental's internal control over financial reporting. As of December 31, 2017 Oriental'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, 2017 and 2016, legal surplus amounted to $81.5 million and $76.3 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

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 Executive Director of the Puerto Rico Fiscal Agency and Finance Advisory Authority: the Presidents of the Economic Development Bank for Puerto Rico and the Puerto Rico Planning Board; the Secretaries of Commerce and Economic Development, Treasury and Consumer Affairs of Puerto Rico; the Commissioner of Insurance of Puerto Rico; 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

Puerto Rico tax laws are mostly embodied in the Puerto Rico Internal Revenue Code of 2011, as amended (the "PR Code”). Under the PR Code, a corporation pays taxes at a fixed rate of 20% plus surtax that ranges from 5% for net income in excess of $75,000 to 19% for net income in excess of $275,000. The result is a maximum combined rate of 39% under the PR Code. The Bank and each other subsidiary of Oriental are treated as separate taxable corporations and are not entitled to file consolidated returns. The PR Code

also provides a dividends-received deduction of 100% on dividends received from "controlled subsidiaries" subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

Act No. 77 of 2014 amended the PR Code to increase the Puerto Rico capital gains tax rate from 15% to 20%, and for an asset to be considered long term capital asset, the holding period must be over a year, which before the enactment of this law was defined as having a holding period of over six months. The PR Code was also amended by Act No. 72 of 2015. The most relevant provisions of the Act 72, as applicable to Oriental, for taxable years beginning after December 31, 2014, are as follows: (i) a new definition of "large taxpayers," which require them to file their tax return following a special procedure established by the Secretary of the Treasuryof Puerto Rico, (ii) 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 (iii) 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 PR Code, for example, include, for example, an increase of the sales and use tax ("SUT") from 7% to 11.5%, effective July 1, 2015, and a special 4% SUT for certain business services previously exempted from the SUT, effective October 1, 2015.

I***nternational 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, 2017, Oriental had 1,408 employees. None of its employees is represented by a collective bargaining group. Oriental considers its employee relations to be good.

Internet Access to Reports

Oriental'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 Oriental's internet website at www.ofgbancorp.com, as soon as reasonably practicable after Oriental electronically files such material with, or furnishes it to, the SEC.

Oriental'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 Oriental's website at www.ofgbancorp.com under the corporate governance link. Oriental'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 Oriental 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 Oriental currently deems immaterial may also adversely affect Oriental's business, financial condition or results of operations.

ECONOMIC AND MARKET CONDITIONS RISK

Most of our business is conducted in Puerto Rico, which is 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 ("PROMESA") to, among other things, create a Fiscal Oversight and Management 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.

The Commonwealth's government has generally defaulted in its debt-service obligations and it is currently, along with all of its agencies and some of its public corporations, in a court-supervised debt-restructuring process under Title III of PROMESA.

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."

Hurricanes Irma and Maria caused unprecedented catastrophic damages throughout Puerto Rico, our principal market area.

Puerto Rico is our principal market area, which is susceptible to hurricanes and tropical storms. Hurricane Maria, a category 4 storm, made landfall in Puerto Rico on September 20, 2017, less than two weeks after hurricane Irma, a category 5 storm, passed north of Puerto Rico leaving over a million local residents without electric power. Over five months after the hurricanes, almost 40% of Puerto Rico was without electricity. Hurricane Maria caused catastrophic property damages throughout Puerto Rico, including homes, businesses, roads, bridges, power lines, commercial establishments, and public facilities. In addition, it caused flooding in some areas, displaced many local residents, and severely disrupted business operations and economic activities. Although the hurricanes did not permanently affect our facilities, they affected our loan originations and impacted our deposit and customer base. Further, many properties and structures in Puerto Rico suffered extensive flood or wind damages, which may adversely affect the value of collateral securing our loans and, potentially, the ability of borrowers to repay their obligations to us. Approximately 99% of our $4.1 billion loan portfolio as of December 31, 2017, consists of Puerto Rico-based borrowers, and 55% of such portfolio is secured by Puerto Rico real estate assets. Therefore, it is likely that loan delinquencies and restructurings will increase, particularly in the near term, as borrowers undertake recovery and clean-up efforts, including the pursuit of insurance claims. Our borrowers may also experience disruptions in their business or employment status. Such increases in delinquencies and restructurings would negatively affect our cash

flows and, if not timely cured, would increase our non-performing assets and reduce our net interest income. We may also experience increases in total loan losses as loan delinquencies and restructurings increase if insurance proceeds and collateral values are insufficient to cover balances of loans in default.

We evaluated the impact of hurricanes Irma and Maria on our loan portfolios relative to the adequacy of the allowance for loan losses at September 30, 2017 and December 31, 2017, and recorded additional provisions for loan losses of $27 million and $5.4 million (pre-tax), respectively. However, the amount of loan losses relating to these hurricanes remains uncertain and the additional loan loss provision may not be sufficient to cover our actual loan losses. Alternatively, loan losses may not materialize due to adequate insurance coverage or the financial resources of borrowers, which may result in a reduction to the loan loss provision in a future period.

Collection and foreclosure court proceedings on our loans in default were also affected or delayed as a result of the impact that hurricane Maria had on the infrastructure of the Puerto Rico judiciary branch. The Office of the Administrator of the Courts (known by its Spanish acronym as "OAT") announced that all deadlines between September 19 and November 30, 2017, would be reset for December 1, 2017. OAT also stated that except for specific instances in which a court reschedules a hearing or conference, all settings from November 1, 2017 onward remain as scheduled. The hearings and conferences set to be held in courthouses that were significantly damaged by the hurricane, such as in the municipalities of Aguadilla, Bayamon and Utuado, had to be relocated to nearby courthouses.

The severity and duration of the effects of these hurricanes will depend on a number of factors that are beyond our control, including the amount and timing of government, private and philanthropic financial assistance for the reconstruction of Puerto Rico's critical infrastructure, the pace and magnitude of Puerto Rico's economic recovery, and the extent to which property damages and business interruption losses caused by these natural disasters is covered by insurance. Also, changes to the Commonwealth's fiscal plan, as mandated by the Financial Oversight and Management Board under PROMESA, increases in local unemployment, population decline due to migration, and further declines in Puerto Rico real estate values as a result of these hurricanes may be generally expected. Therefore, a significant uncertainty remains regarding the impact of these hurricanes on our business, financial condition, and results of operations.

Puerto Rico is susceptible to hurricanes and major storms, which could further deteriorate Puerto Rico's economy and infrastructure.

Our branch network and most of our business is concentrated in Puerto Rico, which is susceptible to hurricanes and major storms that affect the local economy and the demand for our loans and financial services, as well as the ability of our customers to repay their loans. Any such natural disasters may further adversely affect Puerto Rico's critical infrastructure, which is generally weak. This makes us vulnerable to downturns in Puerto Rico's economy as a result of natural disasters, such as hurricanes Irma and Maria. Any subsequent hurricanes, major storms or similar natural disasters could further deteriorate Puerto Rico's economy and infrastructure and negatively affect or disrupt our operations and customer base.

Changes in interest rates could reduce Oriental'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, 2017, we had approximately $145.2 million of credit exposure to four 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 government restructuring, as well as severe austerity measures to close its significant budget 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, 2017, we repurchased $3.2 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 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 our 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 7—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 continues to be experienced. 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, due in part to our optional and temporary moratorium on most retail loans and some commercial loan, they may increase if the recession continues or worsens. 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, a 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 and other sanctions.

Financial institutions are generally required under the USA Patriot Act and the Bank Secrecy Act to develop programs to prevent such financial institutions from being used for money-laundering and terrorist financing activities. Financial institutions are generally also required to file suspicious activity reports with the Financial Crimes Enforcement Network of the U.S. Treasury Department 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. Our 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 internal controls and systems.

We are subject to security and operational risks 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, to our knowledge, 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 effects of a possible security breach of our information systems, if unauthorized persons were somehow to get access to confidential 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, technological, organizational, market, fiduciary, legal, compliance, liquidity and credit risks. 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 14% of our total interest-bearing liabilities as of December 31, 2017.

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 such 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 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 all or part 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 Oriental'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 Oriental'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, 2017, we had on our consolidated balance sheet $86.1 million of goodwill in connection with the BBVAPR Acquisition and the FDIC-assisted Eurobank acquisition, $3.3 million of core deposit intangible in connection with the FDIC-assisted Eurobank acquisition and the BBVAPR Acquisition, and $1.3 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 Puerto Rico 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 PR 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 Puerto Rico sales and use tax, effective July 1, 2015, from 7% to 11.5%, expanded the sales and use tax to certain business services that were previously exempt. 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***

Oriental owns a fifteen-story office building located at 254 Muñoz Rivera Avenue, San Juan Puerto Rico, known as Oriental Center. Oriental operates a full service branch at the plaza level and our centralized units and subsidiaries occupy approximately 74% of the office floor space. Approximately 14% of the office space is leased to outside tenants and 12% is available for lease.

The Bank owns nine branch premises and leases thirty nine 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, 2017, the aggregate future rental commitments under the terms of the leases, exclusive of taxes, insurance and maintenance expenses payable by Oriental, was $34.3 million.

Oriental's investment in premises and equipment, exclusive of leasehold improvements at December 31, 2017, was $114.9 million, gross of accumulated depreciation.

ITEM 3. ***LEGAL PROCEEDINGS***

Oriental and its subsidiaries are defendants in a number of legal proceedings incidental to their business. Oriental 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 Oriental'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***

Oriental'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 Oriental's common stock for each quarter in the years ended December 31, 2017 and 2016, 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 Oriental and the Bank is contained under the sub-heading "Dividend Restrictions" in Item 1 of this annual report.

As of December 31, 2017, Oriental had approximately 4,355 holders of record of its common stock, including all directors and officers of Oriental, 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 Oriental'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 (a) the sum of (i) the cumulative amount of dividends per share, assuming dividend reinvestment, for the measurement period beginning December 31, 2012, and (ii) the difference between the share price at the beginning and the end of the measurement period, by (b) the share price at the beginning of the measurement period.

Comparison of 5 Year Cumulative Total Return

Assumes Initial Investment of $100

Index	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
OFG Bancorp	100.00	131.91	129.25	58.67	107.80	79.17
Russell 2000	100.00	138.82	145.62	139.19	168.85	193.58
SNL Bank	100.00	137.30	153.48	156.10	197.23	232.91

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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 annual report.

OFG Bancorp
SELECTED FINANCIAL DATA
YEARS ENDED DECEMBER 31, 2017, 2016, 2015, 2014, AND 2013

	Year Ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
EARNINGS DATA:	(In thousands, except per share data)				
Interest income	$ 345,647	$ 356,592	$ 406,568	$ 485,257	$ 493,632
Interest expense	41,475	57,165	69,196	76,782	83,960
Net interest income	**304,172**	**299,427**	**337,372**	**408,475**	**409,672**
Provision for loan and lease losses	113,139	65,076	161,501	60,640	72,894
Net interest income after provision for loan and leases losses	**191,033**	**234,351**	**175,871**	**347,835**	**336,778**
Non-interest income	78,687	66,819	52,576	17,323	17,095
Non-interest expenses	201,631	215,990	248,505	242,725	264,136
Income (loss) before taxes	**68,089**	**85,180**	**(20,058)**	**122,433**	**89,737**
Income tax (benefit) expense	15,443	25,994	(17,554)	37,252	(8,709)
Net income (loss)	**52,646**	**59,186**	**(2,504)**	**85,181**	**98,446**
Less: dividends on preferred stock	(13,862)	(13,862)	(13,862)	(13,862)	(13,862)
Income (loss) available to common shareholders	**$ 38,784**	**$ 45,324**	**$ (16,366)**	**$ 71,319**	**$ 84,584**
PER SHARE DATA:					
Basic	**$ 0.88**	**$ 1.03**	**$ (0.37)**	**$ 1.58**	**$ 1.85**
Diluted	**$ 0.88**	**$ 1.03**	**$ (0.37)**	**$ 1.50**	**$ 1.73**
Average common shares outstanding	**43,939**	**43,913**	**51,455**	**45,024**	**45,706**
Average common shares outstanding and equivalents	**51,096**	**51,088**	**44,231**	**52,326**	**53,033**
Cash dividends declared per common share	**$ 0.24**	**0.24**	**0.36**	**0.34**	**0.26**
Cash dividends declared on common shares	**$ 10,553**	**10,544**	**15,932**	**15,286**	**11,875**
PERFORMANCE RATIOS:					
	0.84%	**0.88%**	**-0.03%**	**1.10%**	**1.15%**

Return on average assets (ROA)					
Return on average tangible common stockholders' equity	**5.64%**	**6.94%**	**-2.47%**	**10.91%**	**14.01%**
Return on average common equity (ROE)	**4.98%**	**6.08%**	**-2.16%**	**9.50%**	**12.03%**
Equity-to-assets ratio	**15.27%**	**14.16%**	**12.64%**	**12.65%**	**10.85%**
Efficiency ratio	**53.99%**	**57.82%**	**60.00%**	**49.90%**	**53.45%**
Interest rate spread	**5.15%**	**4.74%**	**4.95%**	**5.79%**	**5.46%**
Interest rate margin	**5.23%**	**4.82%**	**5.03%**	**5.84%**	**5.46%**

	December 31,				
	2017	2016	2015	2014	2013
PERIOD END BALANCES AND CAPITAL RATIOS:	(In thousands, except per share data)				
Investments and loans					
Investment securities	$ 1,166,050	$ 1,362,511	$ 1,615,872	$ 1,402,056	$ 1,614,809
Loans and leases, net	4,056,329	4,147,692	4,434,213	4,826,646	5,019,419
Total investments and loans	**$ 5,222,379**	**$ 5,510,203**	**$ 6,050,085**	**$ 6,228,702**	**$ 6,634,228**
Deposits and borrowings					
Deposits	$ 4,799,482	$ 4,664,487	$ 4,717,751	$ 4,924,406	$ 5,383,265
Securities sold under agreements to repurchase	192,869	653,756	934,691	980,087	1,267,618
Other borrowings	135,879	141,598	436,843	439,919	439,816
Total deposits and borrowings	**$ 5,128,230**	**$ 5,459,841**	**$ 6,089,285**	**$ 6,344,412**	**$ 7,090,699**
Stockholders’ equity					
Preferred stock	$ 176,000	$ 176,000	$ 176,000	$ 176,000	$ 176,000
Common stock	52,626	52,626	52,626	52,626	52,707
Additional paid-in capital	541,600	540,948	540,512	539,311	538,071
Legal surplus	81,454	76,293	70,435	70,435	61,957
Retained earnings	200,878	177,808	148,886	181,184	133,629
Treasury stock, at cost	(104,502)	(104,860)	(105,379)	(97,070)	(80,642)
Accumulated other comprehensive (loss) income	(2,949)	1,596	13,997	19,711	3,191
Total stockholders' equity	**$ 945,107**	**$ 920,411**	**$ 897,077**	**$ 942,197**	**$ 884,913**
Per share data					
Book value per common share	**$ 17.73**	**$ 17.18**	**$ 16.67**	**$ 17.40**	**$ 15.74**
Tangible book value per common share	**$ 15.67**	**$ 15.08**	**$ 14.53**	**$ 15.25**	**$ 13.60**
Market price at end of period	**$ 9.40**	**$ 13.10**	**$ 7.32**	**$ 16.65**	**$ 17.34**
Capital ratios					
Leverage capital	**13.92%**	**12.99%**	**11.18%**	**10.61%**	**9.06%**
Tier 1 common equity to risk-weighted assets	**N/A**	**N/A**	**N/A**	**11.88%**	**10.46%**
Common equity Tier 1 capital ratio	**14.59%**	**14.05%**	**12.14%**	**N/A**	**N/A**
Tier 1 risk-based capital	**19.05%**	**18.35%**	**15.99%**	**16.02%**	**14.38%**
Total risk-based capital	**20.34%**	**19.62%**	**17.29%**	**17.57%**	**16.16%**
Financial assets managed					
Trust assets managed	$ 3,039,998	$ 2,850,494	$ 2,691,423	$ 2,841,111	$ 2,796,923

Broker-dealer assets gathered		2,250,460		2,350,718		2,374,709		2,622,001		2,493,324
Total assets managed	**$**	**5,290,458**	**$**	**5,201,212**	**$**	**5,066,132**	**$**	**5,463,112**	**$**	**5,290,247**

The ratios shown below demonstrate Oriental's ability to generate sufficient earnings to pay the fixed charges or expenses of its debt and preferred stock dividends. Oriental'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 December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends					
Excluding interests on deposits	2.91x	2.60x	(A)	2.81x	2.26x
Including interests on deposits	1.92x	1.97x	(A)	2.16x	1.75x

(A) In 2015, earnings were not sufficient to cover preferred stock dividends, and the ratio was less than 1:1. The Company would have 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 Oriental'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 Oriental's outstanding preferred stock. As of the dates presented above, Oriental 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, 2017

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by Oriental conform with GAAP and general practices within the financial services industry. Oriental'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 Oriental's critical accounting policies and estimates.

Fair Value Measurement of Financial Instruments

Oriental currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives, mortgage servicing rights and contingent consideration. Occasionally, Oriental may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired loans held-in-portfolio that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

Oriental categorizes its assets and liabilities measured at fair value under the three-level hierarchy. The level within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable.

Oriental requires the use of observable inputs when available, in order to minimize the use of unobservable inputs to determine fair value. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The amount of judgment involved in estimating the fair value of a financial instrument depends upon the availability of quoted market prices or observable market parameters. In addition, it may be affected by other factors such as the type of instrument, the liquidity of the market for the instrument, transparency around the inputs to the valuation, as well as the contractual characteristics of the instrument.

If listed prices or quotes are not available, Oriental employs valuation models that primarily use market-based inputs including yield curves, interest rate curves, volatilities, credit curves, and discount, prepayment and delinquency rates, among other considerations. When market observable data is not available, the valuation of financial instruments becomes more subjective and involves substantial judgment. The need to use unobservable inputs generally results from diminished observability of both actual trades and assumptions resulting from the lack of market liquidity for those types of loans or securities. When fair values are estimated based on modeling techniques such as discounted cash flow models, Oriental uses assumptions such as interest rates, prepayment speeds, default rates, loss severity rates and discount rates. Valuation adjustments are limited to those necessary to ensure that the financial instrument's fair value is adequately representative of the price that would be received or paid in the marketplace.

Management believes that fair values are reasonable and consistent with the fair value measurement guidance based on Oriental's internal validation procedure and consistency of the processes followed, which include obtaining market quotes when possible or using valuation techniques that incorporate market-based inputs.

Refer to Note 27 to the consolidated financial statements for information on Oriental's fair value measurement disclosures required by the applicable accounting standard. At December 31, 2017, 99%, of the assets measured at fair value on a recurring basis used market-based or market-derived valuation methodology and, therefore, were classified as Level 1 or Level 2. Level 2 classified instruments, consisted primarily of U.S. Treasury securities, obligations of U.S. Government-sponsored entities, Puerto Rico or state-government obligations, including the political subdivision, most mortgage-backed securities ("MBS"), and collateralized mortgage obligations ("CMOs"), and derivative instruments.

There were no transfers in and/or out of Level 1, Level 2, or Level 3 for financial instruments measured at fair value on a recurring basis during the years ended December 31, 2017, 2016, and 2015. Oriental's policy is to recognize transfers as of the end of the reporting period.

Trading Account Securities and Investment Securities Available-for-Sale

The majority of the values for trading account securities and investment securities available-for-sale are obtained from third-party pricing services and are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance for Oriental's financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support for the valuation results. During the year ended December 31, 2017, Oriental did not adjust any prices obtained from pricing service providers.

Inputs are evaluated to ascertain that they consider current market conditions, including the relative liquidity of the market. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing service provider relies on specific information including buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument. If for any reason the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument.

During the year ended December 31, 2017, none of Oriental's investment securities were subject to pricing discontinuance by the pricing service providers. The pricing methodology and approach of our primary pricing service providers is concluded to be consistent with the fair value measurement guidance.

Furthermore, management assesses the fair value of its portfolio of investment securities at least on a quarterly basis, which includes analyzing changes in fair value that have resulted in losses that may be considered other-than-temporary. Factors considered include, for example, the nature of the investment, severity and duration of possible impairments, industry reports, sector credit ratings, economic environment, creditworthiness of the issuers and any guarantees.

Securities are classified in the fair value hierarchy according to product type, characteristics and market liquidity. At the end of each period, management assesses the valuation hierarchy for each asset or liability measured. The fair value measurement analysis performed by Oriental includes validation procedures and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions.

Refer to Note 27 to the consolidated financial statements for a description of Oriental's valuation methodologies used for the assets and liabilities measured at fair value.

Interest on Loans and Allowance for Loan and Lease Losses

Interest on loans is accrued and recorded as interest income based upon the principal amount outstanding.

Non-accrual loans are those loans on which the accrual of interest is discontinued. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is charged against income and the loan is accounted for either on a cash-basis method or on the cost-recovery method. Loans designated as non-accruing are returned to accrual status when Oriental expects repayment of the remaining contractual principal and interest. 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.

Refer to the MD&A section titled Credit Risk Management, particularly the Non-performing Assets sub-section, for a detailed description of Oriental's non-accruing and charge-off policies by major loan categories.

One of the most critical and complex accounting estimates is associated with the determination of the allowance for loan and lease losses. The provision for loan losses charged to current operations is based on this determination. Oriental's assessment of the allowance for loan and lease losses is determined in accordance with accounting guidance, specifically guidance of loss contingencies in ASC Subtopic 450-20 and loan impairment guidance in ASC Section 310-10-35.

For a detailed description of the principal factors used to determine the general reserves of the allowance for loan and lease losses and for the principal enhancements management made to its methodology, refer to Notes 1 and 7 to the consolidated financial statements.

According to the loan impairment accounting guidance in ASC Section 310-10-35, a loan is impaired when, based on current information and events, it is probable that the principal and/or interest are not going to be collected according to the original contractual terms of the loan agreement. Current information and events include "environmental" factors, such as existing industry, geographical, economic and political factors. Probable means the future event or events which will confirm the loss or impairment of the loan is likely to occur. The collateral dependent method is generally used for the impairment determination on commercial loans since the expected realizable value of the loan is based upon the proceeds received from the liquidation of the collateral property. For commercial properties, the "as is" value or the "income approach" value is used depending on the financial condition of the subject borrower and/or the nature of the subject collateral. In most cases, impaired commercial loans do not have reliable or sustainable cash flow to use the discounted cash flow valuation method. Appraisals may be adjusted due to their age, property conditions, geographical area or general market conditions. The adjustments applied are based upon internal information, like other appraisals and/or loss severity information that can provide historical trends in the real estate market. Discount rates used may change from time to time based on management's estimates.

For additional information on Oriental's policy of its impaired loans, refer to Note 1 to the consolidated financial statements.

Oriental's management evaluates the adequacy of the allowance for loan and lease losses on a quarterly basis following a systematic methodology in order to provide for known and inherent risks in the loan portfolio. In developing its assessment of the adequacy of the allowance for loan and lease losses, Oriental must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown, such as economic developments affecting specific customers, industries or markets. Other factors that can affect management's estimates are the years of historical data to include when estimating losses, the level of volatility of losses in a specific portfolio, changes in underwriting standards, financial accounting standards and loan impairment measurement, among others. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the

condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses. Consequently, the business, financial condition, liquidity, capital and results of operations could also be affected.

A restructuring constitutes a "troubled-debt restructuring" ("TDR") when Oriental separately concludes that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. For information on Oriental's TDR policy, refer to Note 1 to the financial consolidated statements.

Acquisition Accounting for Loans

Oriental has acquired loans in two separate acquisitions, the BBVAPR Acquisition in December 2012 and the FDIC-assisted Eurobank acquisition in April 2010. Oriental accounted for both acquisitions under the accounting guidance of ASC Topic 805, Business Combinations, which requires the use of the purchase method of accounting.

All identifiable assets and liabilities acquired were initially recorded at fair value. No allowance for loan and lease losses related to the acquired loans was recorded on the acquisition date as the fair value of the loans acquired incorporated assumptions regarding credit risk. Loans acquired were recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. These fair value estimates associated with the loans included estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Because the FDIC agreed to reimburse Oriental for losses related to the acquired loans in the FDIC-assisted Eurobank transaction, subject to certain provisions specified in the agreements, an indemnification asset was recorded at fair value at the acquisition date. The indemnification asset was recognized at the same time as the indemnified loans, and is measured on the same basis, subject to collectability or contractual limitations. The shared-loss indemnification asset on the acquisition date reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflected counterparty credit risk and other uncertainties. On February 6, 2017, the Bank and the FDIC agreed to terminate the single family and commercial shared-loss agreements related to the FDIC assisted acquisition.

The initial valuation of these loans and related indemnification asset required management to make subjective judgments concerning estimates about how the acquired loans would perform in the future using valuation methods, including discounted cash flow analyses and independent third-party appraisals. Factors that may significantly affect the initial valuation included, among others, market-based and industry data related to expected changes in interest rates, assumptions related to probability and severity of credit losses, estimated timing of credit losses including the timing of foreclosure and liquidation of collateral, expected prepayment rates, required or anticipated loan modifications, unfunded loan commitments, the specific terms and provisions of any shared-loss agreement, and specific industry and market conditions that may impact discount rates and independent third-party appraisals.

For both acquisitions, Oriental 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 Oriental'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 Oriental'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 loan portfolio.

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

Oriental performed a fair market valuation of each of the loan pools, and each pool was recorded at a discount. Oriental 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 Oriental 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, Oriental 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 Oriental 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 Oriental then reclassifies as accretable discount that is recognized into interest income over the remaining life of the loan using the interest method. Oriental'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 Oriental'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. Oriental 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 Oriental 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 Oriental 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 Oriental 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 Oriental's financial statement disclosures, regardless of whether or not Oriental expects any principal or interest cash flows on an individual loan 90 days or more past due.

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

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted.

The calculation of periodic income taxes is complex and requires the use of estimates and judgments. Oriental has recorded two accruals for income taxes: (i) the net estimated amount currently due or to be received from taxing jurisdiction, including any reserve for potential examination issues, and (ii) a deferred income tax that represents the estimated impact of temporary differences between how Oriental recognizes assets and liabilities under GAAP, and how such assets and liabilities are recognized under the tax code. Differences in the actual outcome of these future tax consequences could impact Oriental's financial position or its results of operations. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into consideration statutory, judicial and regulatory guidance.

A deferred tax asset should be reduced by a valuation allowance if based on the weight of all available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. The determination of whether a deferred tax asset is realizable is based on weighting all available evidence, including both positive and negative evidence. The realization of deferred tax assets, including carryforwards and deductible temporary differences, depends upon the existence of sufficient taxable income of the same character during the carryback or carryforward period. The realization of deferred tax assets requires the consideration of all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in carryback years and tax-planning strategies.

Management evaluates the realization of the deferred tax asset an entity by entity basis, since no consolidation is allowed in the income tax filing. For the evaluation of the realization of the deferred tax asset refer to Note 19 to the consolidated financial statements.

Under PR Code, Oriental and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns. The PR Code provides a dividends-received deduction of 100% on dividends received from “controlled subsidiaries" subject to taxation in Puerto Rico.

Changes in Oriental's estimates can occur due to changes in tax rates, new business strategies, newly enacted guidance, and resolution of issues with taxing authorities regarding previously taken tax positions. Such changes could affect the amount of accrued taxes. Oriental has made tax payments in accordance with estimated tax payments rules. Any remaining payment will not have any significant impact on liquidity and capital resources.

The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the financial statements or tax returns and future profitability. The accounting for deferred tax consequences represents management's best estimate of those future events. Changes in management's current estimates, due to unanticipated events, could have a material impact on Oriental's financial condition and results of operations.

Oriental establishes tax liabilities or reduces tax assets for uncertain tax positions when, despite its assessment that its tax return positions are appropriate and supportable under local tax law, Oriental believes it may not succeed in realizing the tax benefit of certain positions if challenged. In evaluating a tax position, Oriental determines whether it is more-likely-than-not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position.

Oriental's estimate of the ultimate tax liability contains assumptions based on past experiences, and judgments about potential actions by taxing jurisdictions as well as judgments about the likely outcome of issues that have been raised by taxing jurisdictions. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Oriental evaluates these uncertain tax positions each quarter and adjusts the related tax liabilities or assets in light of changing facts and circumstances, such as the progress of a tax audit or the expiration of a statute of limitations. Oriental believes the estimates and assumptions used to support its evaluation of uncertain tax positions are reasonable.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions. Although the outcome of tax audits is uncertain, Oriental believes that adequate amounts of tax, interest and penalties have

been provided for any adjustments that are expected to result from open years. From time to time, Oriental is audited by state and local authorities regarding income tax matters. Although management believes its approach in determining the appropriate tax treatment is supportable and in accordance with the accounting standards, it is possible that the applicable tax authority will take a tax position that is different than the tax position reflected in Oriental's income tax provision and other tax reserves. As each audit is conducted, adjustments, if any, are appropriately recorded in the consolidated financial statement in the period determined. Such differences could have an adverse effect on Oriental's income tax provision or benefit, or other tax reserves, in the reporting period in which such determination is made and,

consequently, on Oriental's results of operations, financial position and/or cash flows for such period.

Goodwill

Oriental's goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment. Intangibles with indefinite lives are evaluated for impairment at least annually, and on a more frequent basis, if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a reporting unit.

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles (including any unrecognized intangible assets, such as unrecognized core deposits and trademarks) as if the reporting unit was being acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit.

Oriental estimates the fair values of the assets and liabilities of a reporting unit, consistent with the requirements of the fair value measurements accounting standard, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the assets and liabilities reflects market conditions, thus volatility in prices could have a material impact on the determination of the implied fair value of the reporting unit goodwill at the impairment test date. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated statement of condition. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards.

At December 31, 2017, goodwill amounted to $86.1 million. For a detailed description of the annual goodwill impairment evaluation performed by Oriental during the fourth quarter of 2017, refer to Note 1to the consolidated financial statement.

OVERVIEW OF FINANCIAL PERFORMANCE

Making sure that our people and organization survive hurricanes Irma and Maria was our number one accomplishment in 2017. Separate from that, we had important additional achievements last year that helped to:

- Move Oriental forward in its mission.
- Position Oriental as a different kind of bank, more agile, one that can get things done faster and easier.
- And speed our recovery.

Oriental introduced five new “firsts” in Puerto Rico banking technologies during 2017, further enhancing our digital channel. These included Video Interactive ATMs and SecurLock for protection of credit and debit cards. The technologies are designed to attract customers with a noticeably different and higher level of service, but at a reasonable cost.

By mid-year Oriental had eliminated all central government-related debt. And after several years of preparation, we launched our U.S. commercial loan program in October. The former will eliminate a drag on our loan book, while the stateside initiative has already begun to add new loans, using the same credit underwriting criteria that we have so successfully employed in Puerto Rico.

Oriental's 2017 results were significantly impacted by hurricanes Irma and Maria. The intensity and extent of damages caused by hurricane Maria, less than two weeks after hurricane Irma left over a million Puerto Rico residents without electric power, is unprecedented in Puerto Rico. In response to the magnitude of this natural disaster and its general adverse effects on our customers, we offered a moratorium to defer payments on our personal, auto, mortgage and commercial loan portfolios.

Our moratorium covered all personal and auto loan customers that were not over 89 days delinquent in their loans as of August 31, 2017. It consisted of an optional automatic deferment of three scheduled monthly payments of principal and interest. For any customer that did not opt out, the deferred payments are due and payable in three consecutive installments after the loan’s maturity date. Such loans continue to accrue interest on their principal balances during the moratorium at their respective rates, and such customers are not charged late payment fees in connection with the deferment, nor is their credit history affected thereby.

For commercial loans, we offered a one-month optional deferment in the payment of principal and interest for loans that were not over 30 days past due as of August 31, 2017, and additional one-month deferrals in certain cases. For conforming mortgage loans (Rural, VA, FNMA, FHA and FHLMC), we offered a three-month optional deferment of

principal and interest due and payable in January 2018, and for credit card balances that were not over 29 days past due, we offered a waiver of minimum payments for October, November and December 2017.

Puerto Rico has a long reconstruction road ahead. However, with the expected benefit from an influx of substantial funds from the federal government, as well as from insurance recoveries, over the next two years, the short-term outlook is hopeful. Results for the fourth quarter of 2017 are a testament to our successful effort in restoring operations quickly after the hurricanes. Our clientele and the communities we serve clearly appreciated our efforts as we are starting to see momentum build despite a very challenging economic environment.

- Net income available to shareholders was $38.8 million, or $0.88 per share fully diluted, compared to $45.3 million, or $1.03 per share, in 2016.

- Return on average assets and average tangible common equity was 0.84% and 5.64%, respectively. Tangible book value per common share was $15.67, and the tangible common equity ratio was 11.29%.

- Based on preliminary assessments of the impact of the hurricanes on our credit portfolio, 2017 results included a $32.4 million loan loss provision, pre-tax, related to the hurricanes.

Adjusted results of operations – Non-GAAP financial measures

Oriental prepares its consolidated financial statements using GAAP. In addition to analyzing Oriental's results on a reported basis, management monitors "Adjusted net income" of Oriental and excludes the impact of certain transactions on the results of its operations. During 2017, in the span of two weeks in September, hurricanes Irma and Maria caused catastrophic damages throughout Puerto Rico. Oriental has excluded the impact of these events for its "Adjusted net income". Adjusted net income is a non-GAAP financial measure. Management believes that Adjusted net income and other non-GAAP financial measures provides meaningful information about the underlying performance of Oriental's ongoing operations.

Refer to the following table for a reconciliation of the reported results to the Adjusted net income and other non-GAAP financial measures for the year ended December 31, 2017. Non-GAAP financial measures used by Oriental may not be comparable to similarly named non-GAAP financial measures used by other companies.

Reconciliation to Non-GAAP Financial Measures adjusted to exclude the effect of hurricanes Irma and Maria:

	Y En Dece 31, (Dol thou
U.S GAAP Net income	$
Non-GAAP adjustments:	
Additional loan loss provision from Hurricanes Irma and María	
Income tax effect	(1
Adjusted net income (Non-GAAP)	
Less: dividends on preferred stock	(1
Adjusted income available to common shareholders (Non-GAAP)	
Plus: Effect of assumed conversion of the convertible preferred stock	
	$
Average common shares outstanding and equivalents	
Adjusted earnings per common share - diluted (Non-GAAP)	**$**
Adjusted net income (Non-GAAP)	$
Average assets, excluding hurricane loan provision	$ 6,2
Return on average assets, excluding hurricane loan provision (Non-GAAP)	
Adjusted income available to common shareholders (Non-GAAP)	$
Average tangible common stockholders' equity, excluding hurricane loan provisions	$ 6
Return on average tangible common stockholders' equity, excluding hurricane loan provision (Non-GAAP)	

- Excluding the aforementioned impact of the hurricanes (Non-GAAP):

Adjusted net income available to shareholders totaled $61.0 million or $1.34 per share fully diluted. That is an increase of $0.31 per share or 30% from 2016.

Return on average assets was 1.20% and return on average tangible common equity was 8.88% – 32 and 194 basis points higher, respectively, than 2016.

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 December 31, 2017 and 2016:

TABLE 1 - ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Interest		Average rate		Average balance	
	December 2017	December 2016	December 2017	December 2016	December 2017	December 2016
			(Dollars in thousands)			
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 345,647**	**$ 356,592**	**5.94%**	**5.74%**	**$ 5,818,598**	**$ 6,210,003**
Tax equivalent adjustment	4,791	4,724	0.08%	0.08%	-	-
Interest-earning assets - tax equivalent	**350,438**	**361,316**	**6.02%**	**5.82%**	**5,818,598**	**6,210,003**
Interest-bearing liabilities	41,475	57,165	0.79%	1.00%	5,226,654	5,703,927
Tax equivalent net interest income / spread	**308,963**	**304,151**	**5.23%**	**4.82%**	**591,944**	**506,076**
Tax equivalent interest rate margin			**5.31%**	**4.90%**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	28,587	32,109	2.28%	2.39%	1,255,580	1,345,926
Trading securities	20	37	6.64%	11.04%	301	335
Interest bearing cash and money market investments	4,619	2,501	1.06%	0.52%	436,913	484,586
Total investments	**33,226**	**34,647**	**1.96%**	**1.89%**	**1,692,794**	**1,830,847**
Non-acquired loans						
Mortgage	37,465	39,621	5.37%	5.33%	697,873	743,838
Commercial	71,685	63,186	5.73%	4.56%	1,251,051	1,385,421
Consumer	32,815	27,214	11.14%	10.75%	294,572	253,069
Auto and leasing	78,626	69,152	9.61%	9.65%	818,155	716,373
	220,591	**199,173**	**7.20%**	**6.43%**	**3,061,651**	**3,098,701**

Total non-acquired loans						
Acquired loans:						
Acquired BBVAPR						
Mortgage	30,205	32,833	5.63%	5.60%	536,247	586,100
Commercial	20,488	26,288	8.53%	8.70%	240,267	302,323
Consumer	10,852	12,136	18.00%	18.09%	60,285	67,082
Auto	9,726	21,016	10.72%	11.34%	90,698	185,280
Total acquired BBVAPR loans	**71,271**	**92,273**	**7.68%**	**8.09%**	**927,497**	**1,140,785**
Acquired Eurobank	**20,559**	**30,499**	**15.04%**	**21.84%**	**136,655**	**139,670**
Total loans	**312,421**	**321,945**	**7.57%**	**7.35%**	**4,125,804**	**4,379,156**
Total interest-earning assets	**345,647**	**356,592**	**5.94%**	**5.74%**	**5,818,598**	**6,210,003**

	Interest		Average rate		Average balance	
	December 2017	December 2016	December 2017	December 2016	December 2017	December 2016
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	3,893	5,086	0.37%	0.42%	1,059,051	1,200,394
Savings and money market	5,922	5,441	0.51%	0.49%	1,170,800	1,114,931
Individual retirement accounts	1,583	1,914	0.66%	0.71%	241,377	267,969
Retail certificates of deposits	8,432	6,115	1.47%	1.28%	575,270	476,035
Total core deposits	**19,830**	**18,556**	**0.65%**	**0.61%**	**3,046,498**	**3,059,329**
Institutional deposits	1,337	2,553	0.60%	1.00%	222,387	255,227
Brokered deposits	8,211	7,450	1.47%	1.20%	557,115	619,569
Total wholesale deposits	**9,548**	**10,003**	**1.22%**	**1.15%**	**779,502**	**874,796**
	29,378	**28,559**	**0.77%**	**0.73%**	**3,826,000**	**3,934,125**
Non-interest bearing deposits	-	-	0.00%	-0.04%	860,287	781,877
Deposits fair value premium amortization	-	(340)	0.00%	0.00%	-	-
Core deposit intangible amortization	920	1,034	0.00%	0.00%	-	-
Total deposits	**30,298**	**29,253**	**0.65%**	**0.62%**	**4,686,287**	**4,716,002**
Borrowings:						
Securities sold under agreements to repurchase	7,223	18,805	1.80%	2.83%	401,070	663,845
Advances from FHLB and other borrowings	2,398	6,186	2.32%	2.60%	103,214	238,366
Subordinated capital notes	1,556	2,921	4.31%	3.41%	36,083	85,714
Total borrowings	**11,177**	**27,912**	**2.07%**	**2.83%**	**540,367**	**987,925**
Total interest bearing liabilities	**41,475**	**57,165**	**0.79%**	**1.00%**	**5,226,654**	**5,703,927**
Net interest income / spread	**$ 304,172**	**$ 299,427**	**5.15%**	**4.74%**		
Interest rate margin			**5.23%**	**4.82%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 591,944**	**$ 506,076**
Average interest-earning assets to average					**111.33%**	**108.87%**

interest-bearing liabilities ratio

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
		(In thousands)	
Interest Income:			
Investments	$ (2,613)	$ 1,192	$ (1,421)
Loans	(17,868)	8,344	(9,524)
Total interest income	**(20,481)**	**9,536**	**(10,945)**
Interest Expense:			
Deposits	(184)	1,229	1,045
Repurchase agreements	(7,444)	(4,138)	(11,582)
Other borrowings	(5,193)	40	(5,153)
Total interest expense	**(12,821)**	**(2,869)**	**(15,690)**
Net Interest Income	**$ (7,660)**	**$ 12,405**	**$ 4,745**

TABLE 1A - 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**

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	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%	-0.01%	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					**$ 506,076**	**$ 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)

Net Interest Income

Net interest income is a function of the difference between rates earned on Oriental'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). Oriental 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, 2017 and 2016

Net interest income of $304.2 million increased $4.8 million from $299.4 million. Interest rate spread increased 41 basis points to 5.15% from 4.74% and net interest margin increased 41 basis points to 5.23% from 4.82%. These increases are mainly due to the net effect of a 20 basis point increase in the average yield of interest-earning assets from 5.74% to 5.94% and a 21 basis point decrease in average costs of interest-bearing liabilities from 1.00% to 0.79%.

Net interest income was positively impacted by:

- Higher interest income from originated loans of $21.4 million, reflecting the recognition of $4.8 million from the pay-off before maturity of a commercial loan previously classified as non-accrual, and from higher yields in the commercial and retail loan portfolios;

- The recognition of $3.1 million in cost recoveries from the loan pay-off by the Puerto Rico Housing Finance Authority (PRHFA) included as interest income from acquired BBVAPR loans; and

- Lower interest expenses on securities sold under agreements to repurchase due to decreases in volume and interest rate of $7.4 million and $4.1 million, respectively, mainly as a result of (i) the repayment at maturity of a $232.0 million repurchase agreement at 4.78% in March 2017, and (ii) the unwinding of $180.0 million repurchase agreements during 2017.

Net interest income was adversely impacted by:

- A decrease of $30.9 million in the interest income from the acquired BBVAPR and Eurobank loan portfolios as such loans continue to be repaid;

- A slight increase in interest expenses from deposits of 3.6% to $30.3 million, reflecting lower volume balances by $184 thousand, offset by $1.2 million higher interest rates; and

- A slight decrease in interest income from investments of 4.1% to $1.4 million, reflecting lower volume balances offset by higher yields on cash balances.

Comparison of years ended December 31, 2016 and 2015

Net interest income of $299.4 million decreased 11.2% compared with $337.4 million reported during 2015, reflecting decreases of 12.4% in interest income from loans and 11.0% in interest income from investments.

Net interest income was positively impacted by:

- Higher interest income from originated loans of $15.4 million; and

- Lower interest expenses on repurchases agreements and other borrowings of $14.3 million, mainly from the partial unwinding of a repurchase agreement amounting to $268.0 million, which carried a cost of 4.78%, and the repayment of $227.0 million in short term FHLB advances at maturity.

Net interest income was adversely impacted by:

- A decrease of $61.0 million in the interest income from the acquired BBVAPR and Eurobank loan portfolios as such loans continue to be repaid and from lower cost recoveries, $7.5 million in 2016 as compared to $22.8 million in 2015;

- A decrease in interest income from investments by $4.3 million due to lower volume; and

- An increase in interest expenses from deposits by $2.2 million.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Year Ended December 31,			
	2017	2016	Variance	2015
	(Dollars in thousands)			
Banking service revenue	$ 39,468	$ 41,647	-5.2%	$ 41,466
Wealth management revenue	25,790	27,433	-6.0%	29,040
Mortgage banking activities	4,050	5,021	-19.3%	6,128
Total banking and financial service revenue	**69,308**	**74,101**	**-6.5%**	**76,634**
Total other-than-temporarily impaired securities	-	-	0.0%	(4,662)
Portion of loss recognized in other comprehensive income, before taxes	-	-	0.0%	3,172
Net impairment osses recognized in earnings	-	-	0.0%	(1,490)
FDIC shared-loss benefit (expense), net:	1,403	(13,581)	110.3%	(42,808)
Reimbursement from FDIC shared-loss coverage in sale of loans	-	-	0.0%	20,000
Net gain (loss) on:				
Sale of securities available for sale	6,896	12,207	-43.5%	2,572
Derivatives	132	(71)	286.6%	(190)
Early extinguishment of debt	(80)	(12,000)	99.3%	-
Other non-interest income (loss)	1,028	6,163	-83.3%	(2,142)
	9,379	(7,282)	228.8%	**(24,058)**
Total non-interest income, net	**$ 78,687**	**$ 66,819**	**17.8%**	**$ 52,576**

Non-Interest Income

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

Comparison of years ended December 31, 2017 and 2016

Oriental recorded non-interest income, net, in the amount of $78.7 million, compared to $66.8 million, an increase of 17.8%, or $11.9 million. The increase in non-interest income was mainly due to:

- The elimination of the FDIC shared-loss expense as Oriental entered into an agreement with the FDIC to terminate the shared-loss agreements covering certain assets during the first quarter of 2017. During 2016, Oriental

recorded expenses of $13.6 million related to such agreement; and

- The sale of $166.0 million of its mortgage-backed securities, generating a gain of $6.9 million. As a result of this sale, Oriental unwound $100 million of repurchase agreements at a cost of $80 thousand, included as a loss on early extinguishment of debt in the consolidated statements of operations. The transaction resulted in a net benefit of $6.8 million. In the same period in 2016, Oriental sold $277.2 million in mortgage-backed securities and $11.1 million in Puerto Rico government bonds, resulting in a gain of $12.2 million. This transaction resulted in the repayment before maturity of $268.0 million of a repurchase agreement at a cost of $12.0 million, included as a loss on the early extinguishment of debt in the consolidated statements of operations. The transaction resulted in a net benefit of $207 thousand.

The increase in non-interest income was partially offset by:

- A decrease in banking service revenue of 5.2% or $2.2 million, reflecting lower electronic banking fees, mainly related to business interruption from the lack of electricity as a consequence of hurricanes Irma and Maria which struck the island on September 7, 2017 and September 20, 2017, respectively; and

- A decrease in other non-interest income of $5.1 million which reflects the receipt of $5.0 million during 2016 from a loss in 2009 related to a private label collateralized mortgage obligation.

Comparison of years ended December 31, 2016 and 2015

Oriental recorded non-interest income, net, in the amount of $66.8 million, compared to $52.5 million, an increase of 27.3%, or $14.3 million. The increase in non-interest income was mainly due to:

- The expiration of the FDIC commercial and non-single family loans loss share coverage at June 30, 2015, decreasing the FDIC shared-loss expense in 2016 to $13.6 million as compared to $42.8 million;
- An increase in other non-interest income due to the aforementioned $5.0 million recognized in 2016 from a recovery of a previous loss related to a private label collateralized mortgage obligation;
- An other-than-temporary impairment charge recognized in 2015 on obligations from the Puerto Rico government and its political subdivisions in the investment securities available-for-sale portfolio. Oriental 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.

The increase in non-interest income was partially offset by an agreement entered in 2015 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. As a result to such agreement, the FDIC 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.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Year Ended December 31,			
	2017	2016	Variance %	2015
	(Dollars in thousands)			
Compensation and employee benefits	$ 79,751	$ 76,761	3.9%	$ 78,999
Professional and service fees	12,406	12,235	1.4%	14,973
Occupancy and equipment	32,557	30,300	7.5%	33,466
Insurance	5,223	9,109	-42.7%	9,567
Electronic banking charges	19,322	20,707	-6.7%	21,893
Information technology expenses	8,010	7,116	12.6%	5,648
Advertising, business promotion, and strategic initiatives	5,616	5,485	2.4%	6,452
Loss on sale of foreclosed real estate and other repossessed assets	4,634	10,282	-54.9%	30,546
Loan servicing and clearing expenses	4,693	8,247	-43.1%	9,198
Taxes, other than payroll and income taxes	9,187	9,782	-6.1%	9,460
Communication	3,415	3,379	1.1%	3,808
Printing, postage, stationery and supplies	2,437	2,558	-4.7%	2,575
Director and investor relations	1,072	1,086	-1.3%	1,091
Credit related expenses	7,992	10,267	-22.2%	11,091
Other operating expenses	5,316	8,676	-38.7%	9,738
Total non-interest expenses	**$ 201,631**	**$ 215,990**	**-6.6%**	**$ 248,505**
Relevant ratios and data:				
Efficiency ratio	**53.99%**	**57.82%**		**60.00%**
Compensation and benefits to non-interest expense	**39.55%**	**35.54%**		**31.79%**
Compensation to average total assets owned	**1.27%**	**1.14%**		**1.08%**
Average number of employees	**1,450**	**1,446**		**1,496**
Average compensation per employee	**$ 55.0**	**$ 53.1**		**$ 52.8**
Average loans per average employee	**$ 2,846**	**$ 3,031**		**$ 3,145**

Non-Interest Expenses

Comparison of years ended December 31, 2017 and 2016

Non-interest expense was $201.6 million, representing a decrease of 6.6% compared to $216.0 million.

The decrease in non-interest expenses was driven by:

- Lower losses on the sale of foreclosed real estate and other repossessed assets by $5.6 million due to higher sales of foreclosed real estate at a gain and lower write-downs, mainly in the acquired portfolio;

- Lower insurance expenses by $3.9 million as a result of a change in the calculation method of the FDIC Deposit Insurance Fund insurance. The change was effective beginning with June 30, 2016 invoice, which was received during the third quarter of 2016;

- Lower loan servicing and clearing expenses by $3.6 million, mainly due to a reduction of $3.2 million in mortgage servicing expense from the migration to in-house servicing during the third quarter of 2016;

- Lower credit related expenses by $2.3 million, mainly due to a decrease in legal expenses from foreclosures of $1.9 million; and

- Lower other operating expense by $3.4 million due to the settlement of outstanding claims at amounts below those previously reserved by $1.4 million and decrease of $2.4 million in accrual for claims and settlements expenses in our broker dealer subsidiary.

The decreases in the foregoing non-interest expenses were partially offset by:

- Higher compensation and employee benefits by $3.0 million as a result of higher average employees until hurricane Maria; and

- Higher occupancy and equipment expenses by $2.3 million, primarily due to lower rent income and an increase in internet services.

The efficiency ratio improved to 53.99% from 57.82%. The efficiency ratio measures how much of Oriental's revenues is used to pay operating expenses. Oriental computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, FDIC shared-loss benefit/expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income that are excluded from efficiency ratio computation for 2017 and 2016 amounted to $9.4 million income and a $7.3 million loss, respectively.

Oriental implemented its disaster response plan as hurricanes Irma and Maria approached its service areas. To operate in disaster response mode, Oriental incurred expenses for, among other things, buying diesel and generators for electric power, debris removal, security services, property damages, and emergency communication with customers regarding the status of Bank operations. Estimated losses as of December 31, 2017 amounted to $6.6 million.

Oriental maintains insurance for casualty losses as well as for disaster response costs and certain revenue lost through business interruption. Management believes that recovery of $2.2 million incurred costs as of December 31, 2017 is probable. Oriental received a $1.0 million partial payment from the insurance company in December 2017. Accordingly, a receivable of $1.2 million was included in other assets as of December 31, 2017 for the expected recovery.

Comparison of years ended December 30, 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. The decrease in non-interest expenses was driven by:

- Lower losses on the sale of foreclosed real estate and other repossessed assets by $20.3 million, primarily as a result of the bulk sale of non-performing assets in the third quarter of 2015. That year included $9.1 million 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 from efficiencies in the selling process.

- Lower occupancy and equipment expensed by 9.4% or $3.2 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.

- Lower compensation and employee benefits by 2.8% or $2.2 million, mostly due to the decrease in average employees. In addition, during 2015, Oriental offered a voluntary early retirement program for qualified employees and accumulated an additional compensation expense related to this program.

- Lower professional and service fees by 7.9% or $1.3 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 in 2015.

The decreases in the foregoing non-interest expenses were partially offset by higher information technology expenses of 26.0% or $1.5 million, mainly due to an increase in the data processing expenses.

The efficiency ratio improved to 57.82% from 60.00% for the same period in 2015. Amounts presented as part of non-interest income that are excluded from efficiency ratio computation for 2016 and 2015 amounted to $7.3 million and $24.2 million, respectively.

Provision for Loan and Lease Losses

Comparison of years ended December 31, 2017 and 2016

Provision for loan and lease losses increased 73.9%, or $48.1 million, to $113.1 million. Based on an analysis of the credit quality and the composition of Oriental'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.

Oriental was impacted by hurricanes Irma and Maria, which struck the island on September 7, 2017 and September 20, 2017, respectively. Based on our assessment of the facts related to these hurricanes, we have increased our

provision for loan losses $32.4 million, $17.2 million for originated loans and $15.2 million for acquired loans.

Excluding the special provision made as a result of the hurricanes in 2017, the total provision increased $15.7 million. Provision for originated and other loan and lease losses increased by $17.3 million, mainly from the increase in the provision for commercial loans. Such provision includes $4.3 million recorded to charge-off the loss on sale of a municipal loan and another provision of $5.9 million recorded for the general allowance on the municipal loan portfolio during the second quarter of 2017.

Please refer to the "Allowance for Loan and Lease Losses" in the "Credit Risk Management" section of this MD&A for a more detailed analysis of the allowance 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. During 2015, Oriental changed to non-accrual status the PREPA line of credit and recorded a $53.3 million provision for loan and lease losses related thereto. In addition, in 2015 the Company recognized a provision for loan and lease losses of $32.9 million related to the sale of certain non-performing acquired commercial loans.

Income Taxes

Comparison of years ended December 31, 2017 and 2016

Income tax expense was $15.4 million, compared to $26.0 million, reflecting the effective income tax rate of 22.7% and the net income before income taxes of $68.1 million for 2017, due to higher a proportion of exempt income and income subject to preferential rates.

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 2015, reflecting the effective income tax rate of 30.5% and the net income before income taxes of $85.2 million.

Business Segments

Oriental 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 Oriental's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. Oriental 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. Oriental's methodology for allocating non-interest expenses among segments is based on several factors such as revenue, employee headcount, occupied space, dedicated services or time, among others. Following are the results of operations and the selected financial information by operating segment for the years ended December 31, 2017, 2016 and 2015.

	Year Ended December 31, 2017					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 311,503	$ 53	$ 34,091	$ 345,647	$ -	$ **345,647**
Interest expense	(26,308)	-	(15,167)	(41,475)	-	**(41,475)**
Net interest income	285,195	53	18,924	304,172	-	**304,172**

Provision for loan and lease losses		(113,108)		-		(31)		(113,139)		-		**(113,139)**
Non-interest income		45,102		26,069		7,516		78,687		-		**78,687**
Non-interest expenses		(178,540)		(17,830)		(5,261)		(201,631)		-		**(201,631)**
Intersegment revenue		1,604		-		748		2,352		(2,352)		**-**
Intersegment expenses		(748)		(1,137)		(467)		(2,352)		2,352		**-**
Income before income taxes	$	39,505	$	7,155	$	21,429	$	68,089	$	-	$	**68,089**
Income tax expense		15,407		2,790		(2,754)		15,443		-		**15,443**
Net income	**$**	**24,098**	**$**	**4,365**	**$**	**24,183**	**$**	**52,646**	**$**	**-**	**$**	**52,646**
Total assets	**$**	**5,597,077**	**$**	**25,980**	**$**	**1,536,417**	**$**	**7,159,474**	**$**	**(970,421)**	**$**	**6,189,053**

	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	Year Ended December 31, 2016 (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 (loss)	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 before income taxes	$ 72,023	$ 8,302	$ 4,855	$ 85,180	$ -	**$ 85,180**
Income tax expense	28,089	3,238	(5,333)	25,994	-	**25,994**
Net income	**$ 43,934**	**$ 5,064**	**$ 10,188**	**$ 59,186**	**$ -**	**$ 59,186**
Total assets	**$ 5,584,866**	**$ 23,315**	**$ 1,837,514**	**$ 7,445,695**	**$ (943,871)**	**$ 6,501,824**

	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	Year Ended December 31, 2015 (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	24,004	28,288	284	52,576	-	**52,576**
Non-interest expenses	(219,519)	(22,564)	(6,422)	(248,505)	-	**(248,505)**
Intersegment revenue	1,427	-	948	2,375	(2,375)	**-**
Intersegment expenses	(948)	(1,027)	(400)	(2,375)	2,375	**-**
Income before income taxes	$ (17,342)	$ 4,792	$ (7,508)	$ (20,058)	$ -	**$ (20,058)**

Income tax expense		(6,763)		1,869		(12,660)		(17,554)		-	**(17,554)**
Net income	**$**	**(10,579)**	**$**	**2,923**	**$**	**5,152**	**$**	**(2,504)**	**$**	**-**	**$ (2,504)**
Total assets	**$**	**5,867,874**	**$**	**22,349**	**$**	**2,126,921**	**$**	**8,017,144**	**$**	**(917,995)**	**$ 7,099,149**

Comparison of years ended December 31, 2017 and 2016

Banking

Oriental's banking segment net income before taxes decreased $32.5 million to $39.5 million, reflecting:

- A decrease in net interest income by $8.8 million, mainly from the acquired BBVAPR and Eurobank loan portfolios as such loans continue to be repaid;

- The special provision for loan and lease losses of $32.4 million related to hurricanes Irma and Maria;

- An increase in the provision for loan and lease losses, excluding the aforementioned special hurricane provision, of $15.6 million, which includes $4.3 million recorded to charge-off the loss on sale of a municipal loan and another provision of $5.9 million recorded for the general allowance on the municipal loan portfolio during the second quarter of 2017;

- Higher non-interest income by $9.5 million, reflecting the termination of the FDIC shared-loss agreement in the first quarter of 2017; and

- Lower non-interest expenses by $14.6 million mainly as a result of lower losses on the sale of foreclosed real estate and other repossessed assets by $5.6 million, lower insurance expenses by $3.9 million, lower loan servicing and clearing expenses by $3.6 million, and to lower credit related expenses by $2.3 million.

Wealth Management

Wealth management segment revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased $1.1 million to $7.2 million mainly due to lower activity levels in the third quarter of 2017 related to hurricanes Irma and Maria.

Treasury

Treasury segment net income before taxes, which consists of Oriental's asset/liability management activities, such as purchase and sale of investment securities, interest rate risk management, derivatives, and borrowings, increased to $21.4 million, compared to $4.9 million, reflecting:

- Lower interest expenses on securities sold under agreements to repurchase as a result of (i) the repayment at maturity of a $232.0 million repurchase agreement at 4.78% in March 2017, and (ii) the unwinding of $180.0 million repurchase agreements during 2017; and

- The sale of $166.0 million mortgage-backed securities, generating a gain of $6.9 million during 2017.

Comparison of year ended December 31, 2016 and 2015

Banking

Oriental's banking segment net income before taxes increased $89.4 million 2016, reflecting:

- A decrease in net interest income by $45.2 million, mainly from the acquired BBVAPR and Eurobank loan portfolios as such loans continue to be repaid and a decrease of $15.3 million in cost recoveries on acquired loans;

- A decrease in provision for loan and lease losses of 59.7% or $96.4 million. During 2015, Oriental changed to non-accrual status the PREPA line of credit and recorded a $53.3 million provision for loan and lease losses related thereto. In addition, in 2015 the Company recognized a provision for loan and lease losses of $32.9 million related to the sale of certain non-performing acquired commercial loans;

- Higher non-interest income by $11.7 million, reflecting the expiration of the FDIC commercial and non-single family loans loss share coverage at June 30, 2015, decreasing the FDIC shared-loss expense in 2016 to $13.6 million as compared to $42.8 million; and

- Lower non-interest expense by $26.3 million, primarily reflecting a decrease in foreclosure, repossession and other real estate expenses of $21.8 million as a result of the bulk sale of non-performing assets in 2015. The year 2015 also included a $9.1 million increase in other real estate owned and other mortgage properties markdowns, as part of 2015 de-risking efforts.

Wealth Management

Wealth management revenue increased $3.5 million, reflecting lower non-interest expenses by $5.1 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 segment net income before taxes increased to $4.9 million, compared to a loss of $7.5 million, refecting:

- Lower interest expenses on repurchases agreements and other borrowings of $14.3 million, mainly from the partial unwinding of a repurchase agreement amounting to $268.0 million, which carried a cost of 4.78%, and the repayment of $227.0 million in short term FHLB advances at maturity; and

- Higher non-interest income as Oriental recovered $5.0 million in 2016 from a loss related to a private label collateralized mortgage obligation.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At December 31, 2017, Oriental’s total assets amounted to $6.189 billion representing a decrease of 4.8% when compared to $6.502 billion at December 31, 2016. This reduction is attributable to a decrease in the investment portfolio of $196.5 million, a decrease in the loan portfolio of $91.4 million and a decrease in cash and due from banks of $25.2 million.

Oriental's investment portfolio decreased 14.4% to $1.166 billion at December 31, 2017, mainly attributed to the sale of $166.0 million mortgage-backed securities available-for-sale during the second quarter of 2017, and to paydowns in the investment securities held-to-maturity portfolio of $88.7 million.

Oriental’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, 2017, Oriental’s loan portfolio decreased 2.2%. Our loan portfolio is transitioning as originated loans grow at a slower pace than acquired loans decrease due to repayments and maturities. The BBVAPR acquired loan portfolio decreased $182.0 million from December 31, 2016 to $825.9 million at December 31, 2017. The Eurobank acquired loan portfolio decreased $35.3 million from December 31, 2016 to $99.3 million at December 31, 2017.

Cash and due from banks decreased 4.9% to $485.2 million, due to the repayment of repurchase agreements which were cancelled or matured during 2017.

Accrued income receivable increased by $29.7 million mainly due to interest accrued but not yet collected resulting from the loan payment moratorium.

Financial Assets Managed

Oriental’s financial assets include those managed by Oriental’s trust division, retirement plan administration subsidiary, and assets gathered by its broker-dealer and insurance subsidiaries. Oriental’s trust division offers various types of individual retirement accounts ("IRAs") 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, 2017, total assets managed by Oriental’s trust division and OPC amounted to $3.040 billion, compared

to $2.850 billion at December 31, 2016. Oriental Financial Services offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At December 31, 2017, total assets gathered by Oriental Financial Services and Oriental Insurance from its customer investment accounts amounted to $2.250 billion, compared to $2.351 billion at December 31, 2016. Changes in trust and broker-dealer related assets primarily reflect changes in portfolio balances and differences in market values.

Goodwill

Goodwill recorded in connection with the BBVAPR Acquisition and the FDIC-assisted Eurobank acquisition is not amortized to expense, but is tested at least annually for impairment. A quantitative annual impairment test is not required if, based on a qualitative analysis, Oriental determines that the existence of events and circumstances indicate that it is more likely than not that goodwill is not impaired. Oriental completes its annual goodwill impairment test as of October 31 of each year. Oriental 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. Oriental'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 Oriental's assets.

As of December 31, 2017, Oriental 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 2017, based on its annual goodwill impairment test, Oriental 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 $204.2 million, or 22%. Accordingly, Oriental proceeded to perform step two of the analysis. Based on the results of step two, Oriental determined that the carrying value of the goodwill allocated to the Banking unit was not impaired as of the valuation date. During the year ended December 31, 2017, Oriental performed an assessment of events or circumstances that could trigger reductions in the book value of the goodwill. Based on this assessment, no events were identified that triggered changes in the book value of goodwill at December 31, 2017. As indicated in Note 2 of the consolidated financial statements, during the month of September Hurricanes Irma and Maria made landfall and subsequently caused extensive destruction in Puerto Rico, disrupting the markets in which Oriental does business. The hurricanes have and may continue to impact Oriental's financial results,

which may have an effect on Oriental's estimated fair value. However, Oriental has incorporated this into the step two analysis and determined, based on the information currently available, that there is no indication of impairment of goodwill. Oriental will continue monitoring the impact of the hurricanes as new information becomes available.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION

	December 31		Variance
	2017	2016	%
	(Dollars in thousands)		
Investments:			
FNMA and FHLMC certificates	$ 887,779	$ 1,025,370	-13.4%
Obligations of US government-sponsored agencies	2,879	3,884	-25.9%
US Treasury securities	10,163	49,054	-79.3%
CMOs issued by US government-sponsored agencies	80,071	101,831	-21.4%
GNMA certificates	167,338	165,235	1.3%
Puerto Rico government and public instrumentalities	2,093	4,073	-48.6%
FHLB stock	13,995	10,793	29.7%
Other debt securities	1,538	1,921	-19.9%
Other investments	194	350	-44.6%
Total investments	**1,166,050**	**1,362,511**	**-14.4%**
Loans	**4,056,329**	**4,147,692**	**-2.2%**
Total investments and loans	**5,222,379**	**5,510,203**	**-5.2%**
Other assets:			
Cash and due from banks (including restricted cash)	481,212	507,863	-5.2%
Money market investments	7,021	5,606	25.2%
FDIC indemnification asset	-	14,411	-100.0%
Foreclosed real estate	44,174	47,520	-7.0%
Accrued interest receivable	49,969	20,227	147.0%
Deferred tax asset, net	127,421	124,200	2.6%
Premises and equipment, net	67,860	70,407	-3.6%
Servicing assets	9,821	9,858	-0.4%
Derivative assets	771	1,330	-42.0%
Goodwill	86,069	86,069	0.0%
Other assets and customers' liability on acceptances	92,356	104,130	-11.3%
Total other assets	**966,674**	**991,621**	**-2.5%**
Total assets	**$ 6,189,053**	**$ 6,501,824**	**-4.8%**
Investment portfolio composition:			
FNMA and FHLMC certificates	76.1%	75.2%	
Obligations of US government-sponsored agencies	0.2%	0.3%	
US Treasury securities	0.9%	3.6%	
CMOs issued by US government-sponsored agencies	6.9%	7.5%	
GNMA certificates	14.4%	12.1%	
Puerto Rico government and public instrumentalities	0.2%	0.3%	
FHLB stock	1.2%	0.8%	
Other debt securities and other investments	0.1%	0.2%	
	100.0%	**100.0%**	

TABLE 5 — LOANS RECEIVABLE COMPOSITION

	December 31		Variance
	2017	2016	%
	(In thousands)		
Originated and other loans and leases held for investment:			
Mortgage	$ 683,607	$ 721,494	-5.3%
Commercial	1,307,261	1,277,866	2.3%
Consumer	330,039	290,515	13.6%
Auto and leasing	883,985	756,395	16.9%
	3,204,892	**3,046,270**	**5.2%**
Allowance for loan and lease losses on originated and other loans and leases	(92,718)	(59,300)	-56.4%
	3,112,174	**2,986,970**	**4.2%**
Deferred loan costs, net	6,695	5,766	16.1%
Total originated and other loans loans held for investment, net	**3,118,869**	**2,992,736**	**4.2%**
Acquired loans:			
Acquired BBVAPR loans:			
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	4,380	5,562	-21.3%
Consumer	28,915	32,862	-12.0%
Auto	21,969	53,026	-58.6%
	55,264	**91,450**	**-39.6%**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(3,862)	(4,300)	10.2%
	51,402	**87,150**	**-41.0%**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)			
Mortgage	532,053	569,253	-6.5%
Commercial	243,092	292,564	-16.9%
Consumer	1,431	4,301	-66.7%
Auto	43,696	85,676	-49.0%
	820,272	**951,794**	**-13.8%**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(45,755)	(31,056)	-47.3%
	774,517	**920,738**	**-15.9%**
Total acquired BBVAPR loans, net	**825,919**	**1,007,888**	**-18.1%**
Acquired Eurobank loans:			
Loans secured by 1-4 family residential properties	69,538	73,018	-4.8%
Commercial	53,793	81,460	-34.0%
Consumer	1,112	1,372	-19.0%

		124,443		**155,850**	**-20.2%**
Allowance for loan and lease losses on Eurobank loans		(25,174)		(21,281)	-18.3%
Total acquired Eurobank loans, net		**99,269**		**134,569**	**-26.2%**
Total acquired loans, net		**925,188**		**1,142,457**	**-19.0%**
Total held for investment, net		**4,044,057**		**4,135,193**	**-2.2%**
Mortgage loans held for sale		**12,272**		**12,499**	**-1.8%**
Total loans, net	**$**	**4,056,329**	**$**	**4,147,692**	**-2.2%**

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

As shown in Table 5 above, total loans, net, amounted to $4.056 billion at December 31, 2017 and $4.148 billion at December 31, 2016. Oriental's originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to $683.6 million (21.3% of the gross originated loan portfolio) compared to $721.5 million (23.7% of the gross originated loan portfolio) at December 31, 2016. Mortgage loan production totaled $137.8 million for the year December 31, 2017, which represents a decrease of 33.8% from $208.2 million in 2016. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $8.3 million and $9.7 million at December 31, 2017 and 2016, respectively. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

- Commercial loan portfolio amounted to $1.307 billion (40.8% of the gross originated loan portfolio) compared to $1.278 billion (42.0% of the gross originated loan portfolio) at December 31, 2016. Commercial loan production, including US Loan Programs production of $39.4 million, increased 1.8% to $300.2 million for the year ended December 31, 2017, from $295.0 million in 2016.

- Consumer loan portfolio amounted to $330.0 million (10.3% of the gross originated loan portfolio) compared to $290.5 million (9.5% of the gross originated loan portfolio) at December 31, 2016. Consumer loan production decreased 7.0% to $148.6 million for the year ended December 31, 2017 from $159.8 million in 2016.

- Auto and leasing portfolio amounted to $884.0 million (27.6% of the gross originated loan portfolio) compared to $756.4 million (24.8% of the gross originated loan portfolio) at December 31, 2016. Auto and leasing production increased by 16.3% to $331.2 million for the year ended December 31, 2017 compared to $284.8 million in 2016.

The following table summarizes the remaining contractual maturities of Oriental's total gross non-covered loans, excluding loans accounted for under ASC 310-30, segmented to reflect cash flows as of December 31, 2017. 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	$ 683,607	$ 2,732	$ 11,040	$ -	$ 669,835	$ -
Commercial	1,307,261	728,264	487,547	-	91,450	-
Consumer	330,039	36,060	232,679	-	61,300	-
Auto and leasing	883,985	2,847	407,809	-	473,329	-
Total	$ **3,204,892**	**769,903**	**1,139,075**	**-**	**1,295,914**	**-**
Acquired loans accounted under ASC 310-20						
Commercial	2,940	2,940	-	-	-	-
Commercial secured by real estate	1,440	1,299	141	-	-	-
Consumer	28,915	28,915	-	-	-	-
Auto	21,969	7,128	14,841	-	-	-
Total	$ **55,264**	**$ 40,282**	**$ 14,982**	**$ -**	**-**	**$ -**

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TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	December 31, 2017								
	Higher-Risk Residential Mortgage Loans*								
	Junior Lien Mortgages			Interest Only Loans			High Loan-to-Value Ratio Mortgages LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 9,209	$ 291	3.16%	$ 9,560	$ 461	4.82%	$ 70,475	$ 1,606	2.28%
90 - 119 days	593	27	4.55%	136	6	4.41%	1,556	66	4.24%
120 - 179 days	21	2	9.52%	-	-	0.00%	326	14	4.29%
180 - 364 days	69	9	13.04%	-	-	0.00%	1,069	67	6.27%
365+ days	354	57	16.10%	2,435	360	14.78%	8,380	702	8.38%
Total	$ 10,246	$ 386	3.77%	$ 12,131	$ 827	6.82%	$ 81,806	$ 2,455	3.00%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.31%			0.37%			2.51%		
Refinanced or Modified Loans:									
Amount	$ 1,970	$ 216	10.96%	$ 535	$ 58	10.84%	$ 16,149	$ 1,283	7.94%
Percentage of Higher-Risk Loan Category	19.23%			4.41%			19.74%		
Loan-to-Value Ratio:									
Under 70%	$ 6,787	$ 254	3.74%	$ 762	$ 34	4.46%	$ -	$ -	-
70% - 79%	1,540	95	6.17%	3,047	162	5.32%	-	-	-
80% - 89%	515	18	3.50%	3,194	224	7.01%	-	-	-
90% and over	1,404	19	1.35%	5,128	407	7.94%	81,806	2,455	3.00%
	$ 10,246	$ 386	3.77%	$ 12,131	$ 827	6.82%	$ 81,806	$ 2,455	3.00%

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

Deposits from the Puerto Rico government totaled $153.1 million at December 31, 2017. The following table includes Oriental'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, 2017				
			Maturity		
Loans and Securities:	**Carrying Value**	**Less than 1 Year**	**1 to 3 Years**	**More than 3 Years**	**Comments**
	(In thousands)				
Municipalities	$ 145,167	$ 5,272	$ 95,685	$ 44,210	Secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations.
Investment securities	2,093	2,093	-	-	The remaining position is a PRHTA security maturing July 1, 2018 issued for P3 Project Teodoro Moscoso Bridge operated by private companies that have the payment obligation.
Total	**$ 147,260**	**$ 7,365**	**$ 95,685**	**$ 44,210**	

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Credit Risk Management

Allowance for Loan and Lease Losses

Oriental maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. Oriental's allowance for loan and lease losses ("ALLL") policy provides for a detailed quarterly analysis of probable losses. At December 31, 2017, Oriental's allowance for loan and lease losses amounted to $167.5 million, a $51.6 million increase from $115.9 million at December 31, 2016.

As discussed in Note 2 to the consolidated financial statements, during 2017, hurricanes Irma and Maria caused catastrophic damages throughout Puerto Rico. Although the effect of the hurricanes on Oriental's loan portfolio is difficult to predict at this time, management performed an evaluation of the loan portfolios in order to assess the impact on repayment sources and underlying collateral that could result in additional losses.

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

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

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

For the retail portfolios, mortgage, consumer and auto, the assumptions established in the initial estimate were based on the historical losses of each ALLL segment and then further adjusted based on parameters used as key risk indicators, such as the industry of employment for all portfolios and the location of the collateral for mortgage loans.

During the fourth quarter of 2017, Oriental performed additional procedures to evaluate the reasonability of the initial estimate based on the payment experience % of borrowers for which the deferral period expired. The analysis took into consideration historical payment behavior and loss experience of borrowers (PDs and LGDs) of each portfolio segment to develop a range of estimated potential losses. Management understands that this approach is reasonable given the lack of historical information related to the behavior of local borrowers in such an unprecedented event. The amount used in the analysis represents the average of potential outcomes of expected losses.

The documentation for the assessments considers all information available at the moment. Oriental will continue to assess the impact to our customers and our businesses as a result of the hurricanes and refine our estimates as more information becomes available.

Based on the analysis above and in accordance with ASC 450-20-25-2, we have increased our provision for loan losses during 2017 by $32.4 million in relation to these events. The increase in the allowance corresponding to our originated loan portfolio was $17.5 million: $3.8 million in mortgage loans, $7.3 million in commercial loans, $1.7 million in consumer loans, and $4.7 million in auto loans. The increase in the allowance corresponding to our acquired loan portfolio was $14.9 million: $6.7 million in mortgage loans, $7.9 million in commercial loans, and $0.3 million in auto loans.

The documentation for the assessments considers all information available at the moment; gathered through visits or interviews with our clients, inspections of collaterals, identification of most affected areas and industries. Oriental will continue to assess the impact to our customers and our businesses as a result of the hurricanes and refine our estimates as more information becomes available.

Tables 8 through 10 set forth an analysis of activity in the ALLL and present selected loan loss statistics. In addition, Table 5 sets forth the composition of the loan portfolio.

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

Oriental's non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At December 31, 2017 and 2016, Oriental had $99.7 million and $104.1 million, respectively, of non-accrual loans, including acquired BBVAPR loans accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium).

At December 31, 2017 and 2016, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $109.2 million and $98.1 million, respectively.

Delinquent residential mortgage loans insured or guaranteed under applicable FHA and VA programs are classified as non-performing loans when they become 90 days or more past due, but are not placed in non-accrual status until they become 12 months or more past due, since they are insured loans. Therefore, these loans are included as non-performing loans but excluded from non-accrual loans.

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, 2017, Oriental's non-performing assets decreased by 0.2% to $156.7 million (2.61% of total assets, excluding acquired loans with deteriorated credit quality) from $156.9 million (2.88% of total assets, excluding acquired loans with deteriorated credit quality) at December 31, 2016. Oriental does not expect non-performing loans to result in significantly higher losses. At December 31, 2017, the allowance for originated loan and lease losses to non-performing loans coverage ratio was 87.35% (56.30% at December 31, 2016).

Oriental 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, Oriental 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 12 months or more past due. At December 31, 2017, Oriental's originated non-performing mortgage loans totaled $64.1 million (58.9% of Oriental's non-performing loans), a 14.0% decrease from $74.5 million (68.9% of Oriental's non-performing loans) at December 31, 2016.

Commercial loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At December 31, 2017, Oriental's originated non-performing commercial loans amounted to $35.3 million (32.42% of Oriental's non-performing loans), a 78.2% increase from $19.8 million at December 31, 2016 (18.3% of Oriental's non-performing loans).

Consumer loans — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days in personal loans and 180 days in credit cards and personal lines of credit. At December 31, 2017, Oriental's originated non-performing consumer loans amounted to $2.6 million (2.4% of Oriental's non-performing loans), a 29.5% increase from $2.0 million at December 31, 2016 (1.8% of Oriental's non-performing loans).

Auto loans and leases — are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At December 31, 2017, Oriental's originated non-performing auto loans and leases amounted to $4.2 million (3.9% of Oriental's total non-performing loans), a decrease of 53.2% from $9.1 million at December 31, 2016 (8.4% of Oriental'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, 2017, Oriental's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $1.3 million (1.2% of Oriental's non-performing loans), a 10.2% decrease from $1.4 million at December 31, 2016 (1.3% of Oriental'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, 2017, Oriental's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $1.4 million (1.2% of Oriental's non-performing loans), a 63.6% increase from $828 thousand at December 31, 2016 (0.8% of Oriental'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, 2017, Oriental's acquired non-performing auto loans accounted for under ASC 310-20 totaled $179 thousand (0.2% of Oriental's non-performing loans), a 67.6% decrease from $552 thousand at December 31, 2016 (0.5% of Oriental's non-performing loans).

As a result of the devastation caused by hurricanes Irma and Maria, Oriental offered an automatic three-month moratorium for the payment due on auto and personal loans for customers whose payments were not over 89 days past due at August 31, 2017. These payments, together with any additional accrued interest, are payable in three installments after the original maturity of the loans. Residential mortgage loans have the same moratorium, but the payments subject to the moratorium on non-conforming loans are payable in aggregate as a balloon payment at the maturity of the loan and on conforming mortgage loans the repayment terms are established on a case by case basis at the end of the moratorium period. For credit cards, that were not over 29 days past due at August 31, 2017, the minimum payment amount was waived until December 31, 2017. Oriental also offered an automatic one-month moratorium for the payment of principal and interest on commercial loans for customers whose payments were not over 30 days past due at August 31, 2017, and the flexibility of extending it up to two additional months, based on the customer's needs. Oriental had approximately 83 thousand loans under the moratorium program amounting to $2.6 billion at December 31, 2017. The level of delinquencies for mortgage and auto loans as of December 31, 2017 was impacted by the loan moratorium. Although the repayment schedule was modified as part of the moratorium, certain borrowers continued to make payments, having an impact on the respective delinquency status.

Oriental 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 Oriental's losses on non-performing mortgage loans.

The Loss Mitigation Program helps mortgage borrowers who are or will become financially unable to meet the current or scheduled mortgage payments. Loans that qualify under this program are those guaranteed by FHA, VA, PRHFA, conventional loans guaranteed by Mortgage Guaranty Insurance Corporation (MGIC), conventional loans sold to FNMA and FHLMC, and conventional loans retained by Oriental. 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/interest 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 pursuant Oriental’s current credit and underwriting guidelines. Oriental 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, it 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 Oriental 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, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Originated and other loans held for investment			
Allowance balance:			
Mortgage	$ 20,439	$ 17,344	17.8%
Commercial	30,258	8,995	236.4%
Consumer	16,454	13,067	25.9%
Auto and leasing	25,567	19,463	31.4%
Unallocated allowance	-	431	-100.0%
Total allowance balance	**$ 92,718**	**$ 59,300**	**56.4%**
Allowance composition:			
Mortgage	22.04%	29.24%	-24.6%
Commercial	32.63%	15.17%	115.1%
Consumer	17.75%	22.04%	-19.5%
Auto and leasing	27.58%	32.82%	-16.0%
Unallocated allowance	0.00%	0.73%	-100.0%
	100.00%	**100.00%**	
Allowance coverage ratio at end of period applicable to:			
Mortgage	2.99%	2.40%	24.6%
Commercial	2.31%	0.70%	230.0%
Consumer	4.99%	4.50%	10.9%
Auto and leasing	2.89%	2.57%	12.5%
Total allowance to total originated loans	**2.89%**	**1.95%**	**48.2%**
Allowance coverage ratio to non-performing loans:			
Mortgage	31.89%	23.28%	37.0%
Commercial	85.83%	45.46%	88.8%
Consumer	639.74%	657.96%	-2.8%
Auto and leasing	604.14%	215.01%	181.0%
Total	**87.35%**	**56.30%**	**55.2%**

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

	December 31, 2017	December 31, 2016	Variance %
	(Dollars in thousands)		
Acquired BBVAPR loans accounted for under ASC 310-20			
Allowance balance:			
Commercial	$ 42	$ 169	-75.1%
Consumer	3,225	3,028	6.5%
Auto	595	1,103	-46.1%
Total allowance balance	**$ 3,862**	**$ 4,300**	**-10.2%**
Allowance composition:			
Commercial	1.09%	3.93%	-72.3%
Consumer	83.50%	70.42%	18.6%
Auto	15.41%	25.65%	-39.9%
	100.00%	**100.00%**	
Allowance coverage ratio at end of period applicable to:			
Commercial	0.96%	3.04%	-68.4%
Consumer	11.15%	9.21%	21.1%
Auto	2.71%	2.08%	30.3%
Total allowance to total acquired loans	**6.99%**	**4.70%**	**48.7%**
Allowance coverage ratio to non-performing loans:			
Commercial	3.31%	11.94%	-72.3%
Consumer	238.01%	365.70%	-34.9%
Auto	332.40%	199.82%	66.3%
Total	**137.73%**	**153.85%**	**-10.5%**

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

	December 31,		Variance
	2017	2016	%
	(Dollars in thousands)		
Acquired BBVAPR loans accounted for under ASC 310-30			
Allowance balance:			
Mortgage	$ 14,085	$ 2,682	425.2%
Commercial	23,691	23,452	1.0%
Consumer	18	-	100.0%
Auto	7,961	4,922	61.7%
Total allowance balance	**$ 45,755**	**$ 31,056**	**47.3%**
Allowance composition:			
Mortgage	30.78%	8.64%	256.3%
Commercial	51.78%	75.52%	-31.4%
Consumer	0.04%	-0.01%	-500.0%
Auto	17.40%	15.85%	9.8%
	100.00%	**100.00%**	
Acquired Eurobank loans accounted for under ASC 310-30			
Allowance balance:			
Mortgage	$ 15,187	$ 11,947	27.1%
Commercial	9,982	9,328	7.0%
Consumer	5	6	-16.7%
Total allowance balance	**$ 25,174**	**$ 21,281**	**18.3%**
Allowance composition:			
Mortgage	60.33%	56.14%	7.5%
Commercial	39.64%	43.83%	-9.6%
Consumer	0.02%	0.03%	-33.3%
	100.0%	**100.0%**	

TABLE 9 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY

	Year Ended December 31,			
	2017	2016	Variance %	2015
	(Dollars in thousands)			
Originated and other loans:				
Balance at beginning of year	$ 59,299	$ 112,626	-47.3%	$ 51,439
Provision for loan and lease losses	79,886	45,058	77.3%	99,336
Charge-offs	(61,856)	(112,497)	-45.0%	(53,001)
Recoveries	15,389	14,113	9.0%	14,852
Balance at end of year	**$ 92,718**	**$ 59,300**	**56.4%**	**$ 112,626**
Acquired loans:				
BBVAPR loans				
Acquired loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 4,300	$ 5,542	-22.4%	$ 4,597
Provision for loan and lease losses	1,847	2,255	-18.1%	7,469
Charge-offs	(4,156)	(5,816)	-28.5%	(9,345)
Recoveries	1,871	2,319	-19.3%	2,821
Balance at end of year	**$ 3,862**	**$ 4,300**	**-10.2%**	**$ 5,542**
Acquired loans accounted for under ASC 310-30:				
Balance at beginning of period	$ 31,056	$ 25,785	20.4%	$ 13,481
Provision for loan and lease losses	24,681	15,508	59.2%	16,656
Loan pools fully charged off	-	(282)	-100.0%	(4,352)
Allowance de-recognition	(9,982)	(9,955)	0.3%	-
Balance at end of period	**$ 45,755**	**$ 31,056**	**47.3%**	**$ 25,785**
Eurobank loans				
Balance at beginning of year	$ 21,281	$ 90,178	-76.4%	$ 64,245
Provision for loan and lease losses	6,725	2,255	198.2%	38,040
FDIC shared-loss portion on provision for loan and lease losses	-	3,391	-100.0%	2,503
Loan pools fully charged off	-	(134)	-100.0%	(14,610)
Allowance de-recognition	(2,832)	(74,409)	-96.2%	-

Balance at end of year	**$**	**25,174**	**$**	**21,281**	**18.3%**	**$**	**90,178**

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

	Year Ended December 31,			
	2017	2016	Variance %	2015
	(Dollars in thousands)			
Originated and other loans and leases:				
Mortgage				
Charge-offs	$ (6,623)	$ (6,767)	-2.1%	$ (5,397)
Recoveries	585	330	77.3%	391
Total	**(6,038)**	**(6,437)**	**-6.2%**	**(5,006)**
Commercial				
Charge-offs	(7,684)	(62,445)	-87.7%	(5,546)
Recoveries	1,281	460	178.5%	432
Total	**(6,403)**	**(61,985)**	**-89.7%**	**(5,114)**
Consumer				
Charge-offs	(13,641)	(11,554)	18.1%	(8,683)
Recoveries	1,209	452	167.5%	871
Total	**(12,432)**	**(11,102)**	**12.0%**	**(7,812)**
Auto				
Charge-offs	(33,908)	(31,731)	6.9%	(33,375)
Recoveries	12,314	12,871	-4.3%	13,158
Total	**(21,594)**	**(18,860)**	**14.5%**	**(20,217)**
Net credit losses				
Total charge-offs	(61,856)	(112,497)	-45.0%	(53,001)
Total recoveries	15,389	14,113	9.0%	14,852
Total	**$ (46,467)**	**$ (98,384)**	**-52.8%**	**$ (38,149)**
Net credit losses to average loans outstanding:				
Mortgage	0.87%	0.87%	0.5%	0.65%
Commercial	0.51%	4.47%	-88.6%	0.38%
Consumer	4.22%	4.39%	-3.8%	3.85%
Auto	2.64%	2.63%	0.3%	3.21%
Total	**1.52%**	**3.18%**	**-52.1%**	**1.30%**
Recoveries to charge-offs	**24.88%**	**12.55%**	**98.3%**	**28.02%**
Average originated loans:				
Mortgage	$ 697,873	743,838	-6.2%	771,322
Commercial	1,251,051	1,385,421	-9.7%	1,336,510
Consumer	294,572	253,069	16.4%	202,971
Auto	818,155	716,373	14.2%	629,910
Total	**$ 3,061,651**	**$ 3,098,701**	**-1.2%**	**$ $2,940,713**

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

	Year Ended December 31,			
	2017	2016	Variance %	2015
	(Dollars in thousands)			
Acquired loans accounted for under ASC 310-20:				
Commercial				
Charge-offs	$ (132)	$ (42)	214.3%	$ (42)
Recoveries	5	73	-93.2%	31
Total	**(127)**	**31**	**-509.7%**	**(11)**
Consumer				
Charge-offs	(3,048)	(3,619)	-15.8%	(4,755)
Recoveries	446	301	48.2%	680
Total	**(2,602)**	**(3,318)**	**-21.6%**	**(4,075)**
Auto				
Charge-offs	(976)	(2,155)	-54.7%	(4,548)
Recoveries	1,420	1,945	-27.0%	2,110
Total	**444**	**(210)**	**-311.4%**	**(2,438)**
Net credit losses				
Total charge-offs	(4,156)	(5,816)	-28.5%	(9,345)
Total recoveries	1,871	2,319	-19.3%	2,821
Total	**$ (2,285)**	**$ (3,497)**	**-34.7%**	**$ (6,524)**
Net credit losses to average loans outstanding:				
Commercial	32.82%	-5.78%	-667.4%	1.31%
Consumer	4.49%	5.55%	-19.1%	6.59%
Auto	-1.15%	0.28%	-507.8%	1.27%
Total	**2.36%**	**2.60%**	**-9.2%**	**2.56%**
Recoveries to charge-offs	**45.02%**	**39.87%**	**12.9%**	**30.19%**
Average loans accounted for under ASC 310-20:				
Commercial	$ 387	536	-27.8%	840
Consumer	57,971	59,772	-3.0%	61,842
Auto	38,587	74,431	-48.2%	192,058
Total	**$ 96,945**	**$ 134,739**	**-28.0%**	**$ 254,740**

TABLE 11 — NON-PERFORMING ASSETS

	December 31,		Variance
	2017	2016	(%)