Annual Report 2018

OFGBancorp

Live the Difference™

Live the Difference / *Vive la Diferencia*

Now in its 55th year in business, OFG Bancorp is a diversified financial holding company that operates under U.S. and Puerto Rico banking laws and regulations.

Our principal subsidiaries – Oriental Bank, Oriental Financial Services and Oriental Insurance – provide retail and commercial banking, lending and wealth management products, services and technology, primarily in Puerto Rico.

We invite customers to *Live the Difference* by making banking *Fácil, Rápido, Hecho* (Easy, Fast, Done).

Combining the best of brick-and-mortar and innovative technology, we are dedicated to making Oriental more convenient, more helpful, and easier to use.

The end result is an unparalleled level of value-added service that enables our customers to achieve more.

Visit us at www.orientalbank.com and www.ofgbancorp.com.

TO OUR SHAREHOLDERS

In line with our slogan – Live the Difference *(Vive la Diferencia)* – OFG Bancorp achieved strong growth in 2018 as we continued to make a difference for both our customers and shareholders.

Once again, we are bringing our yearly report to life through our 2018 digital annual report site. Please visit http://annualreport.orientalbank.com to see and hear our results and strategic initiatives.

Thank you.

José Rafael Fernández
President, CEO, Vice Chairman of the Board

Form 10-K

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, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File 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)
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 ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange 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 $618.0 million as of June 30, 2018 based upon 43,983,195 shares outstanding and the reported closing price of $14.05 on the New York Stock Exchange on that date.

As of February 28, 2019, the Company had 51,318,899 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement relating to the 2019 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, 2018

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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 expressions and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions are generally intended to identify forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which by their nature are beyond 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 municipalities of the government of Puerto Rico;
- amendments to the fiscal plan approved by the Financial Oversight and Management Board for Puerto Rico;
- determinations in the court-supervised debt-restructuring process under Title III of PROMESA for the Puerto Rico government and all of its agencies, including some of its public corporations;
- the impact of property, credit and other losses in Puerto Rico as a result of hurricanes, earthquakes and other natural disasters;
- the amount of government, private and philanthropic financial assistance for the reconstruction of Puerto Rico's critical infrastructure, which suffered catastrophic damages caused by hurricane Maria;
- the pace and magnitude of Puerto Rico's economic recovery;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the relative strength or weakness of the commercial and consumer credit sectors and the real estate market in Puerto Rico;
- the performance of the stock and bond markets;
- competition in the financial services industry; and
- possible legislative, tax or regulatory changes.

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

All forward-looking statements included in this 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 37 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 29 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 37 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 and 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 BBVA (the "BBVAPR Acquisition") and services the GNMA, FNMA, and FHLMC pools that it 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 proprietary 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. The proprietary credit scoring system is a fundamental part of the decision process.

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 provides Oriental with cross-marketing opportunities under the legal framework established by the 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 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 transactional account products and loans with competitive terms, emphasizing the quality of its service, pricing its products at competitive interest rates, offering convenient branch locations, and 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.

Oriental is also developing new commercial relationships in the United States, as it launched in late 2017 the U.S. commercial loan program, generally consisting of purchases of loan participations in credit facilities to commercial borrowers in the U.S. mainland.

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 that law, 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 implemented 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 established 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 based on the framework of the Basel Committee on Banking Supervision in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" ("Basel III"), which 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 Basel III 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 Basel III 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 such 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. Furthermore, on September 30, 2018, the reserve ratio reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35% ahead of the September 30, 2020 deadline required under the Dodd-Frank Act, and small institutions like the Bank were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%, which will be applied when the reserve ratio is at least 1.38%.

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, 2018, the Bank is a well capitalized institution and is therefore not subject to these limitations on brokered deposits.

However, under the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018, which amended the FDIA, reciprocal deposits are excluded from such limitations if the total reciprocal deposits of the institution do not exceed 20% of its total liabilities. Reciprocal deposits are deposits that banks make with each other in equal amounts.

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 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 Basel III 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 Basel III framework, the 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' capital rules, which have previously resided in various appendices to their respective regulations, into a harmonized integrated regulatory framework.

Under the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018, federal banking agencies must develop a Community Bank Leverage Ratio (i.e., the ratio of a bank's equity capital to its average total consolidated assets) for banks with assets of less than $10 billion. Such banks that exceed this ratio will generally be deemed to in compliance with all other capital and leverage requirements. On November 21, 2018, the federal banking agencies issued a proposal to simplify regulatory capital requirements for qualifying community banking organizations, as required by this law.

Failure to meet the capital rules 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, 2018, 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, 2018 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 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, 2018 and 2017, legal surplus amounted to $90.2 million and $81.5 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 Cooperatives. It has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and businesses in the Commonwealth. The current regulations of the Puerto Rico Finance Board provide that the applicable interest rate on loans to individuals and 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

Under the Puerto Rico Internal Revenue Code of 2011, as amended (the "PR Code"), a corporation pays taxes at a fixed rate of 18.5% (the regular corporate tax) plus a surtax that ranges from 5% for net income subject to surtax in excess of $75,000 to 19% for net income subject to surtax in excess of $275,000. Net income subject to surtax is net income less $25,000. The maximum regular corporate tax decreased to 18.5% for tax years beginning after December 31, 2018. The result is a maximum combined rate of 37.5% (previously the maximum combined rate was 39%) under the PR Code for years beginning after December 31, 2018. The Bank and other subsidiaries 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 Treasury of 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 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. On December 2018, the Puerto Rico government enacted Act 257-2018 which, among other changes, (i) reduced the maximum corporate income tax rate to 37.5%, from 39%, (ii) increased the net operating losses deduction and carry forward deduction to 90% of taxable income, previously 80%, (iii) included a restriction of the use of partnership gains to offset current and accumulated operating losses generated by a corporate partner, (iv) required that the corporate income tax returns of "large taxpayers" be certified as prepared or reviewed by a Puerto Rico licensed certified public accountant, (v) increased the limitation on the partnership or special partnership loss deduction to 90% (from 80%) of the aggregate net income of partnerships or special partnerships, (vi) increased the limitation of capital losses carryover to 90% (previously 80%) of capital gains for the taxable year, and (vii) amended the formula to compute the alternative minimum tax ("AMT"), which now would be the greater of $500 or 23% of the AMT taxable income (previously 30%).

International Banking Center Regulatory Act of Puerto Rico

The business and operations of the Bank's IBE Unit and IBE Subsidiary are subject to supervision and regulation by the OCFI. Under the IBE Act, no sale, encumbrance, assignment, merger, exchange or transfer of shares, interest or participation in the capital of an IBE may be initiated without the prior approval of the OCFI if by such transaction a person would acquire, directly or indirectly, control of 10% or more of any class of stock, interest or participation in the capital of the IBE. The IBE Act and the regulations issued thereunder by the OCFI (the "IBE Regulations") limit the business activities that may be carried out by an IBE. Such activities are generally limited 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 in Puerto Rico.

Pursuant to the IBE Act and the IBE Regulations, the Bank's IBE Unit and IBE Subsidiary have to maintain in Puerto Rico the 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 bank holding companies, 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.

The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 amended the BHC Act to exempt from the Volcker Rule those bank holding companies, insured depository institutions and their affiliates with total assets that do not exceed $10 billion and trading assets and liabilities comprising not more than 5% of their total assets. Therefore, banking entities that meet such threshold may generally engage in proprietary trading and invest in private equity and hedge funds. On December 21, 2018, the federal banking agencies proposed rules to implement such exemption.

Employees

At December 31, 2018, Oriental had 1,392 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 economic and government fiscal and liquidity challenges, as well as the impact of two major hurricanes during 2017, have adversely impacted and may continue to adversely impact us.

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.

Puerto Rico entered recession in the fourth quarter of fiscal year 2006 and its gross national product (GNP) thereafter contracted in real terms every year between fiscal years 2007 and 2017 (inclusive), except fiscal year 2012. Real GNP is projected to have further contracted by approximately 5.6% in fiscal year 2018 according to the latest Puerto Rico Planning Board (the "Planning Board") estimates, exacerbated by the impact of hurricanes Irma and María in September 2017. The Planning Board estimates a 3.5% increase in GNP in fiscal year 2019, in part due to the influx of federal funds and private insurance payments following the impact of the hurricanes. Hurricane Irma and Maria caused extensive destruction in Puerto Rico, disrupting the primary market in which Oriental does business. The damage caused by the hurricanes was substantial and had a material adverse impact on economic activity in Puerto Rico.

The Commonwealth's fiscal and economic crisis prompted the U.S. Congress to enact the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") in June 2016. PROMESA, among other things, established a seven-member federally-appointed oversight board (the "Oversight Board") with broad powers over the finances of the Commonwealth and its instrumentalities and provided to the Commonwealth, its public corporations and municipalities, broad-based restructuring authority, including through a bankruptcy-type process similar to that of Chapter 9 of the U.S. Bankruptcy Code. In August 2016, President Obama appointed the seven voting members of the Oversight Board through the process established in PROMESA, which authorized the President to select the members from several lists required to be submitted by congressional leaders. On February 15, 2019, however, the First Circuit of the U.S. Court of Appeals (the "First Circuit") declared such appointments unconstitutional on the grounds that they did not comply with the Appointments Clause of the U.S. Constitution, which requires that principal federal officers be appointed by the President, with the advice and consent of the U.S. Senate. The First Circuit's decision provides that its mandate will not issue for 90 days, so as to allow the President and the U.S. Senate to validate the currently defective appointments or reconstitute the Oversight Board in accordance with the Appointments Clause. Such process may delay the Commonwealth's efforts to restructure its debts and create additional uncertainty regarding the Commonwealth's prospects for fiscal and economic recovery.

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."

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, 2018, we had approximately $135.9 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 enough 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 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, 2018, we repurchased $7.7 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 2017 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 default. 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 continues 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 22% of our total interest-bearing liabilities as of December 31, 2018.

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 Basel III 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, 2018, we had on our consolidated balance sheet $86.1 million of goodwill in connection with the BBVAPR Acquisition and the FDIC-assisted Eurobank acquisition, $2.5 million of core deposit intangible in connection with the FDIC-assisted Eurobank acquisition and the BBVAPR Acquisition, and $0.9 million of customer relationship intangible in connection with the BBVAPR Acquisition. There can be no assurance that future evaluations of such goodwill or intangibles will not result in any impairment charges. Among other factors, further declines in our common stock as a result of macroeconomic conditions and the general weakness of the Puerto Rico economy, could lead to an impairment of such assets. If such assets become impaired, it could have a negative impact on our results of operations.

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

Legislative changes, particularly changes in tax laws, could adversely impact our results of operations. In an effort to address the Commonwealth's ongoing fiscal problems, the Puerto Rico government has enacted tax reforms 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 May 2015, the government approved an increase in the Puerto Rico sales and use tax, effective July 1, 2015, from 7% to 11.5%, included a new 4% business to business tax and expanded the sales and use tax to certain business services that were previously exempt. In addition, in December 2018, the Puerto Rico government enacted Act 257-2018, which reduced the maximum corporate income tax rate from 39% to 37.5% included a restriction on the use of partnership gains to offset current and accumulated operating losses generated by a corporate partner and amended the formula to compute the AMT, among other changes, as described above under "Puerto Rico Internal Revenue Code," Item 1. The recent change in tax rate resulted in a reduction of our deferred tax assets, with a corresponding non-cash increase to income tax expense.

We operate the IBE Unit and IBE Subsidiary pursuant to the IBE Act which provides significant tax advantages. The IBEs have an exemption 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 an effective tax rate below the maximum statutory tax rate. 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. Any newly organized "international financial entity" must be licensed under a 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") are generally subject to a 4% Puerto Rico income tax rate. In the event other legislation is enacted by the Puerto Rico government to eliminate or modify the tax exemption provided to IBEs, the consequences could have a materially adverse impact on our financial results, including an increase in income tax expense and consequently our effective tax rate, adversely affecting our financial condition, results of operations and 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 84% of the office floor space. Approximately 3% of the office space is leased to outside tenants and 13% is available for lease.

The Bank owns five branch premises and leases thirty-two 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, 2018, the aggregate future rental commitments under the terms of the leases, exclusive of taxes, insurance and maintenance expenses payable by Oriental, was approximately $24.4 million.

Oriental's investment in premises and equipment, exclusive of leasehold improvements at December 31, 2018, 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, 2018 and 2017, 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.

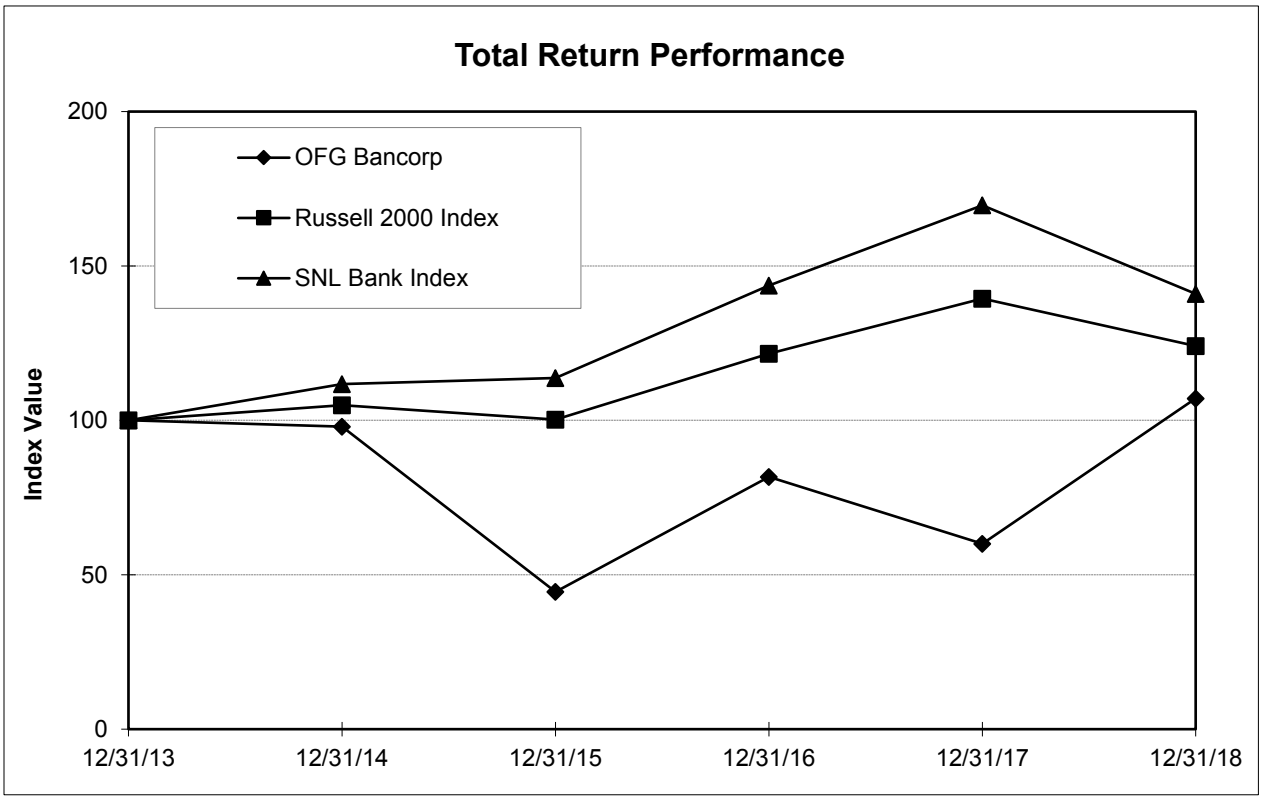
As of December 31, 2018, Oriental had approximately 6,340 holders of record of its common stock, including all directors and officers of Oriental, and beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees.

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, 2013, 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	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
OFG Bancorp	100.00	97.98	44.47	81.72	60.09	107.12
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
SNL Bank	100.00	111.79	113.69	143.65	169.64	140.98

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, 2018, 2017, 2016, 2015, AND 2014

	Year Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
EARNINGS DATA:	(In thousands, except per share data)				
Interest income	$ 360,419	$ 345,647	$ 356,592	$ 406,568	$ 485,257
Interest expense	44,525	41,475	57,165	69,196	76,782
Net interest income	**315,894**	**304,172**	**299,427**	**337,372**	**408,475**
Provision for loan and lease losses	56,108	113,139	65,076	161,501	60,640
Net interest income after provision for loan and leases losses	**259,786**	**191,033**	**234,351**	**175,871**	**347,835**
Non-interest income	80,095	78,687	66,819	52,472	17,323
Non-interest expenses	207,081	201,631	215,990	248,401	242,725
Income (loss) before taxes	**132,800**	**68,089**	**85,180**	**(20,058)**	**122,433**
Income tax (benefit) expense	48,390	15,443	25,994	(17,554)	37,252
Net income (loss)	**84,410**	**52,646**	**59,186**	**(2,504)**	**85,181**
Less: dividends on preferred stock	(12,024)	(13,862)	(13,862)	(13,862)	(13,862)
Income (loss) available to common shareholders	**$ 72,386**	**$ 38,784**	**$ 45,324**	**$ (16,366)**	**$ 71,319**
PER SHARE DATA:					
Basic	**$ 1.59**	**$ 0.88**	**$ 1.03**	**$ (0.37)**	**$ 1.58**
Diluted	**$ 1.52**	**$ 0.88**	**$ 1.03**	**$ (0.37)**	**$ 1.50**
Average common shares outstanding	**45,400**	**43,939**	**43,913**	**51,455**	**45,024**
Average common shares outstanding and equivalents	**51,349**	**51,096**	**51,088**	**44,231**	**52,326**
Cash dividends declared per common share	**$ 0.25**	**0.24**	**0.24**	**0.36**	**0.34**
Cash dividends declared on common shares	**$ 11,511**	**10,553**	**10,544**	**15,932**	**15,286**
PERFORMANCE RATIOS:					
Return on average assets (ROA)	**1.31%**	**0.84%**	**0.88%**	**-0.03%**	**1.10%**
Return on average tangible common stockholders' equity	**9.95%**	**5.64%**	**6.94%**	**-2.47%**	**10.91%**
Return on average common equity (ROE)	**8.85%**	**4.98%**	**6.08%**	**-2.16%**	**9.50%**
Equity-to-assets ratio	**15.19%**	**15.27%**	**14.16%**	**12.64%**	**12.65%**
Efficiency ratio	**53.07%**	**53.99%**	**57.82%**	**60.00%**	**49.90%**
Interest rate spread	**5.19%**	**5.15%**	**4.74%**	**4.95%**	**5.79%**
Interest rate margin	**5.28%**	**5.23%**	**4.82%**	**5.03%**	**5.84%**

	December 31,				
	2018	2017	2016	2015	2014
PERIOD END BALANCES AND CAPITAL RATIOS:	(In thousands, except per share data)				
Investments and loans					
Investment securities	$ 1,279,604	$ 1,166,050	$ 1,362,511	$ 1,615,872	$ 1,402,056
Loans and leases, net	4,431,594	4,056,329	4,147,692	4,434,213	4,826,646
Total investments and loans	**$ 5,711,198**	**$ 5,222,379**	**$ 5,510,203**	**$ 6,050,085**	**$ 6,228,702**
Deposits and borrowings					
Deposits	$ 4,908,115	$ 4,799,482	$ 4,664,487	$ 4,717,751	$ 4,924,406
Securities sold under agreements to repurchase	455,508	192,869	653,756	934,691	980,087
Other borrowings	114,917	135,879	141,598	436,843	439,919
Total deposits and borrowings	**$ 5,478,540**	**$ 5,128,230**	**$ 5,459,841**	**$ 6,089,285**	**$ 6,344,412**
Stockholders' equity					
Preferred stock	$ 92,000	$ 176,000	$ 176,000	$ 176,000	$ 176,000
Common stock	59,885	52,626	52,626	52,626	52,626
Additional paid-in capital	619,381	541,600	540,948	540,512	539,311
Legal surplus	90,167	81,454	76,293	70,435	70,435
Retained earnings	253,040	200,878	177,808	148,886	181,184
Treasury stock, at cost	(103,633)	(104,502)	(104,860)	(105,379)	(97,070)
Accumulated other comprehensive (loss) income	(10,963)	(2,949)	1,596	13,997	19,711
Total stockholders' equity	**$ 999,877**	**$ 945,107**	**$ 920,411**	**$ 897,077**	**$ 942,197**
Per share data					
Book value per common share	**$ 17.90**	**$ 17.73**	**$ 17.18**	**$ 16.67**	**$ 17.40**
Tangible book value per common share	**$ 16.15**	**$ 15.67**	**$ 15.08**	**$ 14.53**	**$ 15.25**
Market price at end of period	**$ 16.46**	**$ 9.40**	**$ 13.10**	**$ 7.32**	**$ 16.65**
Capital ratios					
Leverage capital	**14.22%**	**13.92%**	**12.99%**	**11.18%**	**10.61%**
Tier 1 common equity to risk-weighted assets	**N/A**	**N/A**	**N/A**	**N/A**	**11.88%**
Common equity Tier 1 capital	**16.78%**	**14.59%**	**14.05%**	**12.14%**	**N/A**
Tier 1 risk-based capital	**19.20%**	**19.05%**	**18.35%**	**15.99%**	**16.02%**
Total risk-based capital	**20.48%**	**20.34%**	**19.62%**	**17.29%**	**17.57%**
Financial assets managed					
Trust assets managed	$ 2,771,462	$ 3,039,998	$ 2,850,494	$ 2,691,423	$ 2,841,111
Broker-dealer assets gathered	2,116,035	2,250,460	2,350,718	2,374,709	2,622,001
Total assets managed	**$ 4,887,497**	**$ 5,290,458**	**$ 5,201,212**	**$ 5,066,132**	**$ 5,463,112**

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,				
	2018	**2017**	**2016**	**2015**	**2014**
Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends					
Excluding interests on deposits	5.54	2.91x	2.60x	(A)	2.81x
Including interests on deposits	3.03x	1.92x	1.97x	(A)	2.16x

(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 December 31, 2018, Oriental had noncumulative perpetual preferred stock issued and outstanding amounting to $92.0 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; and (iii) Series D amounting to $24.0 million or 960,000 shares at a $25 liquidation value. As of December 31, 2017, 2016, 2015, and 2014, Oriental had non-cumulative perpetual preferred stock issued and outstanding amounting to $176.0 million, which included $84.0 million or 84,000 shares of Series C at $1,000 liquidation value, which was converted on October 22, 2018 by Oriental into common shares at a conversion rate of 86.4225.

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, 2018

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, 2018, 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, most mortgage-backed securities ("MBS"), and collateralized mortgage obligations ("CMOs"), and derivative instruments.

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, 2018, 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, 2018, 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 was 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.

FINANCIAL HIGHLIGHTS

Summary for the fourth quarter of 2018

- Net income available to shareholders of $23.1 million or $0.45 per fully diluted share compared to the third quarter of 2018 with $19.6 million or $0.42 per share and to the fourth quarter of 2017 with $13.6 million or $0.30 per share.

- Originated loan growth of 3.0% from the preceding quarter to $3.66 billion, with new loan production of $323.0 million, continuing to exceed $300 million for the fourth consecutive quarter.

- Strong performance metrics, with net interest margin of 5.26%, return on average assets of 1.50%, return on average tangible common stockholders' equity of 11.67%, and efficiency ratio of 51.06%.

- Record total stockholders' equity of approximately $1 billion, with book value per common share of $17.90, tangible book value per common share of $16.15, and capital metrics at multi-year highs.

- Common equity increased $84.0 million and preferred dividend payments dropped 53.0% from the preceding quarter with the conversion into common stock of the Series C 8.750% Non-Cumulative Convertible Perpetual Preferred Stock.

- 16.7% increase in the regular quarterly cash dividend per common share to $0.07, resulting in an annualized rate of $0.28 per share.

Summary for the year ended 2018

Oriental achieved strong core growth in 2018 based on the continued success of our strategy of differentiation – providing superior customer service, convenience and technology – coupled with Puerto Rico's emerging economic rebound.

Oriental's operational and financial results for the year included the following:

Operationally:

- originated loans were up 17.3%;
- average deposits grew 4.3% year over year;
- average non-interest-bearing deposits were up 25%;
- customer count expanded 4.6%;
- NIM increased 5 basis points; and
- credit quality consistently improved.

Financially:

- earnings per share increased 73%;
- return on average assets expanded 47 basis points and return on average tangible common equity increased 431 basis points;
- converted the Series C preferred into common stock, which significantly boosted stockholders' equity and enabled Oriental to reduce our payout of preferred dividends;
- increased Oriental's quarterly common dividend 17% to 28 cents per share a year; and
- all capital metrics hit multi-year highs.

Net income available to shareholders of $72.4 million or $1.52 per fully diluted share compared to the year ended 2017 with $38.8 million or $0.88 per share. 2017 included a $32.4 million pre-tax loan loss provision related to hurricanes Irma and Maria.

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, 2018 and 2017:

TABLE 1 - ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Interest		Average rate		Average balance	
	December 2018	December 2017	December 2018	December 2017	December 2018	December 2017
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 360,419**	**$ 345,647**	**6.02%**	**5.94%**	**$ 5,985,523**	**$ 5,818,597**
Tax equivalent adjustment	8,003	4,791	0.13%	0.08%	-	-
Interest-earning assets - tax equivalent	**368,422**	**350,438**	**6.15%**	**6.02%**	**5,985,523**	**5,818,597**
Interest-bearing liabilities	44,525	41,475	0.83%	0.79%	5,353,138	5,226,654
Tax equivalent net interest income / spread	**323,897**	**308,963**	**5.32%**	**5.23%**	**632,385**	**591,943**
Tax equivalent interest rate margin			**5.45%**	**5.31%**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	32,340	28,607	2.50%	2.28%	1,293,407	1,255,881
Interest bearing cash and money market investments	6,698	4,619	1.95%	1.06%	343,982	436,913
Total investments	**39,038**	**33,226**	**2.38%**	**1.96%**	**1,637,389**	**1,692,794**
Non-acquired loans						
Mortgage	35,499	37,465	5.20%	5.37%	683,228	697,873
Commercial	86,734	71,685	5.97%	5.73%	1,452,314	1,251,051
Consumer	42,112	39,133	11.94%	11.99%	352,760	326,482
Auto and leasing	95,805	78,626	9.31%	9.61%	1,029,039	818,155
Total non-acquired loans	**260,150**	**226,909**	**7.40%**	**7.33%**	**3,517,341**	**3,093,561**
Acquired loans:						
Acquired BBVAPR						
Mortgage	27,248	30,205	5.45%	5.63%	499,874	536,247
Commercial	14,408	20,488	7.54%	8.53%	191,176	240,267
Consumer	2,880	4,534	21.04%	15.98%	13,691	28,375
Auto	3,861	9,726	11.61%	10.72%	33,251	90,698
Total acquired BBVAPR loans	**48,397**	**64,953**	**6.56%**	**7.25%**	**737,992**	**895,587**
Acquired Eurobank	**12,834**	**20,559**	**13.83%**	**15.04%**	**92,801**	**136,655**
Total loans	**321,381**	**312,421**	**7.39%**	**7.57%**	**4,348,134**	**4,125,803**
Total interest-earning assets	**360,419**	**345,647**	**6.02%**	**5.94%**	**5,985,523**	**5,818,597**

	Interest		Average rate		Average balance	
	December 2018	December 2017	December 2018	December 2017	December 2018	December 2017
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	4,496	3,893	0.42%	0.37%	1,079,538	1,059,051
Savings and money market	6,364	5,922	0.52%	0.51%	1,216,635	1,170,800
Time deposits	11,483	11,352	1.13%	1.09%	1,019,062	1,039,034
Total core deposits	**22,343**	**21,167**	**0.67%**	**0.65%**	**3,315,235**	**3,268,885**
Brokered deposits	9,751	8,211	1.97%	1.47%	496,171	557,115
	32,094	**29,378**	**0.84%**	**0.77%**	**3,811,406**	**3,826,000**
Non-interest bearing deposits	-	-	0.00%	0.00%	1,075,681	860,287
Core deposit intangible amortization	859	920	0.00%	0.00%	-	-
Total deposits	**32,953**	**30,298**	**0.67%**	**0.65%**	**4,887,087**	**4,686,287**
Borrowings:						
Securities sold under agreements to repurchase	7,794	7,223	2.18%	1.80%	357,086	401,070
Advances from FHLB and other borrowings	1,875	2,398	2.57%	2.32%	72,882	103,214
Subordinated capital notes	1,903	1,556	5.28%	4.31%	36,083	36,083
Total borrowings	**11,572**	**11,177**	**2.48%**	**2.07%**	**466,051**	**540,367**
Total interest bearing liabilities	**44,525**	**41,475**	**0.83%**	**0.79%**	**5,353,138**	**5,226,654**
Net interest income / spread	**$ 315,894**	**$ 304,172**	**5.19%**	**5.15%**		
Interest rate margin			**5.28%**	**5.23%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 632,385**	**$ 591,943**
Average interest-earning assets to average interest-bearing liabilities ratio					**111.81%**	**111.33%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
	(In thousands)		
Interest Income:			
Investments	$ (1,087)	$ 6,899	$ 5,812
Loans	12,878	(3,918)	8,960
Total interest income	**11,791**	**2,981**	**14,772**
Interest Expense:			
Deposits	1,298	1,357	2,655
Repurchase agreements	(791)	1,362	571
Other borrowings	(863)	687	(176)
Total interest expense	**(356)**	**3,406**	**3,050**
Net Interest Income	**$ 12,147**	**$ (425)**	**$ 11,722**

TABLE 1A - 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	Decembe 2017	Decembe 2016	December 2017	December 2016
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 345,647**	**$ 356,592**	5.94%	5.74%	**$ 5,818,597**	**$ 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%	**5,818,597**	**6,210,003**
Interest-bearing liabilities	41,475	57,136	0.79%	1.00%	5,226,654	**5,703,927**
Tax equivalent net interest income / spread	**308,963**	**304,180**	5.23%	4.82%	**591,943**	**506,076**
Tax equivalent interest rate margin			5.31%	4.90%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	28,607	32,146	2.28%	2.39%	1,255,881	1,346,261
Interest bearing cash and money market	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	39,133	33,723	11.99%	11.77%	326,482	286,489
Auto and leasing	78,626	69,152	9.61%	9.65%	818,155	716,373
Total non-acquired loans	**226,909**	**205,682**	7.33%	6.57%	**3,093,561**	**3,132,121**
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	4,534	5,627	15.98%	16.72%	28,375	33,662
Auto	9,726	21,016	10.72%	11.34%	90,698	185,280
Total acquired BBVAPR loans	**64,953**	**85,764**	7.25%	7.74%	**895,587**	**1,107,365**
Acquired Eurobank	**20,559**	**30,499**	15.04%	21.84%	**136,655**	**139,670**
Total loans	**312,421**	**321,945**	**7.57%**	**7.35%**	**4,125,803**	**4,379,156**
Total interest-earning assets	**345,647**	**356,592**	**5.94%**	**5.74%**	**5,818,597**	**6,210,003**

	Interest		Average rate		Average balance	
	December 2017	December 2016	Decembe 2017	Decembe 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
Time deposits	11,352	10,582	1.09%	1.06%	1,039,034	999,231
Total core deposits	**21,167**	**21,109**	**0.65%**	**0.64%**	**3,268,885**	**3,314,556**
Brokered deposits	8,211	7,450	1.47%	1.20%	557,115	619,569
	29,378	**28,559**	**0.77%**	**0.73%**	**3,826,000**	**3,934,125**
Non-interest bearing deposits	-	-	0.00%	0.00%	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	**$ 304,148**	**$ 299,395**	**5.15%**	**4.74%**		
Interest rate margin			**5.23%**	**4.82%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 591,943**	**$ 506,076**
Average interest-earning assets to average interest-bearing liabilities ratio					**111.33%**	**108.87%**

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**

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 of the years ended December 31, 2018 and 2017

Net interest income of $315.9 million increased $11.7 million from $304.2 million. Interest rate spread increased 4 basis points to 5.19% from 5.15% and net interest margin increased 5 basis points to 5.28% from 5.23%. These increases are mainly due to the net effect of an increase of 8 basis points in the average yield of total interest-earning assets and an increase of 4 basis point in average cost of interest-bearing liabilities.

Net interest income increased as a result of:

- Higher interest income from investment of $5.8 million, reflecting an increase in interest rates of $6.8 million, partially offset by a decrease in volume of $944 thousand. Cash and money market investments increased 87 basis points and investments securities increased 22 basis points, both mainly due to higher rates; and

- Higher interest income from originated loans of $33.5 million, reflecting higher balances in the auto, commercial and consumer portfolios. This increase also reflects higher interest rates in the originated loan portfolio by 7 basis points.

Such increases in net interest income were adversely impacted:

- A decrease of $24.5 million in the interest income from acquired loans as such loans continue to be repaid, and a decrease of $2.6 million in cost recoveries.

Comparison of 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.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Year Ended December 31,		
	2018	2017	Variance
	(Dollars in thousands)		
Banking service revenue	$ 43,638	$ 39,468	10.6%
Wealth management revenue	25,934	25,790	0.6%
Mortgage banking activities	4,767	4,050	17.7%
Total banking and financial service revenue	**74,339**	**69,308**	**7.3%**
FDIC shared-loss benefit	-	1,403	-100.0%
Net gain on:			
Sale of securities available for sale	-	6,896	-100.0%
Derivatives	-	132	-100.0%
Early extinguishment of debt	-	(80)	100.0%
Other non-interest income	5,756	1,028	459.9%
	5,756	9,379	-38.6%
Total non-interest income, net	**$ 80,095**	**$ 78,687**	**1.8%**

Non-Interest Income

Non-interest income is affected by the amount of the trust department 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, fees generated from loans and deposit accounts, and gains on sales of assets.

Comparison of years ended December 31, 2018 and 2017

Oriental recorded non-interest income, net, in the amount of $80.1 million, compared to $78.7 million, an increase of 1.8%, or $1.4 million. The net increase in non-interest income was mainly due to:

- An increase of $4.2 million in banking service revenue, mainly due to higher electronic banking fees from higher transaction volume and sales. Merchant business fees increased $2.1 million and debit card interchange fees increased $2.0 million.

- An increase of $717 thousand in mortgage banking activities, mainly from higher net servicing fees by $1.1 million due to higher valuation of servicing asset by $931 thousand, related to an increase in price, partially offset by lower gains on loans sold due to lower volume by $364 thousand; and

- A $5.0 million cash payment received from the Company's insurance carrier covering hurricane Marias's impact on Oriental's operations included in other non-interest income, offset by the sale of $166.0 million mortgage-backed securities at a gain of $6.9 million and the FDIC shared-loss benefit of $1.4 million in 2017.

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.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Year Ended December 31,		
	2018	2017	Variance %
	(Dollars in thousands)		
Compensation and employee benefits	$ 76,524	$ 79,751	-4.0%
Occupancy and equipment	33,084	32,557	1.6%
Electronic banking charges	21,234	19,322	9.9%
Professional and service fees	12,442	12,406	0.3%
Taxes, other than payroll and income taxes	9,017	9,187	-1.9%
Credit related expenses	8,890	7,992	11.2%
Information technology expenses	8,227	8,010	2.7%
Insurance	6,249	5,223	19.6%
Advertising, business promotion, and strategic initiatives	5,084	5,616	-9.5%
Loan servicing and clearing expenses	4,810	4,693	2.5%
Loss on sale of foreclosed real estate and other repossessed assets	4,662	4,634	0.6%
Communication	3,447	3,415	0.9%
Printing, postage, stationery and supplies	2,217	2,437	-9.0%
Director and investor relations	1,089	1,072	1.6%
Other operating expenses	10,105	5,316	90.1%
Total non-interest expenses	**$ 207,081**	**$ 201,631**	**2.7%**
Relevant ratios and data:			
Efficiency ratio	**53.07%**	**53.99%**	
Compensation and benefits to non-interest expense	**36.95%**	**39.55%**	
Compensation to average total assets owned	**1.19%**	**1.27%**	
Average number of employees	**1,392**	**1,450**	
Average compensation per employee	**$ 54.97**	**$ 55.00**	
Average loans per average employee	**$ 3,124**	**$ 2,846**	

Non-Interest Expenses

Comparison of years ended December 31, 2018 and 2017

Non-interest expense was $207.1 million, representing an increase of 2.7% compared to $201.6 million.

The increase in non-interest expenses was driven by:

- Higher other operating expenses by $4.8 million, mainly attributed to an increase in the reasonable estimate accrual of claims and settlements in the broker-dealer subsidiary and to minor repairs to physical assets related to the impact of hurricanes;
- Higher electronic banking charges by $1.9 million from increased transaction volume;
- Higher insurance expenses by $1.0 million related to an increase in insurance premiums renewal as a consequence of hurricanes; and
- Higher credit-related expenses by $898 thousand related to higher legal fees on foreclosed properties and other real estate owned expenses.

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

- Lower compensation and employee benefits by $3.2 million, mainly due to a decrease in the average number of employees.

The efficiency ratio improved from 53.99% to 53.07%. 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, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income that are excluded from efficiency ratio computation for the years ended December 31, 2018 and 2017 amounted to $5.8 million and $9.4 million, 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 mitigation, and emergency communication with customers regarding the status of its banking operations. Estimated losses at December 31, 2017 amounted to $6.6 million. No additional losses have been incurred at December 31, 2018.

Oriental maintains insurance for casualty losses as well as for disaster response costs and certain revenue lost through business interruption. Oriental received a $1.0 million partial payment from its insurance carrier in December 2017 and a $5.7 million payment during 2018.

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.

Provision for Loan and Lease Losses

Comparison of years ended December 31, 2018 and 2017

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.

Provision for loan and lease losses decreased 50.4%, or $57.0 million, to $56.1 million. The decrease in the provision was mostly due to:

- The hurricanes provision of $32.4 million in 2017;

- A $4.3 million provision in the second quarter of 2017 to charge-off the loss on sale of a loan to a Puerto Rico government municipality and a $5.9 million provision to increase the general allowance on the remaining municipal loan portfolio; and

- The decrease in acquired loan portfolio provision of $9.2 million, mainly from lower portfolio balances.

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, 2017 and 2016

Provision for loan and lease losses increased 73.9%, or $48.1 million, to $113.1 million. 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 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.

Income Taxes

Comparison of years ended December 31, 2018 and 2017
Income tax expense was $48.4 million, compared to $15.4 million, reflecting the effective income tax rate of 33.6% and the net income before income taxes of $132.8 million for 2018. The income tax expense included a non-cash expenses of $4.1 million reflecting the impact of changes required as a result of new Puerto Rico tax reform legislation, which will reduce the corporate income tax rate by 1.5% in 2019 and, therefore, caused Oriental to take a deferred tax asset write-down.

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.

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 its services 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, 2018 and 2017.

	Year Ended December 31, 2018					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 320,084	$ 46	$ 40,289	$ 360,419	$ -	$ **360,419**
Interest expense	(29,746)	-	(14,779)	(44,525)	-	**(44,525)**
Net interest income	290,338	46	25,510	315,894	-	**315,894**
Provision for loan and lease losses	(55,885)	-	(223)	(56,108)	-	**(56,108)**
Non-interest income	53,592	26,457	46	80,095	-	**80,095**
Non-interest expenses	(186,460)	(16,440)	(4,181)	(207,081)	-	**(207,081)**
Intersegment revenue	2,126	-	-	2,126	(2,126)	**-**
Intersegment expenses	-	(788)	(1,338)	(2,126)	2,126	**-**
Income before income taxes	$ 103,711	$ 9,275	$ 19,814	$ 132,800	$ -	$ **132,800**
Income tax expense	40,447	3,617	4,326	48,390	-	**48,390**
Net income	**$ 63,264**	**$ 5,658**	**$ 15,488**	**$ 84,410**	**$ -**	**$ 84,410**
Total assets	**$ 5,863,067**	**$ 25,757**	**$ 1,708,455**	**$ 7,597,279**	**$ (1,013,927)**	**$ 6,583,352**

	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 (loss)	45,102	26,069	7,516	78,687	-	**78,687**
Non-interest expenses	(184,567)	(13,486)	(3,578)	(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	$ 33,478	$ 11,499	$ 23,112	$ 68,089	$ -	$ **68,089**
Income tax expense (benefit)	13,057	4,485	(2,099)	15,443	-	**15,443**
Net income	**$ 20,421**	**$ 7,014**	**$ 25,211**	**$ 52,646**	**$ -**	**$ 52,646**
Total assets	**$ 5,597,077**	**$ 25,980**	**$ 1,536,417**	**$ 7,159,474**	**$ (970,421)**	**$ 6,189,053**

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

Comparison of years ended December 31, 2018 and 2017

Banking

Oriental's banking segment net income before taxes increased $64.2 million from $39.5 million to $103.7 million, mainly reflecting:

- The special provision for loan and lease losses of $32.4 million related to hurricanes Irma and Maria in 2017;
- A $4.3 million provision in the second quarter of 2017 to charge-off the loss on sale of a loan to a Puerto Rico government municipality and a $5.9 million provision to increase the general allowance on the remaining municipal loan portfolio;
- A decrease in acquired loan portfolio provision of $9.2 million, mainly from lower portfolio balances.
- A $5.0 million cash payment received from the Company's insurance carrier covering hurricane Marias's impact on Oriental's operations included in other non-interest income.

Wealth Management

Wealth management segment revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased $1.4 million to $5.7 million due to higher non-interest expenses by $3.0 million, mainly driven from the increase in the reasonable estimate accrual of claims and settlements in the broker-dealer subsidiary by $4.2 million.

Treasury

Treasury segment net income before taxes decreased $1.6 million from $21.4 million to $19.8 million, reflecting:

- The sale of $166.0 million in mortgage-backed securities during the second quarter of 2017, which generated a gain of $6.9 million.

Such decrease was partially offset by:

- Higher interest income from investment by $5.8 million, reflecting an increase in interest rates of $6.8 million, partially offset by a decrease in volume of $944 thousand.

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.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At December 31, 2018, Oriental's total assets amounted to $6.583 billion representing an increase of 6.4% when compared to $6.189 billion at December 31, 2017. This increase is attributable to an increase in the loans and investments portfolios of $375.3 million and $113.6 million, respectively, partially offset by a decrease in cash and cash equivalents of $38.2 million.

Oriental's loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate, other commercial and industrial loans, consumer loans, and auto loans. At December 31, 2018, Oriental's loan portfolio increased 9.3%. Loan production during 2018, reached $1.411 billion compared to $917.8 million a year ago, a 53.8% increase. The non-acquired loan portfolio increased $540.2 million from December 31, 2017 to $3.745 billion at December 31, 2018. From December 31, 2017, the BBVAPR acquired loan portfolio decreased $149.4 million to $676.5 million and the Eurobank acquired loan portfolio decreased $12.2 million to $87.1 million at December 31, 2018.

Oriental's investment portfolio increased 9.7% to $1.280 billion at December 31, 2018, mainly attributed to the purchase of $272.1 million mortgage-backed securities available-for-sale and retained securitized GNMA pools totaling $74.1 million, partially offset by maturities and paydowns in the investment available-for-sale portfolio of $138.5 million and in the investment securities held-to-maturity portfolio of $77.6 million during the year ended December 31, 2018.

Cash and cash equivalents decreased 7.9% to $447.0 million, mainly attributed to funding of new loans.

Accrued interest receivable resulting from Oriental's loan payment moratoriums after hurricanes Irma and Maria have decreased from December 31, 2017, as such moratoriums have expired. Some of these accrued interests is payable upon maturity of the loan.

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, 2018, total assets managed by Oriental's trust division and OPC amounted to $2.771 billion, compared to $3.040 billion at December 31, 2017. 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, 2018, total assets gathered by Oriental Financial Services and Oriental Insurance from its customer investment accounts amounted to $2.116 billion, compared to $2.250 billion at December 31, 2017. 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, 2018, 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 2018, based on its annual goodwill impairment test, Oriental determined that both units passed step one of the two-step impairment test. As a result of step one, the fair value of both units exceeded its adjusted net book value. Accordingly, Oriental determined that the carrying value of the goodwill allocated to the Banking unit and Wealth Management was not impaired as of the valuation date.

FDIC Indemnification Asset

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

TABLE 4 - ASSETS SUMMARY AND COMPOSITION

	December 31 2018	December 31 2017	Variance %
	(Dollars in thousands)		
Investments:			
FNMA and FHLMC certificates	$ 978,071	$ 887,779	10.2%
Obligations of US government-sponsored agencies	2,265	2,879	-21.3%
US Treasury securities	10,805	10,163	6.3%
CMOs issued by US government-sponsored agencies	64,064	80,071	-20.0%
GNMA certificates	210,169	167,338	25.6%
Puerto Rico government and public instrumentalities	-	2,093	-100.0%
FHLB stock	12,644	13,995	-9.7%
Other debt securities	1,222	1,538	-20.5%
Other investments	364	194	87.6%
Total investments	**1,279,604**	**1,166,050**	**9.7%**
Loans	**4,431,594**	**4,056,329**	**9.3%**
Total investments and loans	**5,711,198**	**5,222,379**	**9.4%**
Other assets:			
Cash and due from banks (including restricted cash)	445,133	481,212	-7.5%
Money market investments	4,930	7,021	-29.8%
Foreclosed real estate	33,768	44,174	-23.6%
Accrued interest receivable	34,254	49,969	-31.4%
Deferred tax asset, net	113,763	127,421	-10.7%
Premises and equipment, net	68,892	67,860	1.5%
Servicing assets	10,716	9,821	9.1%
Derivative assets	347	771	-55.0%
Goodwill	86,069	86,069	0.0%
Other assets and customers' liability on acceptances	74,282	92,356	-19.6%
Total other assets	**872,154**	**966,674**	**-9.8%**
Total assets	**$ 6,583,352**	**$ 6,189,053**	**6.4%**
Investment portfolio composition:			
FNMA and FHLMC certificates	76.5%	76.1%	
Obligations of US government-sponsored agencies	0.2%	0.2%	
US Treasury securities	0.8%	0.9%	
CMOs issued by US government-sponsored agencies	5.0%	6.9%	
GNMA certificates	16.4%	14.4%	
Puerto Rico government and public instrumentalities	0.0%	0.2%	
FHLB stock	1.0%	1.2%	
Other debt securities and other investments	0.1%	0.1%	
	100.0%	**100.0%**	

	December 31		Variance
	2018	2017	%
	(In thousands)		
Originated and other loans and leases held for investment:			
Mortgage	$ 668,809	$ 683,607	-2.2%
Commercial	1,597,588	1,307,261	22.2%
Consumer	348,980	330,039	5.7%
Auto and leasing	1,129,695	883,985	27.8%
	3,745,072	**3,204,892**	**16.9%**
Allowance for loan and lease losses on originated and other loans and leases	(95,188)	(92,718)	2.7%
	3,649,884	**3,112,174**	**17.3%**
Deferred loan costs, net	7,740	6,695	15.6%
Total originated and other loans held for investment, net	**3,657,624**	**3,118,869**	**17.3%**
Acquired loans:			
Acquired BBVAPR loans:			
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	2,546	4,380	-41.9%
Consumer	23,988	28,915	-17.0%
Auto	4,435	21,969	-79.8%
	30,969	**55,264**	**-44.0%**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(2,062)	(3,862)	-46.6%
	28,907	**51,402**	**-43.8%**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)			
Mortgage	492,890	532,053	-7.4%
Commercial	182,319	243,092	-25.0%
Consumer	-	1,431	-100.0%
Auto	14,403	43,696	-67.0%
	689,612	**820,272**	**-15.9%**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(42,010)	(45,755)	-8.2%
	647,602	**774,517**	**-16.4%**
Total acquired BBVAPR loans, net	**676,509**	**825,919**	**-18.1%**
Acquired Eurobank loans:			
Loans secured by 1-4 family residential properties	63,392	69,538	-8.8%
Commercial	47,826	53,793	-11.1%
Consumer	846	1,112	-23.9%
	112,064	**124,443**	**-9.9%**
Allowance for loan and lease losses on Eurobank loans	(24,971)	(25,174)	-0.8%
Total acquired Eurobank loans, net	**87,093**	**99,269**	**-12.3%**
Total acquired loans, net	**763,602**	**925,188**	**-17.5%**
Total held for investment, net	**4,421,226**	**4,044,057**	**9.3%**
Mortgage loans held for sale	**10,368**	**12,272**	**-15.5%**
Total loans, net	**$ 4,431,594**	**$ 4,056,329**	**9.3%**

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 $4.432 billion at December 31, 2018 and $4.056 billion at December 31, 2017. Oriental's originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to $668.8 million (17.9% of the gross originated loan portfolio) compared to $683.6 million (21.3% of the gross originated loan portfolio) at December 31, 2017. Mortgage loan production totaled $119.7 million for 2018, which represents a decrease of 13.1% from $137.8 million for the same periods in 2017. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $19.7 million and $8.3 million at December 31, 2018 and December 31, 2017, 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 $1.598 billion (42.7% of the gross originated loan portfolio) compared to $1.307 billion (40.8% of the gross originated loan portfolio) at December 31, 2017. Commercial loan production, including the U.S. loan program production of $236.1 million, increased 101.1% to $603.5 million for 2018, from $300.2 million for the same period in 2017.

- Consumer loan portfolio amounted to $349.0 million (9.3% of the gross originated loan portfolio) compared to $330.0 million (10.3% of the gross originated loan portfolio) at December 31, 2017. Consumer loan production increased 10.9% to $164.9 million for 2018 from $148.6 million when compared to the same period in 2017.

- Auto and leasing portfolio amounted to $1.130 billion (30.1% of the gross originated loan portfolio) compared to $884.0 million (27.6% of the gross originated loan portfolio) at December 31, 2017. Auto production increased by 58.0% to $523.4 million for 2018, compared to $331.2 million for the same period in 2017.

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, 2018. 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, 2018	One Year or Less	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates	Variable Interest Rates
			(In thousands)			
Originated and other loans:						
Mortgage	$ 668,809	$ 2,771	$ 11,608	$ -	$ 654,430	$ -
Commercial	1,597,588	972,012	584,996	-	40,580	-
Consumer	348,980	37,017	241,454	-	70,509	-
Auto and leasing	1,129,695	11,044	467,136	-	651,515	-
Total	**$ 3,745,072**	**$ 1,022,844**	**$ 1,305,194**	**$ -**	**$ 1,417,034**	**$ -**
Acquired loans accounted under ASC 310-20						
Commercial	$ 1,510	$ 1,510	$ -	$ -	$ -	$ -
Commercial secured by real estate	1,036	941	95	-	-	-
Consumer	23,988	23,988	-	-	-	-
Auto	4,435	4,106	329	-	-	-
Total	**$ 30,969**	**$ 30,545**	**$ 424**	**$ -**	**$ -**	**$ -**

TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	December 31, 2018								
	Higher-Risk Residential Mortgage Loans*								
							High Loan-to-Value Ratio Mortgages		
	Junior Lien Mortgages			Interest Only Loans			LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 8,970	$ 324	3.61%	$ 7,977	$ 328	4.11%	$ 56,217	$ 1,183	2.10%
90 - 119 days	49	7	14.29%	-	-	0.00%	1,955	37	1.89%
120 - 179 days	67	9	13.43%	-	-	0.00%	991	79	7.97%
180 - 364 days	164	30	18.29%	441	86	19.50%	1,964	135	6.87%
365+ days	232	33	14.22%	1,465	283	19.32%	8,081	569	7.04%
Total	$ 9,482	$ 403	4.25%	$ 9,883	$ 697	7.05%	$ 69,208	$ 2,003	2.89%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.25%			0.26%			1.83%		
Refinanced or Modified Loans:									
Amount	$ 2,274	$ 273	12.01%	$ 511	$ 61	11.94%	$ 15,807	$ 1,254	7.93%
Percentage of Higher-Risk Loan Category	23.98%			5.17%			22.84%		
Loan-to-Value Ratio:									
Under 70%	$ 6,321	$ 260	4.11%	$ 1,199	$ 43	3.59%	$ -	$ -	-
70% - 79%	1,366	79	5.78%	2,194	112	5.10%	-	-	-
80% - 89%	998	5	0.50%	3,208	232	7.23%	-	-	-
90% and over	797	59	7.40%	3,282	310	9.45%	69,208	2,003	2.89%
	$ 9,482	$ 403	4.25%	$ 9,883	$ 697	7.05%	$ 69,208	$ 2,003	2.89%

* 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 $207.4 million at December 31, 2018. The following table includes the maturities of Oriental's lending and investment exposure to the Puerto Rico government, which is limited solely to loans to municipalities secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations.

TABLE 7 - PUERTO RICO GOVERNMENT RELATED LOANS AND SECURITIES

December 31, 2018				
		Maturity		
Loans and Securities:	**Carrying Value**	**Less than 1 Year**	**1 to 3 Years**	**More than 3 Years**
		(In thousands)		
Municipalities	**$ 135,871**	**$ 18,567**	**$ 73,451**	**$ 43,853**

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.

The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors. While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond Oriental's control. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to the acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition.

At December 31, 2018, Oriental's allowance for loan and lease losses amounted to $164.2 million, a $3.3 million decrease from $167.5 million at December 31, 2017.

As discussed in Note 2, hurricanes Irma and Maria caused catastrophic damages throughout Puerto Rico in 2017. 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 allowance for loan and lease losses 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 of 2017, Oriental performed an update of the initial estimate, taking into consideration the most recent available information gathered through additional visits and interviews with clients and the economic environment in Puerto Rico.

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

During 2018, Oriental continued its monitoring process of the performance of those affected borrowers. As additional information became available, it was incorporated into the allowance framework.

At December 31, 2018 and 2017, Oriental's ALLL incorporated all risks associated to our loan portfolio, including the impact of hurricanes Irma and Maria.

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

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, 2018 and 2017, Oriental had $119.7 million and $99.7 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, 2018 and 2017, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-performing assets amounted to $112.9 million and $109.2 million, respectively.

At December 31, 2018 and 2017, loans that are current in their monthly payments, but placed in non-accrual amounted to $21.2 million and $20.1 million, respectively. During 2018, a $8.7 million loan that is current in its monthly payments was placed in non-accrual due to credit deterioration after the hurricanes.

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 their remaining life 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.

Following hurricanes Irma and Maria, Oriental offered automatic payment deferrals and 90-day extensions for most loan categories. All of these payment moratoriums expired during the first quarters of 2018 with most credit metrics better than, or returned to, pre-hurricane levels.

At December 31, 2018, Oriental's non-performing assets increased by 3.0% to $161.3 million (2.76% of total assets, excluding acquired loans with deteriorated credit quality) from $156.7 million (2.95% of total assets, excluding acquired loans with deteriorated credit quality) at December 31, 2017. Foreclosed real estate and other repossessed assets amounting to $33.8 million and $3.0 million, respectively, at December 31, 2018, and $44.2 million and $3.5 million, respectively, at December 31, 2017, were recorded at fair value. Oriental does not expect non-performing loans to result in significantly higher losses. At December 31, 2018, the allowance coverage ratio for originated loan and lease losses to non-performing loans was 77.38% (87.35% at December 31, 2017).

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, 2018, Oriental's originated non-performing mortgage loans totaled $63.7 million (51.1% of Oriental's non-performing loans), a 0.6% decrease from $64.1 million (58.7% of Oriental's non-performing loans) at December 31, 2017.
  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, 2018, Oriental's originated non-performing commercial loans amounted to $42.5 million (34.1% of Oriental's non-performing loans), a 20.4% increase from $35.3 million at December 31, 2017 (32.4% of Oriental's non-performing loans). This increase is mainly from a $8.7 million loan that is current in its monthly payments but was placed in non-accrual during 2018 due to credit deterioration after the hurricanes.

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, 2018, Oriental's originated non-performing consumer loans amounted to $3.4 million (2.7% of Oriental's non-performing loans), a 30.4% increase from $2.6 million at December 31, 2017 (2.4% 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, 2018, Oriental's originated non-performing auto loans and leases amounted to $13.5 million (10.8% of Oriental's total non-performing loans), an increase of 218.9% from $4.2 million at December 31, 2017 (3.9% of Oriental's total non-performing loans), mainly due to higher balance in the portfolio.

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, RURAL, 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, 2018	December 31, 2017	Variance %
	(Dollars in thousands)		
Originated and other loans held for investment			
Allowance balance:			
Mortgage	$ 19,783	$ 20,439	-3.2%
Commercial	30,326	30,258	0.2%
Consumer	15,571	16,454	-5.4%
Auto and leasing	29,508	25,567	15.4%
Total allowance balance	**$ 95,188**	**$ 92,718**	**2.7%**
Allowance composition:			
Mortgage	20.8%	22.0%	-5.7%
Commercial	31.9%	32.6%	-2.3%
Consumer	16.4%	17.8%	-7.8%
Auto and leasing	31.0%	27.6%	12.4%
	100.0%	**100.0%**	
Allowance coverage ratio at end of period applicable to:			
Mortgage	2.96%	2.99%	-1.0%
Commercial	1.90%	2.31%	-17.7%
Consumer	4.46%	4.99%	-10.6%
Auto and leasing	2.61%	2.89%	-9.7%
Total allowance to total originated loans	**2.54%**	**2.89%**	**-12.1%**
Allowance coverage ratio to non-performing loans:			
Mortgage	31.05%	31.89%	-2.6%
Commercial	71.43%	85.83%	-16.8%
Consumer	464.25%	639.74%	-27.4%
Auto and leasing	218.67%	604.14%	-63.8%
Total	**77.38%**	**87.35%**	**-11.4%**

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

	December 31, 2018	December 31, 2017	Variance %
	(Dollars in thousands)		
Acquired BBVAPR loans accounted for under ASC 310-20			
Allowance balance:			
Commercial	$ 22	$ 42	-47.6%
Consumer	1,905	3,225	-40.9%
Auto	135	595	-77.3%
Total allowance balance	**$ 2,062**	**$ 3,862**	**-46.6%**
Allowance composition:			
Commercial	1.1%	1.09%	-1.8%
Consumer	92.4%	83.50%	10.6%
Auto	6.6%	15.41%	-57.5%
	100.0%	**100.00%**	
Allowance coverage ratio at end of period applicable to:			
Commercial	0.86%	0.96%	-10.4%
Consumer	7.94%	11.15%	-28.8%
Auto	3.04%	2.71%	12.2%
Total allowance to total acquired loans	**6.66%**	**6.99%**	**-4.7%**
Allowance coverage ratio to non-performing loans:			
Commercial	2.32%	3.31%	-29.9%
Consumer	478.64%	238.01%	101.1%
Auto	67.50%	332.40%	-79.7%
Total	**133.20%**	**137.73%**	**-3.3%**

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

	December 31, 2018	December 31, 2017	Variance %
	(Dollars in thousands)		
Acquired BBVAPR loans accounted for under ASC 310-30			
Allowance balance:			
Mortgage	$ 15,225	$ 14,085	8.1%
Commercial	20,641	23,691	-12.9%
Consumer	-	18	-100.0%
Auto	6,144	7,961	-22.8%
Total allowance balance	**$ 42,010**	**$ 45,755**	**-8.2%**
Allowance composition:			
Mortgage	36.2%	30.8%	17.7%
Commercial	49.1%	51.8%	-5.1%
Consumer	0.0%	0.0%	-100.0%
Auto	14.6%	17.4%	-15.9%
	100.0%	**100.0%**	
Acquired Eurobank loans accounted for under ASC 310-30			
Allowance balance:			
Mortgage	$ 15,382	$ 15,187	1.3%
Commercial	9,585	9,983	-4.0%
Consumer	4	4	0.0%
Total allowance balance	**$ 24,971**	**$ 25,174**	**-0.8%**
Allowance composition:			
Mortgage	61.6%	60.3%	2.1%
Commercial	38.4%	39.7%	-3.2%
	100.0%	**100.0%**	

TABLE 9 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY

	Year Ended December 31,			
	2018	2017	Variance %	2016
	(Dollars in thousands)			
Originated and other loans:				
Balance at beginning of year	$ 92,718	$ 59,300	56.4%	$ 112,626
Provision for loan and lease losses	52,061	79,885	-34.8%	45,058
Charge-offs	(72,393)	(61,856)	17.0%	(112,497)
Recoveries	22,802	15,389	48.2%	14,113
Balance at end of year	**$ 95,188**	**$ 92,718**	**2.7%**	**$ 59,300**
Acquired loans:				
BBVAPR loans				
Acquired loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 3,862	$ 4,300	-10.2%	$ 5,542
Provision (recapture) for loan and lease losses	(297)	1,847	-116.1%	2,255
Charge-offs	(2,837)	(4,156)	-31.7%	(5,816)
Recoveries	1,334	1,871	-28.7%	2,319
Balance at end of year	**$ 2,062**	**$ 3,862**	**-46.6%**	**$ 4,300**
Acquired loans accounted for under ASC 310-30:				
Balance at beginning of year	$ 45,755	$ 31,056	47.3%	$ 25,785
Provision for loan and lease losses	1,786	24,681	-92.8%	15,508
Loan pools fully charged off	-	-	0.0%	(282)
Allowance de-recognition	(5,531)	(9,982)	-44.6%	(9,955)
Balance at end of year	**$ 42,010**	**$ 45,755**	**-8.2%**	**$ 31,056**
Eurobank loans				
Balance at beginning of year	$ 25,174	$ 21,281	18.3%	$ 90,178
Provision for loan and lease losses	2,567	6,725	-61.8%	2,255
Loan pools fully charged off	-	-	0.0%	(134)
FDIC shared-loss portion on recapture of loan and lease losses	-	-	0.0%	3,391
Allowance de-recognition	(2,770)	(2,832)	-2.2%	(74,409)
Balance at end of year	**$ 24,971**	**$ 25,174**	**-0.8%**	**$ 21,281**

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

	Year Ended December 31,			
	2018	2017	Variance %	2016
	(Dollars in thousands)			
Originated and other loans and leases:				
Mortgage				
Charge-offs	$ (5,297)	$ (6,623)	-20.0%	$ (6,767)
Recoveries	1,047	585	79.0%	330
Total	**(4,250)**	**(6,038)**	**-29.6%**	**(6,437)**
Commercial				
Charge-offs	(6,782)	(7,684)	-11.7%	(62,445)
Recoveries	654	1,281	-48.9%	460
Total	**(6,128)**	**(6,403)**	**-4.3%**	**(61,985)**
Consumer				
Charge-offs	(17,629)	(13,641)	29.2%	(11,554)
Recoveries	1,757	1,209	45.3%	452
Total	**(15,872)**	**(12,432)**	**27.7%**	**(11,102)**
Auto				
Charge-offs	(42,685)	(33,908)	25.9%	(31,731)
Recoveries	19,344	12,314	57.1%	12,871
Total	**(23,341)**	**(21,594)**	**8.1%**	**(18,860)**
Net credit losses				
Total charge-offs	(72,393)	(61,856)	17.0%	(112,497)
Total recoveries	22,802	15,389	48.2%	14,113
Total	**$ (49,591)**	**$ (46,467)**	**6.7%**	**$ (98,384)**
Net credit losses to average loans outstanding:				
Mortgage	0.62%	0.85%	-27.1%	0.87%
Commercial	0.42%	0.51%	-17.6%	4.47%
Consumer	4.50%	3.81%	18.2%	4.39%
Auto	2.27%	2.63%	-13.8%	2.63%
Total	**1.41%**	**1.49%**	**-5.6%**	**3.18%**
Recoveries to charge-offs	**31.50%**	**24.88%**	**26.6%**	**12.55%**
Average originated loans:				
Mortgage	683,228	709,933	-3.8%	754,732
Commercial	1,452,314	1,255,645	15.7%	1,388,424
Consumer	352,760	326,482	8.0%	286,489
Auto	1,029,039	819,863	25.5%	717,913
Total	**$ 3,517,341**	**$ 3,111,923**	**13.0%**	**$3,147,558**

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

	Year Ended December 31,			
	2018	2017	Variance %	2016
	(Dollars in thousands)			
Acquired loans accounted for under ASC 310-20:				
Commercial				
Charge-offs	$ (6)	$ (132)	-95.5%	(42)
Recoveries	23	5	360.0%	73
Total	**17**	**(127)**	**-113.4%**	**31**
Consumer				
Charge-offs	(2,459)	(3,048)	-19.3%	(3,619)
Recoveries	480	446	7.6%	301
Total	**(1,979)**	**(2,602)**	**-23.9%**	**(3,318)**
Auto				
Charge-offs	(372)	(976)	-61.9%	(2,155)
Recoveries	831	1,420	-41.5%	1,945
Total	**459**	**444**	**3.4%**	**(210)**
Net credit losses				
Total charge-offs	(2,837)	(4,156)	-31.7%	(5,816)
Total recoveries	1,334	1,871	-28.7%	2,319
Total	**$ (1,503)**	**$ (2,285)**	**-34.2%**	**(3,497)**
Net credit losses to average loans outstanding:				
Commercial	-5.69%	32.82%	-117.3%	-5.78%
Consumer	3.66%	4.49%	-18.4%	5.55%
Auto	-2.14%	-1.15%	86.0%	0.28%
Total	**1.98%**	**2.36%**	**-15.9%**	**2.60%**
Recoveries to charge-offs	**47.02%**	**45.02%**	**4.4%**	**39.87%**
Average loans accounted for under ASC 310-20:				
Commercial	$ 299	387	-22.7%	536
Consumer	54,061	57,971	-6.7%	59,772
Auto	21,448	38,587	-44.4%	74,431
Total	**$ 75,808**	**$ 96,945**	**-21.8%**	**134,739**

TABLE 11 — NON-PERFORMING ASSETS

	December 31, 2018	December 31, 2017	Variance (%)
	(Dollars in thousands)		
Non-performing assets:			
Non-accruing loans			
Troubled-Debt Restructuring loans	$ 41,679	$ 25,354	64.4%
Other loans	78,047	74,360	5.0%
Accruing loans			
Troubled-Debt Restructuring loans	4,302	6,704	-35.8%
Other loans	541	2,528	-78.6%
Total non-performing loans	$ 124,569	$ 108,946	14.3%
Foreclosed real estate	33,768	44,174	-23.6%
Other repossessed assets	2,986	3,548	-15.8%
	$ **161,323**	$ **156,668**	**3.0%**
Non-performing assets to total assets, excluding acquired loans with deteriorated credit quality (including those by analogy)	**2.76%**	**2.95%**	**-6.4%**
Non-performing assets to total capital	**16.13%**	**16.58%**	**-2.7%**

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
	(In thousands)		
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	$ 3,338	$ 3,181	2,917

TABLE 12 — NON-PERFORMING LOANS

	December 31, 2018	December 31, 2017	Variance %
	(Dollars in thousands)		
Non-performing loans:			
Originated and other loans held for investment			
Mortgage	$ 63,717	$ 64,085	-0.6%
Commercial	42,456	35,253	20.4%
Consumer	3,354	2,572	30.4%
Auto and leasing	13,494	4,232	218.9%
	123,021	106,142	15.9%
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	950	1,270	-25.2%
Consumer	398	1,355	-70.6%
Auto	200	179	11.7%
	1,548	2,804	-44.8%
Total	**$ 124,569**	**$ 108,946**	**14.3%**
Non-performing loans composition percentages:			
Originated loans			
Mortgage	51.1%	58.7%	
Commercial	34.1%	32.4%	
Consumer	2.7%	2.4%	
Auto and leasing	10.8%	3.9%	
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	0.8%	1.2%	
Consumer	0.3%	1.2%	
Auto	0.2%	0.2%	
Total	**100.0%**	**100.0%**	
Non-performing loans to:			
Total loans, excluding loans accounted for under ASC 310-30 (including those by analogy)	**3.30%**	**3.34%**	**-1.2%**
Total assets, excluding loans accounted for under ASC 310-30 (including those by analogy)	**2.13%**	**2.05%**	**3.9%**
Total capital	**12.46%**	**11.53%**	**8.1%**
Non-performing loans with partial charge-offs to:			
Total loans, excluding loans accounted for under ASC 310-30 (including those by analogy)	**1.16%**	**1.15%**	**0.87%**
Non-performing loans	**35.30%**	**34.49%**	**2.3%**
Other non-performing loans ratios:			
Charge-off rate on non-performing loans to non-performing loans on which charge-offs have been taken	**59.20%**	**57.69%**	**2.6%**
Allowance for loan and lease losses to non-performing loans on which no charge-offs have been taken	**120.67%**	**134.26%**	**-10.1%**

TABLE 13 - ACTIVITY OF FDIC INDEMNIFICATION ASSET

	Year Ended December 31,		
	2018	2017	2016
		(In thousands)	
FDIC indemnification asset:			
Balance at beginning of period	$ -	$ 14,411	$ 22,599
Shared-loss agreements reimbursements from the FDIC	-	-	(1,573)
Increase in expected credit losses to be covered under shared-loss agreements, net	-	-	3,391
FDIC indemnification asset benefit (expense)	-	1,403	(8,040)
Net expenses incurred under shared-loss agreements	-	-	(1,966)
Shared-loss termination settlement	-	(15,814)	-
Balance at end of period	**$ -**	**$ -**	**14,411**

TABLE 14 - ACTIVITY IN THE REMAINING FDIC INDEMNIFICATION ASSET DISCOUNT

	Year Ended December 31		
	2018	2017	2016
		(In thousands)	
Balance at beginning of year	$ -	$ 8,670	$ 4,814
Amortization of negative discount	-	-	(8,040)
Impact of lower projected losses	-	-	11,896
Shared-loss termination	-	(8,670)	-
Balance at end of year	**$ -**	**$ -**	**$ 8,670**

TABLE 15 - LIABILITIES SUMMARY AND COMPOSITION

	December 31, 2018	December 31, 2017	Variance %
	(Dollars in thousands)		
Deposits:			
Non-interest bearing deposits	$ 1,105,324	$ 969,525	14.0%
NOW accounts	1,086,447	1,069,572	1.6%
Savings and money market accounts	1,212,260	1,251,396	-3.1%
Certificates of deposit	1,501,002	1,507,101	-0.4%
Total deposits	**4,905,033**	**4,797,594**	**2.2%**
Accrued interest payable	3,082	1,888	63.2%
Total deposits and accrued interest payable	**4,908,115**	**4,799,482**	**2.3%**
Borrowings:			
Securities sold under agreements to repurchase	455,508	192,869	136.2%
Advances from FHLB	77,620	99,643	-22.1%
Subordinated capital notes	36,083	36,083	0.0%
Other term notes	1,214	153	693.5%
Total borrowings	**570,425**	**328,748**	**73.5%**
Total deposits and borrowings	**5,478,540**	**5,128,230**	**6.8%**
Other Liabilities:			
Derivative liabilities	333	1,281	-74.0%
Acceptances outstanding	16,937	27,644	-38.7%
Other liabilities	87,665	86,791	1.0%
Total liabilities	**$ 5,583,475**	**$ 5,243,946**	**6.5%**
Deposits portfolio composition percentages:			
Non-interest bearing deposits	22.5%	20.2%	
NOW accounts	22.1%	22.3%	
Savings and money market accounts	24.7%	26.1%	
Certificates of deposit	30.7%	31.4%	
	100.0%	**100.0%**	
Borrowings portfolio composition percentages:			
Securities sold under agreements to repurchase	79.9%	58.7%	
Advances from FHLB	13.6%	30.3%	
Other term notes	0.2%	0.0%	
Subordinated capital notes	6.3%	11.0%	
	100.0%	**100.0%**	
Securities sold under agreements to repurchase (excluding accrued interest)			
Amount outstanding at period-end	$ 454,723	$ 192,500	
Daily average outstanding balance	$ 357,086	$ 393,133	
Maximum outstanding balance at any month-end	$ 457,053	$ 606,210	

Liabilities and Funding Sources

As shown in Table 15 above, at December 31, 2018, Oriental's total liabilities were $5.583 billion, 6.5% more than the $5.244 billion reported at December 31, 2017. Deposits and borrowings, Oriental's funding sources, amounted to $5.479 billion at December 31, 2018 versus $5.128 billion at December 31, 2017, a 6.8% increase.

Borrowings consist mainly of repurchase agreements, FHLB-NY advances and subordinated capital notes. At December 31, 2018, borrowings amounted to $570.4 million, representing an increase of 73.5% when compared with the $328.7 million reported at December 31, 2017. The increase in borrowings reflects:

- An increase of $262.2 million in new repurchase agreements used for the purchase of investment securities during the year ended December 31, 2018; and

- A decrease of $21.9 million in advances from the FHLB-NY attributable to $68.1 million of new advances, offset by the maturing of $90.0 million of advances that were not renewed.

At December 31, 2018, deposits represented 88% and borrowings represented 12% of interest-bearing liabilities. At December 31, 2018, deposits, the largest category of Oriental's interest-bearing liabilities, were $4.908 billion, an increase of 2.3% from $4.798 billion at December 31, 2017.

Stockholders' Equity

At December 31, 2018, Oriental's total stockholders' equity was $999.9 million, a 5.8% increase when compared to $945.1 million at December 31, 2017. This increase in stockholders' equity reflects increases in retained earnings of $52.2 million, legal surplus of $8.7 million, reduction in treasury stock, at cost, of $869 thousand, partially offset by a decrease in accumulated other comprehensive loss, net of tax of $8.0 million. Book value per share was $17.90 at December 31, 2018 compared to $17.73 at December 31, 2017.

From December 31, 2017 to December 31, 2018, tangible common equity to total assets increased from 11.12% to 12.59%, leverage capital ratio increased from 13.92% to 14.22%, common equity tier 1 capital ratio increased from 14.59% to 16.78%, tier 1 risk-based capital ratio increased from 19.05% to 19.20%, and total risk-based capital ratio increased from 20.34% to 20.48%. The increase in these ratios reflect an increase of $54.8 million in total capital.

On October 22, 2018, Oriental announced the mandatory conversion of its Series C Preferred Stock into common stock. Each share of Series C Preferred Stock was converted into 86.4225 shares of common stock. There were 84,000 shares of Series C Preferred Stock outstanding, all of which were converted to common. Upon conversion, the Series C Preferred Stock is no longer outstanding and all rights with respect to the Series C Preferred Stock have ceased and terminated, except the right to receive the number of whole shares of common stock issuable upon conversion of the Series C Preferred Stock and any required cash-in-lieu of fractional shares.

Capital Rules to Implement Basel III Capital Requirements

Oriental and the Bank are subject to regulatory capital requirements established by the Federal Reserve Board and the FDIC. The current risk-based capital standards applicable to Oriental and the Bank ("Basel III capital rules"), which have been effective since January 1, 2015, are based on the final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision. As of December 31, 2018, the capital ratios of Oriental and the Bank continue to exceed the minimum requirements for being "well-capitalized" under the Basel III capital rules.

The risk-based capital ratios presented in Table 14, which include common equity tier 1, tier 1 capital, total capital and leverage capital as of December 31, 2018 and December 31, 2017, are calculated based on the Basel III capital rules related to the measurement of capital, risk-weighted assets and average assets.

The following are the consolidated capital ratios of Oriental under the Basel III capital rules at December 31, 2018 and December 31, 2017:

TABLE 16 — CAPITAL, DIVIDENDS AND STOCK DATA

	December 31, 2018	December 31, 2017	Variance %
	(Dollars in thousands, except per share data)		
Capital data:			
Stockholders' equity	$ 999,877	$ 945,107	5.8%
Regulatory Capital Ratios data:			
Common equity tier 1 capital ratio	**16.78%**	**14.59%**	**15.0%**
Minimum common equity tier 1 capital ratio required	4.50%	4.50%	0.0%
Actual common equity tier 1 capital	$ 811,707	$ 644,804	25.9%
Minimum common equity tier 1 capital required	$ 217,675	$ 198,930	9.4%
Minimum capital conservation buffer required	$ 90,698	$ 55,258	64.1%
Excess over regulatory requirement	$ 503,334	$ 390,615	28.9%
Risk-weighted assets	$ 4,837,214	$ 4,420,667	9.4%
Tier 1 risk-based capital ratio	**19.20%**	**19.05%**	**0.8%**
Minimum tier 1 risk-based capital ratio required	6.00%	6.00%	0.0%
Actual tier 1 risk-based capital	$ 928,577	$ 842,133	10.3%
Minimum tier 1 risk-based capital required	$ 290,233	$ 265,240	9.4%
Excess over regulatory requirement	$ 638,344	$ 576,893	10.7%
Risk-weighted assets	$ 4,837,214	$ 4,420,667	9.4%
Total risk-based capital ratio	**20.48%**	**20.34%**	**0.7%**
Minimum total risk-based capital ratio required	8.00%	8.00%	0.0%
Actual total risk-based capital	$ 990,499	$ 899,258	10.1%
Minimum total risk-based capital required	$ 386,977	$ 353,653	9.4%
Excess over regulatory requirement	$ 603,522	$ 545,604	10.6%
Risk-weighted assets	$ 4,837,214	$ 4,420,667	9.4%
Leverage capital ratio	**14.22%**	**13.92%**	**2.2%**
Minimum leverage capital ratio required	4.00%	4.00%	0.0%
Actual tier 1 capital	$ 928,577	$ 842,133	10.3%
Minimum tier 1 capital required	$ 261,125	$ 242,057	7.9%
Excess over regulatory requirement	$ 667,452	$ 600,076	11.2%
Tangible common equity to total assets	**12.59%**	**11.12%**	**13.2%**
Tangible common equity to risk-weighted assets	**17.13%**	**15.57%**	**10.0%**
Total equity to total assets	**15.19%**	**15.27%**	**-0.5%**
Total equity to risk-weighted assets	**20.67%**	**21.38%**	**-3.3%**
Stock data:			
Outstanding common shares	51,293,924	43,947,442	16.7%
Book value per common share	$ 17.90	$ 17.73	0.9%
Tangible book value per common share	$ 16.15	$ 15.67	3.1%
Market price at end of period	$ 16.46	$ 9.40	75.1%
Market capitalization at end of period	$ 844,298	$ 413,106	104.4%

	Year Ended December 31,			
			Variance	
	2018	2017	%	2016
	(Dollars in thousands)			
Common dividend data:				
Cash dividends declared	$ 11,511	$ 10,553	9.1%	$ 10,544
Cash dividends declared per share	$ 0.25	$ 0.24	4.2%	$ 0.24
Payout ratio	16.45%	27.91%	-41.1%	23.30%
Dividend yield	1.52%	2.55%	-40.4%	1.83%

The following table presents a reconciliation of Oriental's total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2018, and 2017:

	December 31,	
	2018	2017
	(In thousands, except share or per share information)	
Total stockholders' equity	$ 999,877	$ 945,107
Preferred stock	(92,000)	(176,000)
Preferred stock issuance costs	10,130	10,130
Goodwill	(86,069)	(86,069)
Core deposit intangible	(2,480)	(3,339)
Customer relationship intangible	(888)	(1,348)
Total tangible common equity (non-GAAP)	**$ 828,570**	**$ 688,481**
Total assets	6,583,352	6,189,053
Goodwill	(86,069)	(86,069)
Core deposit intangible	(2,480)	(3,339)
Customer relationship intangible	(888)	(1,348)
Total tangible assets	**$ 6,493,915**	**$ 6,098,297**
Tangible common equity to tangible assets	**12.76%**	**11.29%**
Common shares outstanding at end of period	51,293,924	43,947,442
Tangible book value per common share	**$ 16.15**	**$ 15.67**

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

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

The following table presents Oriental's capital adequacy information under the Basel III capital rules:

	December 31, 2018	December 31, 2017	Variance %
	(Dollars in thousands)		
Risk-based capital:			
Common equity tier 1 capital	$ 811,707	$ 644,804	25.9%
Additional tier 1 capital	116,870	197,329	-40.8%
Tier 1 capital	**928,577**	**842,133**	**10.3%**
Additional Tier 2 capital	61,922	57,125	8.4%
Total risk-based capital	**$ 990,499**	**$ 899,258**	**10.1%**
Risk-weighted assets:			
Balance sheet items	$ 4,641,998	$ 4,249,042	9.2%
Off-balance sheet items	195,216	171,625	13.7%
Total risk-weighted assets	**$ 4,837,214**	**$ 4,420,667**	**9.4%**
Ratios:			
Common equity tier 1 capital (minimum required - 4.5%)	**16.78%**	**14.59%**	**15.0%**
Tier 1 capital (minimum required - 6%)	**19.20%**	**19.05%**	**0.8%**
Total capital (minimum required - 8%)	**20.48%**	**20.34%**	**0.7%**
Leverage ratio (minimum required - 4%)	**14.22%**	**13.92%**	**2.2%**
Equity to assets	**15.19%**	**15.27%**	**-0.5%**
Tangible common equity to assets	**12.59%**	**11.12%**	**13.2%**

The Bank is considered "well capitalized" under the regulatory framework for prompt corrective action. The table below shows the Bank's regulatory capital ratios at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017	Variance %
	(Dollars in thousands)		
Oriental Bank Regulatory Capital Ratios:			
Common Equity Tier 1 Capital to Risk-Weighted Assets	**18.40%**	**18.63%**	**-1.2%**
Actual common equity tier 1 capital	$ 887,918	$ 822,776	7.9%
Minimum capital requirement (4.5%)	$ 217,120	$ 198,712	9.3%
Minimum capital conservation buffer requirement (1.875% at December 31, 2018 - 1.25% at December 31, 2017)	$ 90,467	$ 55,198	63.9%
Minimum to be well capitalized (6.5%)	$ 313,618	$ 287,028	9.3%
Tier 1 Capital to Risk-Weighted Assets	**18.40%**	**18.63%**	**-1.2%**
Actual tier 1 risk-based capital	$ 887,918	$ 822,776	7.9%
Minimum capital requirement (6%)	$ 289,494	$ 264,949	9.3%
Minimum to be well capitalized (8%)	$ 385,992	$ 353,265	9.3%
Total Capital to Risk-Weighted Assets	**19.68%**	**19.92%**	**-1.2%**
Actual total risk-based capital	$ 949,596	$ 879,648	8.0%
Minimum capital requirement (8%)	$ 385,992	$ 353,265	9.3%
Minimum to be well capitalized (10%)	$ 482,490	$ 441,581	9.3%
Total Tier 1 Capital to Average Total Assets	**13.68%**	**13.63%**	**0.4%**
Actual tier 1 capital	$ 887,918	$ 822,776	7.9%
Minimum capital requirement (4%)	$ 259,547	$ 241,417	7.5%
Minimum to be well capitalized (5%)	$ 324,434	$ 301,771	7.5%

Oriental's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At December 31, 2018 and 2017, Oriental's market capitalization for its outstanding common stock was $844.3 million ($16.46 per share) and $413.1 million ($9.40 per share), respectively.

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

	Price		Cash Dividend
	High	**Low**	**Per share**
2018			
December 31, 2018	$ 18.56	$ 14.93	$ 0.07
September 30, 2018	$ 17.60	$ 14.45	$ 0.06
June 30, 2018	$ 14.75	$ 10.60	$ 0.06
March 31, 2018	$ 12.05	$ 8.60	$ 0.06
2017			
December 31, 2017	$ 10.25	$ 7.90	$ 0.06
September 30, 2017	$ 10.40	$ 8.40	$ 0.06
June 30, 2017	$ 12.03	$ 9.19	$ 0.06
March 31, 2017	$ 13.80	$ 10.90	$ 0.06
2016			
December 31, 2016	$ 14.30	$ 9.56	$ 0.06
September 30, 2016	$ 11.09	$ 8.07	$ 0.06
June 30, 2016	$ 9.14	$ 6.32	$ 0.06
March 31, 2016	$ 7.32	$ 4.77	$ 0.06

Under Oriental's current stock repurchase program, it is authorized to purchase in the open market up to $7.7 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by Oriental as treasury shares. There were no repurchases during 2018.

At December 31, 2018, the number of shares that may yet be purchased under such program is estimated at 469,675 and was calculated by dividing the remaining balance of $7.7 million by $16.46 (closing price of Oriental's common stock at December 31, 2018).

Contractual Obligations and Commercial Commitments

As disclosed in the notes to the consolidated financial statements, Oriental has certain obligations and commitments to make future payments under contracts. At December 31, 2018, the aggregate contractual obligations and commercial commitments, excluding accrued interest and unamortized premiums (discounts), are as follows:

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
CONTRACTUAL OBLIGATIONS:			(In thousands)		
Securities sold under agreements to repurchase	$ 454,723	$ 264,723	$ 190,000	$ -	$ -
Advances from FHLB	77,444	33,572	8,867	35,005	-
Subordinated capital notes	35,000	-	-	-	35,000
Annual rental commitments under noncancelable operating leases	24,412	5,618	7,653	11,141	-
Certificates of deposits	1,501,004	850,451	573,537	77,016	-
Total	**$ 2,092,583**	**$ 1,154,364**	**$ 780,057**	**$ 123,162**	**$ 35,000**

Loan commitments, which represent unused lines of credit, increased to $541.4 million at December 31, 2018 as compared to $485.0 million in December 31, 2017, while letters of credit provided to customers, decreased to $340 thousand as compared to $494 thousand at December 31, 2017. Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates, bear variable interest rate and may require payment of a fee. Since the commitments may expire unexercised, the total commitment amounts do not necessarily represent future cash requirements. Oriental evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Oriental upon extension of credit, is based on management's credit evaluation of the customer.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein (except for certain non-GAAP measures as previously indicated) have been prepared in accordance with GAAP which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services since such prices are affected by inflation.

QUARTERLY FINANCIAL DATA

The following is a summary of the quarterly results of operations:

TABLE 17 — SELECTED QUARTERLY FINANCIAL DATA:

	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	Total 2018
EARNINGS DATA:	(In thousands, except per share data)				
Interest income	$ 83,170	$ 88,006	$ 94,137	$ 95,106	$ 360,419
Interest expense	9,176	10,418	11,860	13,071	44,525
Net interest income	**73,994**	**77,588**	**82,277**	**82,035**	**315,894**
Provision for loan and lease losses	15,460	14,747	14,601	11,300	56,108
Net interest income after provision for loan and lease losses	**58,534**	**62,841**	**67,676**	**70,735**	**259,786**
Non-interest income	18,514	18,703	18,620	24,258	80,095
Non-interest expenses	52,121	52,300	50,941	51,719	207,081
Income before taxes	**24,927**	**29,244**	**35,355**	**43,274**	**132,800**
Income tax expense	8,010	9,595	12,255	18,530	48,390
Net income	**16,917**	**19,649**	**23,100**	**24,744**	**84,410**
Less: dividends on preferred stock	(3,465)	(3,465)	(3,466)	(1,628)	(12,024)
Income available to common shareholders	**$ 13,452**	**$ 16,184**	**$ 19,634**	**$ 23,116**	**$ 72,386**
PER SHARE DATA:					
Basic	**$** 0.31	**$** 0.36	**$** 0.45	**$** 0.47	**$** 1.58
Diluted	**$** 0.30	**$** 0.35	**$** 0.42	**$** 0.45	**$** 1.52

	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	Total 2017
EARNINGS DATA:	(In thousands, except per share data)				
Interest income	$ 86,178	$ 85,940	$ 90,355	$ 83,174	$ 345,647
Interest expense	11,560	10,377	9,877	9,661	41,475
Net interest income	**74,618**	**75,563**	**80,478**	**73,513**	**304,172**
Provision for loan and lease losses	17,654	26,536	44,042	24,907	113,139
Net interest income after provision for loan and lease losses	**56,964**	**49,027**	**36,436**	**48,606**	**191,033**
Non-interest income	19,074	24,886	17,912	16,815	78,687
Non-interest expenses	51,684	52,816	50,469	46,662	201,631
(Loss) income before taxes	**24,354**	**21,097**	**3,879**	**18,759**	**68,089**
Income tax expense (benefit)	9,204	3,993	560	1,686	15,443
Net (loss) income	**15,150**	**17,104**	**3,319**	**17,073**	**52,646**
Less: dividends on preferred stock	(3,465)	(3,466)	(3,465)	(3,466)	(13,862)
(Loss) income available to common shareholders	**$ 11,685**	**$ 13,638**	**$ (146)**	**$ 13,607**	**$ 38,784**
PER SHARE DATA:					
Basic	**$** 0.27	**$** 0.30	**$** -	**$** 0.31	**$** 0.88
Diluted	**$** 0.26	**$** 0.30	**$** -	**$** 0.30	**$** 0.88

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

Background

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

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

Market Risk

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

Interest Rate Risk

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

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

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

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

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

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

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

These simulations are complex, and use many assumptions that are intended to reflect the general behavior of Oriental over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates. The following table presents the results of the simulations at December 31, 2018 for the most likely scenario, assuming a one-year time horizon:

	Net Interest Income Risk (one-year projection)			
	Static Balance Sheet		Growing Simulation	
	Amount Change	Percent Change	Amount Change	Percent Change
Change in interest rate	(Dollars in thousands)			
+ 200 Basis points	$ 11,424	3.63%	$ 12,683	3.99%
+ 100 Basis points	$ 5,750	1.83%	$ 6,381	2.01%
- 100 Basis points	$ (5,643)	-1.79%	$ (6,271)	-1.97%
- 200 Basis points	$ (11,330)	-3.60%	$ (12,584)	-3.96%

Future net interest income could be affected by Oriental's investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed securities, and any structured repurchase agreements and advances from the FHLB-NY in which it may enter into from time to time. As part of the strategy to limit the interest rate risk and reduce the re-pricing gaps of Oriental's assets and liabilities, Oriental has executed certain transactions which include extending the maturity and the re-pricing frequency of the liabilities to longer terms reducing the amounts of its structured repurchase agreements and entering into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings that only consist of advances from the FHLB-NY as of December 31, 2018.

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

Derivative instruments that are used as part of Oriental's interest risk management strategy include interest rate swaps, forward-settlement swaps, futures contracts, and option contracts that have indices related to the pricing of specific balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties based on a common notional principal amount and maturity date. Interest rate futures generally involve exchanged-traded contracts to buy or sell U.S. Treasury bonds and notes in the future at specified prices. Interest rate options represent contracts that allow the holder of the option to (i) receive cash or (ii) purchase, sell, or enter into a financial instrument at a specified price within a specified period. Some purchased option contracts give Oriental the right to enter into interest rate swaps and cap and floor agreements with the writer of the option. In addition, Oriental enters into certain transactions that contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value. Please refer to Note 12 to the accompanying consolidated financial statements for further information concerning Oriental's derivative activities.

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

Interest rate swaps — Oriental entered into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in the one-month LIBOR rate. Once the forecasted wholesale borrowing transactions occurred, the interest rate swap effectively fixes Oriental's interest payments on an amount of forecasted interest expense attributable to the one-month LIBOR rate corresponding to the swap notional stated rate. A derivative asset of $14 thousand (notional amount of $34.0 million) was recognized at December 31, 2018 related to the valuation of these swaps.

In addition, Oriental has certain derivative contracts, including interest rate swaps not designated as hedging instruments, which are utilized to convert certain variable-rate loans to fixed-rate loans, and the mirror-images of these interest rate swaps in which Oriental enters into to minimize its interest rate risk exposure that results from offering the derivatives to clients. These interest rate swaps are marked to market through earnings. At December 31, 2018, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of $126 thousand (notional amounts of $12.5 million), and the mirror-image interest rate swaps in which Oriental entered into represented a derivative liability of $126 thousand (notional amounts of $12.5 million).

Wholesale borrowings — Oriental uses interest rate swaps to hedge the variability of interest cash flows of certain advances from the FHLB-NY that are tied to a variable rate index. The interest rate swaps effectively fix Oriental's interest payments on these borrowings. As of December 31, 2018, Oriental had $34.0 million in interest rate swaps at an average rate of 2.4% designated as cash flow hedges for $34.0 million in advances from the FHLB-NY that reprice or are being rolled over on a monthly basis.

Credit Risk

Credit risk is the possibility of loss arising from a borrower or counterparty in a credit-related contract failing to perform in accordance with its terms. The principal source of credit risk for Oriental is its lending activities. In Puerto Rico, Oriental's principal market, economic conditions are very challenging, as they have been for the last twelve years, due to a shrinking population, a protracted economic recession, a housing sector that remains under pressure, the Puerto Rico government's fiscal and liquidity crisis, and the payment defaults on various Puerto Rico government bonds, with severe austerity measures expected for the Puerto Rico government to be able to restructure its debts under the supervision of the federally-created Fiscal Oversight and Management Board for Puerto Rico. In addition, as was demonstrated with hurricanes Irma and Maria during the month of September 2017, Puerto Rico is susceptible to natural disasters, such as hurricanes and earthquakes, which can have a disproportionate impact on Puerto Rico because of the logistical difficulties of bringing relief to an island far from the United States mainland. Moreover, the Puerto Rico government's fiscal challenges and Puerto Rico's unique relationship with the United States also complicate any relief efforts after a natural disaster. These events increase credit risk as debtors may no longer be capable of operating their businesses and the collateral securing Oriental's loans may suffer significant damages.

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

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

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

Liquidity Risk

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

Oriental's business requires continuous access to various funding sources. While Oriental is able to fund its operations through deposits as well as through advances from the FHLB-NY and other alternative sources, Oriental's business is dependent upon other external wholesale funding sources. Oriental has selectively reduced its use of certain wholesale funding sources, such as repurchase agreements and brokered deposits. As of December 31, 2018, Oriental had $454.7 million in repurchase agreements, excluding accrued interest, and $525.1 million in brokered deposits.

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

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

As of December 31, 2018, Oriental had approximately $447.0 million in unrestricted cash and cash equivalents, $637.5 million in investment securities that are not pledged as collateral, and $762.0 million in borrowing capacity at the FHLB-NY.

Operational Risk

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

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

Oriental classifies operational risk into two major categories: business specific and corporate-wide affecting all business lines. For business specific risks, a risk assessment group works with the various business units to ensure consistency in policies, processes and assessments. With respect to corporate-wide risks, such as information security, business recovery, legal and compliance, Oriental has specialized groups, such as Information Security, Enterprise Risk Management, Corporate Compliance, Information Technology, Legal and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups. All these matters are reviewed and discussed in the executive Risk and Compliance Team. Oriental also has a Business Continuity Plan to address situations where its capacity to perform critical functions is affected. Under such circumstances, a Crisis Management Team is activated to restore such critical functions within established timeframes.

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

Concentration Risk

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

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

OFG Bancorp
FORM 10-K
FINANCIAL DATA INDEX

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OFG Bancorp

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and stockholders of OFG Bancorp:

The management of OFG Bancorp ("Oriental") is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, and for the assessment of internal control over financial reporting. Oriental's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Oriental's internal control over financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Oriental;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of Oriental are being made only in accordance with authorization of management and directors of Oriental; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Oriental's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As called for by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of Oriental's internal control over financial reporting as of December 31, 2018. Management made its assessment using the criteria set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Criteria").

Based on its assessment, management has concluded that Oriental maintained effective internal control over financial reporting as of December 31, 2018 based on the COSO Criteria.

The effectiveness of Oriental's internal control over financial reporting as of December 31, 2018, has been audited by KPMG LLP, Oriental's independent registered public accounting firm, as stated in their report dated March 8, 2019.

By: */s/ José Rafael Fernández*
José Rafael Fernández
President and Chief Executive Officer
Date: March 8, 2019

By: */s/ Maritza Arizmendi*
Maritza Arizmendi
Executive Vice President and Chief Financial Officer
Date: March 8, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
OFG Bancorp:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements and the related notes (collectively, the consolidated financial statements) of OFG Bancorp and subsidiaries as listed in the accompanying index. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 8, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2005.

/s/ KPMG LLP

San Juan, Puerto Rico
March 8, 2019

Stamp No. E363705 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
OFG Bancorp:

Opinion on Internal Control Over Financial Reporting

We have audited OFG Bancorp and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated March 8, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

San Juan, Puerto Rico
March 8, 2019

Stamp No. E363704 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report

OFG BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2018 AND 2017

	December 31, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 442,103	$ 478,182
Money market investments	4,930	7,021
Total cash and cash equivalents	**447,033**	**485,203**
Restricted cash	3,030	3,030
Investments:		
Trading securities, at fair value, with amortized cost of $647 (December 31, 2017 - $647)	360	191
Investment securities available-for-sale, at fair value, with amortized cost of $854,511 (December 31, 2017 - $648,800)	841,857	645,797
Investment securities held-to-maturity, at amortized cost, with fair value of $410,353 (December 31, 2017 - $497,681)	424,740	506,064
Federal Home Loan Bank (FHLB) stock, at cost	12,644	13,995
Other investments	3	3
Total investments	**1,279,604**	**1,166,050**
Loans:		
Loans held-for-sale, at lower of cost or fair value	10,368	12,272
Loans held for investment, net of allowance for loan and lease losses of $164,231 (December 31, 2017 - $167,509)	4,421,226	4,044,057
Total loans	**4,431,594**	**4,056,329**
Other assets:		
Foreclosed real estate	33,768	44,174
Accrued interest receivable	34,254	49,969
Deferred tax asset, net	113,763	127,421
Premises and equipment, net	68,892	67,860
Customers' liability on acceptances	16,937	27,663
Servicing assets	10,716	9,821
Derivative assets	347	771
Goodwill	86,069	86,069
Other assets	57,345	64,693
Total assets	$ **6,583,352**	$ **6,189,053**

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2018 AND 2017 (CONTINUED)

	December 31, 2018	December 31, 2017
	(In thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 2,191,802	$ 2,039,126
Savings accounts	1,212,259	1,251,398
Time deposits	1,504,054	1,508,958
Total deposits	**4,908,115**	**4,799,482**
Borrowings:		
Securities sold under agreements to repurchase	455,508	192,869
Advances from FHLB	77,620	99,643
Subordinated capital notes	36,083	36,083
Other borrowings	1,214	153
Total borrowings	**570,425**	**328,748**
Other liabilities:		
Derivative liabilities	333	1,281
Acceptances executed and outstanding	16,937	27,644
Accrued expenses and other liabilities	87,665	86,791
Total liabilities	**5,583,475**	**5,243,946**
Commitments and contingencies (See Note 26)		
Stockholders' equity:		
Preferred stock; 10,000,000 shares authorized;		
1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D issued and outstanding (December 31, 2017 - 1,340,000 shares; 1,380,000 shares; and 960,000 shares) $25 liquidation value	92,000	92,000
84,000 shares of Series C issued and outstanding at December 31, 2017 $1,000 liquidation value	-	84,000
Common stock, $1 par value; 100,000,000 shares authorized; 59,885,234 shares issued: 51,293,924 shares outstanding (December 31, 2017 - 52,625,869; 43,947,442)	59,885	52,626
Additional paid-in capital	619,381	541,600
Legal surplus	90,167	81,454
Retained earnings	253,040	200,878
Treasury stock, at cost, 8,591,310 shares (December 31, 2017 - 8,678,427 shares)	(103,633)	(104,502)
Accumulated other comprehensive (loss), net of tax of $1,677 (December 31, 2017 - $564)	(10,963)	(2,949)
Total stockholders' equity	**999,877**	**945,107**
Total liabilities and stockholders' equity	**$ 6,583,352**	**$ 6,189,053**

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except per share data)		
Interest income:			
Loans	$ 321,381	$ 312,421	$ 321,945
Mortgage-backed securities	31,190	26,994	30,522
Investment securities and other	7,848	6,232	4,125
Total interest income	**360,419**	**345,647**	**356,592**
Interest expense:			
Deposits	32,953	30,298	29,253
Securities sold under agreements to repurchase	7,794	7,223	18,805
Advances from FHLB and other borrowings	1,875	2,398	6,186
Subordinated capital notes	1,903	1,556	2,921
Total interest expense	**44,525**	**41,475**	**57,165**
Net interest income	**315,894**	**304,172**	**299,427**
Provision for loan and lease losses, net	56,108	113,139	65,076
Net interest income after provision for loan and lease losses	**259,786**	**191,033**	**234,351**
Non-interest income:			
Banking service revenue	43,638	39,468	41,647
Wealth management revenue	25,934	25,790	27,433
Mortgage banking activities	4,767	4,050	5,021
Total banking and financial service revenues	**74,339**	**69,308**	**74,101**
FDIC shared-loss benefit, net	-	1,403	(13,581)
Net gain on:			
Sale of securities	-	6,896	12,207
Derivatives	-	132	(71)
Early extinguishment of debt	-	(80)	(12,000)
Other non-interest income	5,756	1,028	6,163
Total non-interest income, net	**80,095**	**78,687**	**66,819**

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016 (CONTINUED)

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except per share data)		
Non-interest expense:			
Compensation and employee benefits	76,524	79,751	76,761
Occupancy and equipment	33,084	32,557	30,300
Electronic banking charges	21,234	19,322	20,707
Professional and service fees	12,442	12,406	12,235
Taxes, other than payroll and income taxes	9,017	9,187	9,782
Credit related expenses	8,890	7,992	10,267
Information technology expenses	8,227	8,010	7,116
Insurance	6,249	5,223	9,109
Advertising, business promotion, and strategic initiatives	5,084	5,616	5,485
Loan servicing and clearing expenses	4,810	4,693	8,247
Loss on sale of foreclosed real estate and other repossessed assets	4,662	4,634	10,282
Communication	3,447	3,415	3,379
Printing, postage, stationary and supplies	2,217	2,437	2,558
Director and investor relations	1,089	1,072	1,087
Other	10,105	5,316	8,675
Total non-interest expense	**207,081**	**201,631**	**215,990**
Income before income taxes	**132,800**	**68,089**	**85,180**
Income tax expense	48,390	15,443	25,994
Net income	**84,410**	**52,646**	**59,186**
Less: dividends on preferred stock	(12,024)	(13,862)	(13,862)
Income (loss) available to common shareholders	**$ 72,386**	**$ 38,784**	**$ 45,324**
Earnings per common share:			
Basic	**$ 1.59**	**$ 0.88**	**$ 1.03**
Diluted	**$ 1.52**	**$ 0.88**	**$ 1.03**
Average common shares outstanding and equivalents	**51,349**	**51,096**	**51,088**
Cash dividends per share of common stock	**$ 0.25**	**$ 0.24**	**$ 0.24**

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Year Ended December 31,		
	2018	**2017**	**2016**
		(In thousands)	
Net income	**$ 84,410**	**$ 52,646**	**$ 59,186**
Other comprehensive loss before tax:			
Unrealized (loss) gain on securities available-for-sale	(9,651)	2,276	(5,023)
Realized gain on investment securities included in net income	-	(6,896)	(12,207)
Other-than-temporary impairment included in net income	-	-	-
Unrealized gain on cash flow hedges	524	494	3,303
Other comprehensive loss before taxes	**(9,127)**	**(4,126)**	**(13,927)**
Income tax effect	1,113	(419)	1,526
Other comprehensive loss after taxes	**(8,014)**	**(4,545)**	**(12,401)**
Comprehensive income	**$ 76,396**	**$ 48,101**	**$ 46,785**

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Preferred stock:			
Balance at beginning of year	$ 176,000	$ 176,000	$ 176,000
Conversion of convertible preferred stock into common stock	(84,000)	-	-
Balance at end of year	**92,000**	**176,000**	**176,000**
Common stock:			
Balance at beginning of year	52,626	52,626	52,626
Conversion of convertible preferred stock into common stock	7,259	-	-
Balance at end of year	**59,885**	**52,626**	**52,626**
Additional paid-in capital:			
Balance at beginning of year	541,600	540,948	540,512
Stock-based compensation expense	1,401	1,109	1,270
Stock-based compensation excess tax benefit recognized in income	-	(99)	-
Lapsed restricted stock units	(361)	(358)	(834)
Conversion of convertible preferred stock into common stock	76,741	-	-
Balance at end of year	**619,381**	**541,600**	**540,948**
Legal surplus:			
Balance at beginning of year	81,454	76,293	70,435
Transfer from retained earnings	8,713	5,161	5,858
Balance at end of year	**90,167**	**81,454**	**76,293**
Retained earnings:			
Balance at beginning of year	200,878	177,808	148,886
Net income	84,410	52,646	59,186
Cash dividends declared on common stock	(11,511)	(10,553)	(10,544)
Cash dividends declared on preferred stock	(12,024)	(13,862)	(13,862)
Transfer to legal surplus	(8,713)	(5,161)	(5,858)
Balance at end of year	**253,040**	**200,878**	**177,808**
Treasury stock:			
Balance at beginning of year	(104,502)	(104,860)	(105,379)
Lapsed restricted stock units	869	358	519
Balance at end of year	**(103,633)**	**(104,502)**	**(104,860)**
Accumulated other comprehensive loss, net of tax:			
Balance at beginning of year	(2,949)	1,596	13,997
Other comprehensive loss, net of tax	(8,014)	(4,545)	(12,401)
Balance at end of year	**(10,963)**	**(2,949)**	**1,596**
Total stockholders' equity	**$ 999,877**	**$ 945,107**	**$ 920,411**

The accompanying nots are an integral part of these consolidated financial statements

OFG BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Year Ended December 31,		
	2018	**2017**	**2016**
	(In thousands)		
Cash flows from operating activities:			
Net income	$ **84,410**	$ **52,646**	$ **59,186**
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred loan origination fees and fair value premiums on acquired loans	4,605	3,537	3,548
Amortization of investment securities premiums, net of accretion of discounts	5,753	7,865	8,540
Amortization of core deposit and customer relationship intangibles	1,319	1,473	1,677
Amortization of fair value premiums on acquired deposits	-	-	340
FDIC shared-loss (benefit) expense	-	(1,403)	13,581
Depreciation and amortization of premises and equipment	8,898	8,986	9,420
Deferred income tax expense, net	14,772	(3,658)	23,226
Provision for loan and lease losses	56,108	113,139	65,076
Stock-based compensation	1,401	1,109	1,270
Stock-based compensation excess tax benefit recognized in income	-	(99)	-
(Gain) loss on:			
Sale of loans	(301)	(955)	(1,570)
Derivatives	-	(103)	181
Sale of securities	-	(6,896)	(12,207)
Early extinguishment of debt	-	80	12,000
Foreclosed real estate and other repossessed assets	3,405	4,964	11,934
Sale of other assets	(107)	(539)	12
Sale of other repossesed assets	1,257	57	(1,623)
Originations of loans held-for-sale	(95,520)	(116,020)	(179,430)
Proceeds from sale of loans held-for-sale	27,757	75,637	69,862
Net (increase) decrease in:			
Trading securities	(169)	156	(59)
Accrued interest receivable	15,715	(29,742)	410
Servicing assets	(895)	37	(2,403)
Other assets	5,486	13,675	(7,941)
Net (decrease) in:			
Accrued interest on deposits and borrowings	1,489	(937)	(862)
Accrued expenses and other liabilities	(2,028)	28,431	4,344
Net cash provided by operating activities	**133,355**	**151,440**	**78,512**

The accompanying notes are an integral part of these consolidated financial statements

OFG BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016 (CONTINUED)

	Year Ended December 31,		
	2018	**2017**	**2016**
		(In thousands)	
Cash flows from investing activities:			
Purchases of:			
Investment securities available-for-sale	(271,639)	(182,054)	(119,544)
Investment securities held-to-maturity	-	-	(86,478)
FHLB stock	(113,731)	(31,950)	(20,421)
Maturities and redemptions of:			
Investment securities available-for-sale	120,709	105,169	145,512
Investment securities held-to-maturity	77,583	88,726	101,965
FHLB stock	115,082	28,748	30,411
Proceeds from sales of:			
Investment securities available-for-sale	17,837	256,996	300,483
Foreclosed real estate and other repossessed assets, including write-offs	51,057	40,051	47,507
Proceeds from sale of loans held-for-sale	-	-	123,137
Premises and equipment	1,668	569	48
Origination and purchase of loans, excluding loans held-for-sale	(1,315,906)	(801,766)	(768,353)
Principal repayment of loans	840,064	699,409	817,199
Repayments to FDIC on shared-loss agreements	-	(10,125)	1,573
Additions to premises and equipment	(11,491)	(6,469)	(5,297)
Net change in restricted cash	-	-	319
Net cash (used in) provided by investing activities	**(488,767)**	**187,304**	**568,061**
Cash flows from financing activities:			
Net increase (decrease) in:			
Deposits	100,147	125,991	(61,078)
Securities sold under agreements to repurchase	262,223	(459,815)	(292,264)
FHLB advances, federal funds purchased, and other borrowings	(20,816)	(5,741)	(228,633)
Subordinated capital notes	-	-	(66,550)
Restricted units lapsed	508	-	(315)
Dividends paid on preferred stock	(12,024)	(13,862)	(13,862)
Dividends paid on common stock	(12,796)	(10,553)	(10,141)
Net cash provided by (used in) financing activities	**$ 317,242**	**$ (363,980)**	**$ (672,843)**
Net change in cash, cash equivalents and restricted cash	**(38,170)**	**(25,236)**	**(26,270)**
Cash, cash equivalents and restricted cash at beginning of year	**488,233**	**513,469**	**539,739**
Cash, cash equivalents and restricted cash at end of year	**$ 450,063**	**$ 488,233**	**$ 513,469**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:			
Interest paid	$ 41,318	$ 40,570	$ 56,302
Income taxes paid	$ 17,778	$ 30	$ 10,051
Mortgage loans securitized into mortgage-backed securities	$ 74,630	$ 74,919	$ 112,071
Transfer from loans to foreclosed real estate and other repossessed assets	$ 47,084	$ 43,163	$ 45,538
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$ 5,795	$ 33,647	$ 123,137
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$ 1,247	$ 293	$ 182
Conversion of convertible preferred stock into common stock	$ 84,000	$ -	$ -

OFG BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016 (CONTINUED)

Financed sales of foreclosed real estate	$ 2,333	$ 1,113	$ 2,212
Loans booked under the GNMA buy-back option	$ 13,325	$ 8,268	$ 9,681
Interest capitalized on loans subject to the temporary payment moratorium	$ -	$ 39,701	$ -

The accompanying notes are an integral part of these consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of OFG Bancorp (Oriental) conform with GAAP and to banking industry practices. The following is a description of Oriental's most significant accounting policies:

Nature of Operations

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

The main offices of Oriental and its subsidiaries are located in San Juan, Puerto Rico, except for OPC, which is located in Boca Raton, Florida. Oriental is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") under the U.S. Bank Holding Company Act of 1956, as amended, and the Dodd-Frank Act.

The Bank is subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of Puerto Rico ("OCFI") and the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers banking services such as commercial and consumer lending, leasing, auto loans, savings and time deposit products, financial planning, and corporate and individual trust services, and capitalizes on its commercial banking network to provide mortgage lending products to its clients. The Bank has an operating subsidiary, OFG USA, which is a commercial lender organized in Delaware and based in Cornelius, North Carolina. Oriental International Bank Inc. ("OIB"), a wholly-owned subsidiary of the Bank, and Oriental Overseas, a division of the Bank, are international banking entities licensed pursuant to the International Banking Center Regulatory Act of Puerto Rico, as amended. OIB and Oriental Overseas offer the Bank certain Puerto Rico tax advantages. Their activities are limited under Puerto Rico law to persons located in Puerto Rico with assets/liabilities located outside of Puerto Rico.

Oriental Financial Services is a securities broker-dealer and is subject to the supervision, examination and regulation of the Financial Industry Regulatory Authority ("FINRA"), the SEC, and the OCFI. Oriental Financial Services is also a member of the Securities Investor Protection Corporation. Oriental Insurance is an insurance agency and is subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico.

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 in the secondary market or the securitization of conforming loans into mortgage-backed securities. The Bank originates Federal Housing Administration ("FHA") insured and Veterans Administration ("VA") guaranteed mortgages 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 certain Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("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 and FHLMC mortgage loans for issuance of FNMA and FHLMC mortgage-backed securities. The Bank is also an approved issuer of GNMA mortgage-backed securities. The Bank is the master servicer of the GNMA, FNMA and FHLMC pools that it issues and of its mortgage loan portfolio, and has a subservicing arrangement with a third party for a portion of its acquired loan portfolio. During 2016, Oriental began servicing most of its mortgage loan portfolio.

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of OFG Bancorp and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Statutory Trust II is exempt from the consolidation requirements of GAAP.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate mainly to the determination of the allowance for loan and lease losses, the valuation of securities and derivative instruments, revisions to expected cash flows in acquired loans, the determination of income taxes, other-than-temporary impairment of securities, and goodwill valuation and impairment assessment.

Cash Equivalents

Oriental considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition.

Earnings per Common Share

Basic earnings per share is calculated by dividing income available to common shareholders (net income reduced by dividends on preferred stock) by the weighted average of outstanding common shares. Diluted earnings per share is similar to the computation of basic earnings per share except that the weighted average of common shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares underlying stock options and restricted units had been issued, assuming that proceeds from exercise are used to repurchase shares in the market (treasury stock method). Any stock splits and dividends are retroactively recognized in all periods presented in the consolidated financial statements.

Securities Purchased/Sold Under Agreements to Resell/Repurchase

Oriental purchases securities under agreements to resell the same or similar securities. Amounts advanced under these agreements represent short-term loans and are reflected as assets in the consolidated statements of financial condition. It is Oriental's policy to take possession of securities purchased under resale agreements while the counterparty retains effective control over the securities. Oriental monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral when deemed appropriate.

Oriental also sells securities under agreements to repurchase the same or similar securities. Oriental retains effective control over the securities sold under these agreements. Accordingly, such agreements are treated as financing arrangements, and the obligations to repurchase the securities sold are reflected as liabilities. The securities underlying the financing agreements remain included in the asset accounts. The counterparty to repurchase agreements generally has the right to repledge the securities received as collateral.

Investment Securities

Securities are classified as held-to-maturity, available-for-sale or trading. Securities for which Oriental has the intent and ability to hold until maturity are classified as held-to-maturity and are carried at amortized cost. Securities that might be sold prior to maturity because of interest rate changes to meet liquidity needs or to better match the repricing characteristics of funding sources are classified as available-for-sale. These securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported net of tax in other comprehensive income (loss).

Oriental classifies as trading those securities that are acquired and held principally for the purpose of selling them in the near future. These securities are carried at fair value with realized and unrealized changes in fair value included in earnings in the period in which the changes occur.

Oriental's investment in the Federal Home Loan Bank of New York ("FHLB-NY") stock, a restricted security, has no readily determinable fair value and can only be sold back to the FHLB-NY at cost. Therefore, these stock shares are deemed to be nonmarketable equity securities and are carried at cost.

Premiums and discounts are amortized to interest income over the life of the related securities using the interest method. Net realized gains or losses on sales of investment securities and unrealized gains and losses valuation adjustments considered other than temporary, if any, on securities classified as either available-for-sale or held-to-maturity are reported separately in the statements of operations. The cost of securities sold is determined by the specific identification method.

Financial Instruments

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

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

Level 1 — Level 1 assets and liabilities include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

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

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, 2018, 2017, and 2016. Oriental's policy is to recognize transfers at the date of the event or change in circumstances that caused the transfer.

Impairment of Investment Securities

Oriental conducts periodic reviews to identify and evaluate each investment in an unrealized loss position for other-than-temporary impairment. Oriental separates the amount of total impairment into credit and noncredit-related amounts. The term "other-than-temporary impairment" is not intended to indicate that the decline is permanent but indicates that the prospects for a near-term recovery of value is not favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Any portion of a decline in value associated with a credit loss is recognized in income, while the remaining noncredit-related component is recognized in other comprehensive income (loss). A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered by comparing it to the present value of cash flows expected to be collected from the security discounted at the rate equal to the yield used to accrete current and prospective beneficial interest for the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the "credit loss."

Oriental's review for impairment generally entails, but is not limited to:

- the identification and evaluation of investments that have indications of possible other-than-temporary impairment;
- the analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position, and the expected recovery period;
- the financial condition of the issuer or issuers;
- the creditworthiness of the obligor of the security;
- actual collateral attributes;
- any rating changes by a rating agency;
- current analysts' evaluations;
- the payment structure of the debt security and the likelihood of the issuer being able to make payments;
- current market conditions;
- adverse conditions specifically related to the security, industry, or a geographic area;
- Oriental's intent to sell the debt security;
- whether it is more-likely-than-not that Oriental will be required to sell the debt security before its anticipated recovery; and
- other qualitative factors that could support or not an other-than-temporary impairment.

Derivative Instruments and Hedging Activities

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

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

When using derivative instruments, Oriental exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract due to insolvency or any other event of default, Oriental's credit risk will equal the fair value gain in a derivative plus any cash or securities that may have been delivered to the counterparty as part of the transaction terms. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes Oriental, thus creating a repayment risk for Oriental. This risk is generally mitigated by requesting cash or securities from the counterparty to cover the positive fair value. When the fair value of a derivative contract is negative, Oriental owes the counterparty and, therefore, assumes no credit risk other than to the extent that the cash or value of the collateral delivered as part of the transactions exceeds the fair value of the derivative. Oriental minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties.

Oriental uses forward-settlement swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in LIBOR. Once the forecasted wholesale borrowing transactions occur, the interest rate swap will effectively lock-in Oriental's interest rate payments on an amount of forecasted interest expense attributable to the one-month LIBOR corresponding to the swap notional amount. By employing this strategy, Oriental minimizes its exposure to volatility in LIBOR.

As part of this hedging strategy, Oriental formally documents all relationships between hedging instruments and hedged items, as the well as its risk-management objective and strategy for undertaking various hedging transactions. This process includes linking all derivatives that are designated as cash flow hedges to (i) specific assets and liabilities on the balance sheet or (ii) specific firm commitments or forecasted transactions. Oriental also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The changes in fair value of the forward-settlement swaps are recorded in accumulated other comprehensive income (loss) to the extent there is no significant ineffectiveness.

Oriental discontinues hedge accounting prospectively when (i) it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (ii) the derivative expires or is sold, terminated, or exercised; (iii) it is no longer probable that the forecasted transaction will occur; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; or (v) management determines that designating the derivative as a hedging instrument is no longer appropriate or desired.

Oriental's derivative activities are monitored by its Asset/Liability Management Committee which is also responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into Oriental's overall interest rate risk-management.

Off-Balance Sheet Instruments

In the ordinary course of business, Oriental enters into off-balance sheet instruments consisting of commitments to extend credit, further discussed in Note 26 hereto. Such financial instruments are recorded in the financial statements when these are funded or related fees are incurred or received. Oriental periodically evaluates the credit risks inherent in these commitments and establishes accruals for such risks if and when these are deemed necessary.

Mortgage Banking Activities and Loans Held-For-Sale

The residential mortgage loans reported as held-for-sale are stated at the lower of cost or fair value, cost being determined on the outstanding loan balance less unearned income, and fair value determined in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Realized gains or losses on these loans are determined using the specific identification method. Loans held-for-sale include all conforming mortgage loans originated and purchased, which from time to time Oriental sells to other financial institutions or securitizes conforming mortgage loans into GNMA, FNMA and FHLMC pass-through certificates.

Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

Oriental recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. Oriental is not engaged in sales of mortgage loans and mortgage-backed securities subject to recourse provisions except for those provisions that allow for the repurchase of loans as a result

of a breach of certain representations and warranties other than those related to the credit quality of the loans included in the sale transactions.

The transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset in which Oriental surrenders control over the assets is accounted for as a sale if all of the following conditions set forth in Accounting Standards Codification ("ASC") Topic 860 are met: (i) the assets must be isolated from creditors of the transferor, (ii) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When Oriental transfers financial assets and the transfer fails any one of these criteria, Oriental is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing. For federal and Puerto Rico income tax purposes, Oriental treats the transfers of loans which do not qualify as “true sales” under the applicable accounting guidance, as sales, recognizing a deferred tax asset or liability on the transaction. For transfers of financial assets that satisfy the conditions to be accounted for as sales, Oriental derecognizes all assets sold; recognizes all assets obtained and liabilities incurred in consideration as proceeds of the sale, including servicing assets and servicing liabilities, if applicable; initially measures at fair value assets obtained and liabilities incurred in a sale; and recognizes in earnings any gain or loss on the sale. The guidance on transfer of financial assets requires a true sale analysis of the treatment of the transfer under state law as if Oriental was a debtor under the bankruptcy code. A true sale legal analysis includes several legally relevant factors, such as the intent of the parties, the nature and level of recourse to the transferor, and the nature of retained interests in the loans sold. The analytical conclusion as to a true sale is never absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law. Once the legal isolation test has been met, other factors concerning the nature and extent of the transferor’s control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted.

When Oriental sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. Conforming conventional mortgage loans are combined into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or sold directly to FNMA or other private investors for cash. To the extent the loans do not meet the specified characteristics, investors are generally entitled to require Oriental to repurchase such loans or indemnify the investor against losses if the assets do not meet certain guidelines. GNMA programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which Oriental provides servicing. At Oriental’s option and without GNMA prior authorization, Oriental may repurchase such delinquent loans for an amount equal to 100% of the loan’s remaining principal balance. This buy-back option is considered a conditional option until the delinquency criteria is met, at which time the option becomes unconditional. When the loans backing a GNMA security are initially securitized, Oriental treats the transaction as a sale for accounting purposes because the conditional nature of the buy-back option means that Oriental does not maintain effective control over the loans, and therefore these are derecognized from the statement of financial condition. When individual loans later meet GNMA’s specified delinquency criteria and are eligible for repurchase, Oriental is deemed to have regained effective control over these loans, and these must be brought back onto Oriental’s books as assets, regardless of whether Oriental intends to exercise the buy-back option. Quality review procedures are performed by Oriental as required under the government agency programs to ensure that asset guideline qualifications are met. Oriental has not recorded any specific contingent liability in the consolidated financial statements for these customary representation and warranties related to loans sold by Oriental, and management believes that, based on historical data, the probability of payments and expected losses under these representation and warranty arrangements is not significant.

Oriental has liability for residential mortgage loans sold subject to credit recourse, principally loans associated with FNMA residential mortgage loan sales and securitization programs. In the event of any customer default, pursuant to the credit recourse provided, Oriental is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that Oriental would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. In the event of nonperformance by the borrower, Oriental has rights to the underlying collateral securing the mortgage loan. Oriental suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. Oriental has established a liability to cover the estimated credit loss exposure related to loans sold with credit recourse.

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights, and are updated by accruing or reversing expense (categorized in the line item "mortgage banking activities" in the consolidated statements of operations) throughout the life of the loan, as necessary, when

additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 120 days delinquent within the following twelve-month period.

Servicing Assets

Oriental periodically sells or securitizes mortgage loans while retaining the obligation to perform the servicing of such loans. In addition, Oriental may purchase or assume the right to service mortgage loans originated by others. Whenever Oriental undertakes an obligation to service a loan, management assesses whether a servicing asset and/or liability should be recognized. A servicing asset is recognized whenever the compensation for servicing is expected to more than adequately compensate Oriental for servicing the loans. Likewise, a servicing liability would be recognized in the event that servicing fees to be received are not expected to adequately compensate Oriental for its expected cost.

All separately recognized servicing assets are recognized at fair value using the fair value measurement method. Under the fair value measurement method, Oriental measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing asset in the statement of operations in the period in which the changes occur, and includes these changes, if any, with mortgage banking activities in the consolidated statement of operations. The fair value of servicing rights is subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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

Loans and Leases

Originated and Other Loans and Leases Held in Portfolio

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

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

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

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

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

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

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

Acquired Loans and Leases

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

Oriental has acquired loans in two separate acquisitions, the BBVAPR Acquisition in December 2012 and the FDIC-assisted Eurobank acquisition in April 2010. For each acquisition, 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 TDR.

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 and other 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.

Effective February 6, 2017, Oriental and the FDIC agreed to terminate the loss and recovery sharing agreements in connection with a portfolio of loans acquired in the Eurobank FDIC assisted transaction.

Allowance for Loan and Lease Losses

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

Oriental's assessment of the allowance for loan losses is determined in accordance with the guidance of loss contingencies in ASC Subtopic 450-20 and loan impairment guidance in ASC Section 310-10-35. Also, Oriental determines the allowance for loan losses on purchased impaired loans and purchased loans accounted for under ASC Subtopic 310-30 by analogy, by evaluating decreases in expected cash flows after the acquisition date.

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

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

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

Mortgage loans: These loans are divided into four classes: traditional mortgages, non-traditional mortgages, loans in loan modification programs and home equity secured personal loans. Traditional mortgage loans include loans secured by a dwelling, fixed coupons and regular amortization schedules. Non-traditional mortgages include loans with interest-first amortization schedules and loans with balloon considerations as part of their terms. Mortgages in loan modification programs are loans that are being serviced under such programs. Home equity loans are mainly equity lines of credit. The allowance factor on mortgage loans is impacted by the adjusted historical loss factors on the sub-segments and the environmental risk factors described above and by delinquency buckets. The traditional mortgage loan portfolio is further segregated by vintages and then by delinquency buckets. Effective on the fourth quarter of 2018, the calculation of the loss factor was changed from historical loss experience to a probability of default ("PD") and loss given default ("LGD") methodology. The PD results from a delinquency migration analysis and the LGD is based on the Bank's historical loss experience. The segments and sub-segments remained unchanged as well as the environmental risk factors adjustments. These changes are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

Commercial loans: The commercial portfolio is segmented by business line (corporate, institutional, middle market, corporate retail, floor plan, and real estate) and by collateral type (secured by real estate and other commercial and industrial assets). The loss factor used for the GVA of these loans is established considering Oriental's past 36-month historical loss experience of each segment

adjusted for the loss realization period and the consideration of environmental factors. The sum of the adjusted loss experience and the environmental factors is the GVA factor used for the determination of the allowance for loan and lease losses on each segment.

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

Auto and Leasing: The auto and leasing portfolio consists of financing for the purchase of new or used motor vehicles for private or public use. The allowance factor is impacted by the adjusted historical loss factor and the environmental risk factors. For the determination of the allowance factor, the portfolio is segmented by FICO score, which is updated on a quarterly basis and then by delinquency bucket.

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

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

When current information and events indicate that it is probable that we will be unable to collect all amounts of principal and interest due under the original terms of a business or commercial real estate loan greater than $500 thousand, such loan will be classified as impaired. Additionally, all loans modified in a TDR are considered impaired. The need for specific valuation allowances are determined for impaired loans and recorded as necessary. For impaired loans, we consider the fair value of the underlying collateral, less estimated costs to sell, if the loan is collateral dependent, or we use the present value of estimated future cash flows in determining the estimates of impairment and any related allowance for loan losses for these loans. Confirmed losses are charged off immediately.

Loan loss ratios and credit risk categories, for commercial loans, are updated at least quarterly and are applied in the context of GAAP. Management uses current available information in estimating possible loan and lease losses, factors beyond Oriental's control, such as those affecting general economic conditions, may require future changes to the allowance.

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

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

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

For the principal enhancements management made to its methodology, refer to Note 7.

Troubled Debt Restructuring

A TDR is the restructuring of a receivable in which Oriental, as creditor, grants a concession for legal or economic reasons due to the debtor's financial difficulties. A concession is granted when, as a result of the restructuring, Oriental does not expect to collect all

amounts due, including interest accrued at the original contract rate. These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses.

To assess whether the debtor is having financial difficulties, Oriental evaluates whether it is probable that the debtor will default on any of its debt in the foreseeable future.

Receivables that are restructured in a TDR are presumed to be impaired and are subject to a specific impairment-measurement method. If the payment of principal at original maturity is primarily dependent on the value of collateral, Oriental considers the current value of that collateral in determining whether the principal will be paid. For non-collateral dependent loans, the specific reserve is calculated based on the present value of expected cash flows discounted at the loan's effective interest rate. An accruing loan that is modified in a TDR can remain in accrual status if, based on a current, well-documented credit analysis, collection of principal and interest in accordance with the modified terms is reasonably assured, and the borrower has demonstrated sustained historical repayment performance for a reasonable period before the modification.

Reserve for Unfunded Commitments

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in other liabilities in the consolidated statements of financial condition. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities. Net adjustments to the reserve for unfunded commitments are included in other operating expenses in the consolidated statements of operations.

FDIC Indemnification Asset and True-up Payment Obligation

The FDIC indemnification asset was accounted for and measured separately from the covered loans acquired in the FDIC-assisted acquisition as it was not contractually embedded in any of the covered loans. The indemnification asset was recorded at fair value at the acquisition date and represented the present value of the estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit adjustment estimated for each covered asset and the shared-loss percentages. This balance also included incurred expenses under the shared-loss agreements. These cash flows were then discounted at a market-based rate to reflect the uncertainty of the timing and receipt of the shared-loss reimbursements from the FDIC. The time value of money incorporated into the present value computation was accreted into earnings over the shorter of the life of the shared-loss agreements or the holding period of the covered assets.

The FDIC indemnification asset was reduced as shared-loss payments were received from the FDIC. Realized credit losses in excess of acquisition-date estimates resulted in an increase in the FDIC indemnification asset. Conversely, if realized credit losses were less than acquisition-date estimates, the FDIC indemnification asset was amortized through the term of the shared-loss agreements.

The true-up payment obligation associated with the loss share agreements was accounted for at fair value in accordance with ASC Section 805-30-25-6 as it was considered contingent consideration. The true-up payment obligation was included as part of other liabilities in the consolidated statements of financial condition. Any changes in the carrying value of the obligation were included in the category of FDIC loss share income (expense) in the consolidated statements of operations.

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

Goodwill and Intangible Assets

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. Oriental has the option to first assess qualitative factors to determine whether there are events or circumstances that exist that make it more likely than not that the fair value of the reporting unit is less than its carrying amount. If it is more likely than not that the fair value of the reporting unit is less than its carrying amount, or if Oriental chooses to bypass the qualitative assessment, Oriental compares each reporting unit's fair value to its carrying value to identify potential impairment. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. However, if the carrying amount of the reporting unit were to exceed its estimated fair value, a second step would be performed that would compare the implied fair value of the reporting unit's goodwill with the carrying amount. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the reporting units. Oriental performs annual goodwill impairment test as of October 31 and monitors for interim triggering events on an ongoing basis. Oriental performed its annual impairment review of goodwill during the fourth quarter of 2018 and 2017 using October 31, 2018 and 2017 as the annual evaluation dates and concluded that there was no impairment at December 31, 2018 and 2017.

Foreclosed Real Estate and Other Repossessed Property

Foreclosed real estate and other repossessed property are initially recorded at the fair value of the real estate or repossessed property less the cost of selling it at the date of foreclosure or repossession. At the time properties are acquired in full or partial satisfaction of loans, any excess of the loan balance over the estimated fair value of the property is charged against the allowance for loan and lease losses on non-covered loans. After foreclosure or repossession, these properties are carried at the lower of cost or fair value less estimated cost to sell based on recent appraised values or options to purchase the foreclosed or repossessed property. Any excess of the carrying value over the estimated fair value, less estimated costs to sell, is charged to non-interest expense. The costs and expenses associated to holding these properties in portfolio are expensed as incurred.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed using the straight-line method over the terms of the leases or estimated useful lives of the improvements, whichever is shorter.

Impairment of Long-Lived Assets

Oriental periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an estimate of the future cash flows expected to result from the use of the asset and its eventual disposition is made. If the sum of the future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, an impairment loss is recognized. The amount of the impairment is the excess of the carrying amount over the fair value of the asset. As of December 31, 2018 and 2017, there was no indication of impairment as a result of such review.

Income Taxes

In preparing the consolidated financial statements, Oriental is required to estimate income taxes. This involves an estimate of current income tax expense together with an assessment of deferred taxes resulting from differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The determination of current income tax expense involves estimates and assumptions that require Oriental to assume certain positions based on its interpretation of current tax laws and regulations. Changes in assumptions affecting estimates may be required in the future, and estimated tax assets or liabilities may need to be increased or decreased accordingly. The accrual for tax contingencies is adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. When particular matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to Oriental's effective tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective tax rate and may require the use of cash in such year.

The determination of deferred tax expense or benefit is based on changes in the carrying amounts of assets and liabilities that generate temporary differences. The carrying value of Oriental's net deferred tax assets assumes that Oriental will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change in the future, Oriental may be required to record valuation allowances against its deferred tax assets resulting in additional income tax expense in the consolidated statements of operations.

Management evaluates on a regular basis whether the deferred tax assets can be realized and assesses the need for a valuation allowance. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowance from period to period are included in Oriental's tax provision in the period of change.

In addition to valuation allowances, Oriental establishes accruals for uncertain tax positions when, despite the belief that Oriental's tax return positions are fully supported, Oriental believes that certain positions are likely to be challenged. The accruals for uncertain tax positions are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law, and emerging legislation. The accruals for Oriental's uncertain tax positions are reflected as income tax payable as a component of accrued expenses and other liabilities. These accruals are reduced upon expiration of the applicable statute of limitations.

Oriental follows a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

Oriental's policy is to include interest and penalties related to unrecognized income tax benefits within the provision for income taxes on the consolidated statements of operations.

Oriental is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years 2014 to 2017, until the applicable statute of limitations expires. In addition, Oriental's US subsidiaries are potentially subject to income tax audits by the IRS for taxable years 2015 to 2017. Tax audits by their nature are often complex and can require several years to complete.

Revenue Recognition

Refer to Note 28 for a detailed description of the Corporation's policies on the recognition and presentation of revenues from contract with customers.

Equity-Based Compensation Plan

Oriental's 2007 Omnibus Performance Incentive Plan, as amended and restated (the "Omnibus Plan"), provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted units and dividend equivalents, as well as equity-based performance awards. The Omnibus Plan was adopted in 2007, amended and restated in 2008, and further amended in 2010 and 2013.

The purpose of the Omnibus Plan is to provide flexibility to Oriental to attract, retain and motivate directors, officers, and key employees through the grant of awards based on performance and to adjust its compensation practices to the best compensation practice and corporate governance trends as they develop from time to time. The Omnibus Plan is further intended to motivate high levels of individual performance coupled with increased shareholder returns. Therefore, awards under the Omnibus Plan (each, an "Award") are intended to be based upon the recipient's individual performance, corporate performance, level of responsibility and potential to make significant contributions to Oriental. Generally, the Omnibus Plan will terminate as of (a) the date when no more of Oriental's shares of common stock are available for issuance under the Omnibus Plan or, (b) if earlier, the date the Omnibus Plan is terminated by Oriental's Board of Directors.

The Board's Compensation Committee (the "Committee"), or such other committee as the Board may designate, has full authority to interpret and administer the Omnibus Plan in order to carry out its provisions and purposes. The Committee has the authority to determine those persons eligible to receive an Award and to establish the terms and conditions of any Award. The Committee may delegate, subject to such terms or conditions or guidelines as it shall determine, to any employee or group of employees any portion of its authority and powers under the Omnibus Plan with respect to participants who are not directors or executive officers subject to the reporting requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Only the Committee may exercise authority in respect to Awards granted to such participants.

The expected term of stock options granted represents the period of time that such options are expected to be outstanding. Expected volatilities are based on historical volatility of Oriental's shares of common stock over the most recent period equal to the expected

term of the stock options. For stock options issued during 2015, the expected volatilities are based on both historical and implied volatility of Oriental's shares of common stock.

Oriental follows the fair value method of recording stock-based compensation. Oriental used the modified prospective transition method, which requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award with the cost to be recognized over the service period. It applies to all awards unvested and granted after the effective date and awards modified, repurchased, or cancelled after that date.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except for those resulting from investments by owners and distributions to owners. GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and on derivative activities that qualify and are designated for cash flows hedge accounting, net of taxes, are reported as a separate component of the stockholders' equity section of the consolidated statements of financial condition, such items, along with net income, are components of comprehensive income (loss).

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Subsequent Events

Oriental has evaluated other events subsequent to the balance sheet date and prior to the filing of this annual report on Form 10-K for the year ended December 31, 2018, and has adjusted and disclosed those events that have occurred that would require adjustment or disclosure in the consolidated financial statements.

New Accounting Updates Not Yet Adopted

Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes: The amendments in this Update permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the UST, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate, and the SIFMA Municipal Swap Rate. The adoption of this will not have a material impact on our consolidated financial statements and related disclosures as we continue to use LIBOR.

Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force). In August 2018, the FASB issued Accounting Standards Update ("ASU") 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The ASU also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. This ASU is the final version of Proposed Accounting Standards Update 2018–230—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which has been deleted. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted. The adoption of this ASU will not have a material impact on our consolidated financial statements and related disclosures.

Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. In August 2018, the FASB issued ASU 2018-13, which improves the effectiveness of fair value measurement disclosures. ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial

Statements, including the consideration of costs and benefits. This ASU is the final version of Proposed Accounting Standards Update 2015-350—Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurements, which has been deleted. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2019. We assessed the impact that the adoption of ASU 2018-13 and it will not have a material impact on our consolidated financial statements and related disclosures.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued ASU No. 2017-04, which simplifies the measurement of goodwill impairment. An entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2019. The adoption of this ASU will not have a material impact on our consolidated financial statements and related disclosures as the carrying amount of any of the reporting units do not exceeds its fair value, if exceeds Oriental would be required to record an impairment charge for the difference up to the amount of the goodwill.

Measurement of Credit Losses on Financial Instruments. In December 18, 2018, a joint final rule was issued by the FRB, OCC and FDIC, on the implementation and transition of the Current Expected Credit Loss methodology (CECL). The rule differentiates implementation for Standardized and Advanced Approaches banks and has implications for business combinations and stress testing. The rule is largely in line with the proposal from April 2018. In June 2016, the FASB issued ASU No. 2016-13, which includes an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. ASU No. 2016-13 is effective for fiscal years, and interim periods, beginning after December 15, 2019. Oriental will implement ASU No. 2016-13 on January 1, 2020 using a modified retrospective approach. Although early adoption is permitted beginning in the first quarter of 2019, Oriental does not expect to make that election. While we continue to assess the impact of ASU No. 2016-13, we have developed a roadmap with time schedules in place from 2016 to implementation date. Oriental's cross-functional implementation team has developed a project plan to ensure we comply with all updates from this ASU at the time of adoption. We recently have selected the software and are in the process of assessing the methodology to be used in order to develop an acceptable model to estimate the expected credit losses. After the model has been developed, reviewed and validated in accordance with our governance policies, Oriental will keep disclosing relevant information of concerning implementation process and impact of ASU No. 2016-13, as well as the updating of policies, procedures and internal controls. Although Oriental expects the allowance for credit losses to increase upon adoption with a corresponding adjustment to retained earnings, the ultimate amount of the increase will depend on the portfolio composition, credit quality, economic conditions and reasonable and supportable forecasts at that time.

Codification Improvements to Topic 326, Financial Instruments—Credit Losses: The amendments in this Update include items brought to the Board's attention by stakeholders. The amendments align the implementation date for non-public entities' annual financial statements with the implementation date for their interim financial statements and clarify the scope of the guidance in the amendments in Update 2016-13. The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Impairment of receivables arising from operating leases will be accounted for in accordance with Topic 842, Leases. Oriental does not estimate to have such impairment in the near future. The adoption of this will not have a material impact on our consolidated financial statements and related disclosures.

Leases. In February 2016, the FASB issued ASU No. 2016-02, the FASB issued ASU No. 2016-02, which requires lessees to recognize a right-of-use (ROU) asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. The standard, effective January 1, 2019, with early adoption permitted, would have caused us to recognize virtually all leases on the Consolidated Balance Sheets upon adoption and in the comparative period. However, in July 2018, the FASB issued an update to its guidance providing companies with the option to adopt the provisions of the standard prospectively without adjusting comparative periods; we will elect this option and adopt the standard on January 1, 2019. The new standard provides a number of optional practical expedients in transition. We have elected the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We also have elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. Oriental's leases primarily consist of leased office space. Oriental expects to recognized ROU assets and lease liabilities for operating leases in a range of $20 million to $25 million, with the most significant impact from recognition of leased office space. No impact on equity, results of operations and cash flows.

Premium Amortization on Purchased Callable Debt Securities Receivables. In March 2017, the FASB issued ASU No. 2017-08, which requires the amortization of the premium on callable debt securities to the earliest call date. The amortization period for callable

debt securities purchased at a discount would not be impacted by the ASU. This ASU will be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2018. The ASU is not expected to have a material impact on Oriental's consolidated financial position or results of operations. At December 31, 2018, Oriental does not have callable debt securities.

New Accounting Updates Adopted During the Current Year

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

Restricted Cash. In November 2016, the FASB issued ASU No. 2016-18, which amends Topic 230 (Statement of Cash Flows) and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is intended to reduce diversity in practice in how restricted cash or restricted cash equivalents are presented and classified in the statement of cash flows. ASU No. 2016-18 is effective for fiscal years, and interim periods, beginning after December 15, 2017. The standard requires application using a retrospective transition method. The adoption of ASU No. 2016-18 on January 1, 2018, changed the presentation and classification of restricted cash and restricted cash equivalents in our consolidated statements of cash flows.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition), and most industry-specific guidance. ASU No. 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). In August 2015, the FASB issued ASU No. 2015-14 to defer the effective date of ASU No. 2014-09 by one year to fiscal years beginning after December 15, 2017. Oriental has adopted this ASU on January 1, 2018 using the modified retrospective method. The adoption of Topic 606 did not have material impact to the Company's statement of operations or financial condition for the year ended December 31, 2018. No cumulative effect adjustment to accumulated deficit was recorded as a result of the adoption of Topic 606. Refer to additional disclosures on Note 28, Banking and Financial Service Revenues.

NOTE 2 – SIGNIFICANT EVENTS

Hurricanes Irma and Maria

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

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

As a result of this event and, based on current assessments of information available for the impact of the hurricanes on our credit portfolio, 2017 results included an additional loan loss provision of $32.4 million.

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

Oriental maintains insurance for casualty losses as well as for disaster response costs and certain revenue lost through business interruption. Oriental received a $1.0 million partial payment from its insurance carrier during the year ended December 2017 and a $6.25 million payment during the year ended December 31, 2018. At December 31, 2017, a receivable of $1.2 million was included in other assets, the remaining $5 million was recognized as other non-interest income in the statement of operations during 2018.

NOTE 3 – RESTRICTED CASH

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

	December 31,	
	2018	2017
	(In thousands)	
Cash pledged as collateral to other financial institutions to secure:		
Derivatives	$ 1,980	$ 1,980
Obligations under agreement of loans sold with recourse	1,050	1,050
	$ 3,030	**$ 3,030**

At December 31, 2018, the Bank's international banking entities, OIB and Oriental Overseas, a division of the Bank, held an unencumbered certificate of deposit and other short-term highly liquid securities in the amount of $305 thousand and $325 thousand, respectively, as the legal reserve required for international banking entities under Puerto Rico law. At December 31, 2017, the Bank's international banking entities, OIB and Oriental Overseas, a division of the Bank, held an unencumbered certificate of deposit and other short-term highly liquid securities in the amount of $300 thousand and $325 thousand, respectively, as the legal reserve required for international banking entities under Puerto Rico law. These instruments cannot be withdrawn or transferred by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions of Puerto Rico (the "OCFI").

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

Oriental has a contract with FNMA which requires collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At both December 31, 2018 and 2017, Oriental delivered as collateral cash amounting to approximately $1.1 million.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover demand deposits. The amount of those minimum average reserve balances for the week that covered December 31, 2018 was $211.6 million (December 31, 2017 - $189.2 million). At December 31, 2018 and 2017, the Bank complied with this requirement. Cash and due from bank as well as other short-term, highly liquid securities, are used to cover the required average reserve balances.

NOTE 4 – INVESTMENT SECURITIES

Money Market Investments

Oriental considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At December 31, 2018 and 2017, money market instruments included as part of cash and cash equivalents amounted to $4.9 million and $7.0 million, respectively.

Investment Securities

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

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
			(In thousands)		
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 561,878	$ 404	$ 8,951	$ 553,331	2.59%
GNMA certificates	211,947	1,050	2,827	210,170	3.10%
CMOs issued by US government-sponsored agencies	66,230	-	2,166	64,064	1.90%
Total mortgage-backed securities	**840,055**	**1,454**	**13,944**	**827,565**	**2.66%**
Investment securities					
US Treasury securities	10,924	-	119	10,805	1.36%
Obligations of US government-sponsored agencies	2,325	-	60	2,265	1.38%
Other debt securities	1,207	15	-	1,222	2.99%
Total investment securities	**14,456**	**15**	**179**	**14,292**	**1.50%**
Total securities available for sale	**$ 854,511**	**$ 1,469**	**$ 14,123**	**$ 841,857**	**2.64%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	**$ 424,740**	**$ -**	**$ 14,387**	**$ 410,353**	**2.07%**

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
			(In thousands)		
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 383,194	$ 1,402	$ 2,881	$ 381,715	2.39%
GNMA certificates	166,436	1,486	584	167,338	2.94%
CMOs issued by US government-sponsored agencies	82,026	-	1,955	80,071	1.90%
Total mortgage-backed securities	**631,656**	**2,888**	**5,420**	**629,124**	**2.47%**
Investment securities					
US Treasury securities	10,276	-	113	10,163	1.25%
Obligations of US government-sponsored agencies	2,927	-	48	2,879	1.38%
Obligations of Puerto Rico government and public instrumentalities	2,455	-	362	2,093	5.55%
Other debt securities	1,486	52	-	1,538	2.97%
Total investment securities	**17,144**	**52**	**523**	**16,673**	**2.04%**
Total securities available-for-sale	**$ 648,800**	**$ 2,940**	**$ 5,943**	**$ 645,797**	**2.46%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	**$ 506,064**	**$ -**	**$ 8,383**	**$ 497,681**	**2.07%**

The amortized cost and fair value of Oriental's investment securities at December 31, 2018, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2018			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Mortgage-backed securities				
Due from 1 to 5 years				
FNMA and FHLMC certificates	$ 3,617	$ 3,570	$ -	$ -
Total due from 1 to 5 years	**3,617**	**3,570**	**-**	**-**
Due after 5 to 10 years				
CMOs issued by US government-sponsored agencies	$ 58,221	$ 56,202	$ -	$ -
FNMA and FHLMC certificates	253,447	249,808	-	-
Total due after 5 to 10 years	**311,668**	**306,010**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	$ 304,814	$ 299,953	$ 424,740	$ 410,353
GNMA certificates	211,947	210,170	-	-
CMOs issued by US government-sponsored agencies	8,009	7,862	-	-
Total due after 10 years	**524,770**	**517,985**	**424,740**	**410,353**
Total mortgage-backed securities	**840,055**	**827,565**	**424,740**	**410,353**
Investment securities				
Due less than one year				
US Treasury securities	$ 10,924	$ 10,805	$ -	$ -
Total due in less than one year	**10,924**	**10,805**	**-**	**-**
Due from 1 to 5 years				
Obligations of US government-sponsored agencies	$ 2,325	$ 2,265	$ -	$ -
Other debt securities	100	100	-	-
Total due from 1 to 5 years	**2,425**	**2,365**	**-**	**-**
Due from 5 to 10 years				
Other debt securities	1,107	1,122	-	-
Total due after 5 to 10 years	**1,107**	**1,122**	**-**	**-**
Total investment securities	**14,456**	**14,292**	**-**	**-**
Total	**$ 854,511**	**$ 841,857**	**$ 424,740**	**$ 410,353**

During the year ended December 31, 2018, Oriental retained securitized GNMA pools totaling $56.8 million amortized cost, at a yield of 3.93% from its own originations while during the year ended December 31, 2017 that amount totaled $74.9 million amortized cost, at a yield of 3.14%. During the year ended December 31, 2016, that amount totaled $112.2 million, amortized cost, at a yield of 2.89%.

During the year ended December 31, 2018, Oriental sold $17.8 million of available-for-sale Government National Mortgage Association ("GNMA") certificates from its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period. During the year ended December 31, 2017, Oriental sold $166.0 million of mortgage-backed securities and $84.1 million of US Treasury securities, and recorded a net gain on sale of securities of $6.9 million. During the year ended December 31, 2016, Oriental sold $277.2 million of mortgage-backed securities and $11.1 million of Puerto Rico government bonds, and recorded a net gain on sale of securities of $12.2 million.

	Year Ended December 31, 2018			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
		(In thousands)		
Sale of securities available-for-sale				
Mortgage-backed securities				
GNMA certificates	$ 17,837	$ 17,837	$ -	$ -
Total	**$ 17,837**	**$ 17,837**	**$ -**	**$ -**

	Year Ended December 31, 2017			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
		(In thousands)		
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 107,510	$ 102,311	$ 5,199	$ -
GNMA certificates	65,284	63,704	1,580	-
Investment securities				
US Treasury securities	84,202	84,085	117	-
Total mortgage-backed securities	**$ 256,996**	**$ 250,100**	**$ 6,896**	**$ -**

	Year Ended December 31, 2016			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
		(In thousands)		
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 293,505	$ 277,181	$ 16,324	$ -
Investment securities				
Obligations of PR government and public instrumentalities	6,978	11,095	-	4,117
Total mortgage-backed securities	**$ 300,483**	**$ 288,276**	**$ 16,324**	**$ 4,117**

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

	December 31, 2018		
	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 66,230	$ 2,166	$ 64,064
FNMA and FHLMC certificates	357,955	8,603	349,352
Obligations of US Government and sponsored agencies	2,325	60	2,265
GNMA certificates	131,044	2,739	128,305
US Treasury Securities	9,977	119	9,858
	$ 567,531	**$ 13,687**	**$ 553,844**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 424,740**	**$ 14,387**	**$ 410,353**

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
FNMA and FHLMC certificates	109,772	348	109,424
GNMA certificates	17,126	88	17,038
US Treasury Securities	323	-	323
	$ 127,221	**$ 436**	**$ 126,785**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 66,230	$ 2,166	$ 64,064
FNMA and FHLMC certificates	467,727	8,951	458,776
Obligations of US government and sponsored agencies	2,325	60	2,265
GNMA certificates	148,170	2,827	145,343
US Treausury Securities	10,300	119	10,181
	$ 694,752	**$ 14,123**	**$ 680,629**
Securities held-to-maturity			
FNMA and FHLMC certificates	**$ 424,740**	**$ 14,387**	**$ 410,353**

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

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

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	82,026	1,955	80,071
FNMA and FHLMC certificates	236,742	2,881	233,861
Obligations of Puerto Rico government and public instrumentalities	2,455	362	2,093
Obligations of US government and sponsored agencies	2,927	48	2,879
GNMA certificates	34,804	584	34,220
US Treausury Securities	10,276	113	10,163
	$ 369,230	**$ 5,943**	**$ 363,287**
Securities held to maturity			
FNMA and FHLMC certificates	**$ 506,064**	**$ 8,383**	**$ 497,681**

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

All of the investments ($1.1 billion, amortized cost) with an unrealized loss position at December 31, 2018 consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The following table presents a rollforward of credit-related impairment losses recognized in earnings for the years ended December 31, 2018, 2017 and 2016 on available-for-sale securities:

	Year Ended December 31,		
	2018	2017	2016
		(In thousands)	
Balance at beginning of year	$ -	$ -	$ 1,490
Reductions for securities sold during the period (realized)	-	-	(1,490)
Additions from credit losses recognized on available-for-sale securities that had no previous impairment losses	-	-	-
Balance at end of year	$ -	$ -	$ -

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NOTE 5 - PLEDGED ASSETS

The following table shows a summary of pledged and not pledged assets at December 31, 2018 and 2017. Investment securities available for sale are presented at fair value, and investment securities held-to-maturity, residential mortgage loans, commercial loans and leases are presented at amortized cost:

	December 31,	
	2018	2017
	(In thousands)	
Pledged investment securities to secure:		
Securities sold under agreements to repurchase	$ 487,181	$ 205,484
Derivatives	423	1,478
Bond for the Bank's trust operations	322	341
Puerto Rico public fund deposits	141,162	22,948
Total pledged investment securities	**629,088**	**230,251**
Pledged residential mortgage loans to secure:		
Advances from the Federal Home Loan Bank	**880,591**	**971,772**
Pledged commercial loans to secure:		
Advances from the Federal Home Loan Bank	275,451	305,346
Federal Reserve Bank Credit Facility	651	993
Puerto Rico public fund deposits	140,123	150,036
	416,225	**456,375**
Total pledged assets	**$ 1,925,904**	**$ 1,658,398**
Financial assets not pledged:		
Investment securities	$ 637,509	$ 921,610
Residential mortgage loans	354,868	325,698
Commercial loans	1,414,054	1,152,151
Consumer loans	373,814	361,497
Auto loans and leases	1,148,535	949,650
Total assets not pledged	**$ 3,928,780**	**$ 3,710,606**

NOTE 6 - LOANS

Oriental's loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred to as "originated and other" loans) and loans acquired (referred to as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans.

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

	December 31, 2018	December 31, 2017
	(In thousands)	
Originated and other loans and leases held for investment:		
Mortgage	$ 668,809	$ 683,607
Commercial	1,597,588	1,307,261
Consumer	348,980	330,039
Auto and leasing	1,129,695	883,985
	3,745,072	**3,204,892**
Allowance for loan and lease losses on originated and other loans and leases	(95,188)	(92,718)
	3,649,884	**3,112,174**
Deferred loan costs, net	7,740	6,695
Total originated and other loans held for investment, net	**3,657,624**	**3,118,869**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	2,546	4,380
Consumer	23,988	28,915
Auto	4,435	21,969
	30,969	**55,264**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(2,062)	(3,862)
	28,907	**51,402**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	492,890	532,053
Commercial	182,319	243,092
Consumer	-	1,431
Auto	14,403	43,696
	689,612	**820,272**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(42,010)	(45,755)
	647,602	**774,517**
Total acquired BBVAPR loans, net	**676,509**	**825,919**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	63,392	69,538
Commercial	47,826	53,793
Consumer	846	1,112
Total acquired Eurobank loans	**112,064**	**124,443**
Allowance for loan and lease losses on Eurobank loans	(24,971)	(25,174)
Total acquired Eurobank loans, net	**87,093**	**99,269**
Total acquired loans, net	**763,602**	**925,188**
Total held for investment, net	**4,421,226**	**4,044,057**
Mortgage loans held-for-sale	10,368	12,272
Total loans, net	**$ 4,431,594**	**$ 4,056,329**

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

Originated and Other Loans and Leases Held for Investment

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

The tables below present the aging of the recorded investment in gross originated and other loans held for investment at December 31, 2018 and 2017, by class of loans. Mortgage loans past due include delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	December 31, 2018						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 77	$ 1,516	$ 2,707	$ 4,300	$ 36,344	$ 40,644	$ 168
Years 2003 and 2004	91	2,412	5,632	8,135	67,707	75,842	-
Year 2005	-	552	3,531	4,083	35,004	39,087	-
Year 2006	255	1,693	5,074	7,022	49,213	56,235	-
Years 2007, 2008 and 2009	255	1,059	6,677	7,991	52,781	60,772	56
Years 2010, 2011, 2012, 2013	253	328	8,697	9,278	104,429	113,707	270
Years 2014, 2015, 2016, 2017 and 2018	-	483	1,462	1,945	139,500	141,445	-
	931	8,043	33,780	42,754	484,978	527,732	494
Non-traditional	-	116	3,085	3,201	11,072	14,273	-
Loss mitigation program	10,793	6,258	19,389	36,440	70,393	106,833	2,223
	11,724	14,417	56,254	82,395	566,443	648,838	2,717
Home equity secured personal loans	9	-	-	9	241	250	-
GNMA's buy-back option program	-	-	19,721	19,721	-	19,721	-
	11,733	**14,417**	**75,975**	**102,125**	**566,684**	**668,809**	**2,717**
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	289,052	289,052	-
Institutional	-	-	1,200	1,200	68,413	69,613	-
Middle market	-	1,430	5,202	6,632	200,831	207,463	-
Retail	1,641	463	8,570	10,674	213,440	224,114	-
Floor plan	-	-	-	-	4,184	4,184	-
Real estate	-	-	-	-	19,009	19,009	-
	1,641	1,893	14,972	18,506	794,929	813,435	-
Other commercial and industrial:							
Corporate	-	-	-	-	179,885	179,885	-
Institutional	-	-	-	-	156,410	156,410	-
Middle market	917	-	6,020	6,937	81,030	87,967	-
Retail	571	546	817	1,934	308,278	310,212	-
Floor plan	-	-	46	46	49,633	49,679	-
	1,488	546	6,883	8,917	775,236	784,153	-
	3,129	**2,439**	**21,855**	**27,423**	**1,570,165**	**1,597,588**	**-**

	December 31, 2018						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	$ 725	$ 363	$ 411	$ 1,499	$ 26,535	$ 28,034	$ -
Overdrafts	10	-	-	10	204	214	-
Personal lines of credit	57	11	22	90	1,827	1,917	-
Personal loans	3,966	1,740	1,262	6,968	296,151	303,119	-
Cash collateral personal loans	74	339	3	416	15,280	15,696	-
	4,832	2,453	1,698	8,983	339,997	348,980	-
Auto and leasing	58,094	27,945	13,494	99,533	1,030,162	1,129,695	-
Total	**$ 77,788**	**$ 47,254**	**$ 113,022**	**$ 238,064**	**$ 3,507,008**	**$ 3,745,072**	**$ 2,717**

	December 31, 2017						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 86	$ 938	$ 3,537	$ 4,561	$ 41,579	$ 46,140	$ 467
Years 2003 and 2004	92	1,077	6,304	7,473	75,758	83,231	-
Year 2005	101	383	3,348	3,832	40,669	44,501	68
Year 2006	242	604	5,971	6,817	55,966	62,783	66
Years 2007, 2008 and 2009	358	1,258	8,561	10,177	58,505	68,682	577
Years 2010, 2011, 2012, 2013	233	978	7,393	8,604	116,674	125,278	1,202
Years 2014, 2015, 2016 and 2017	-	75	1,649	1,724	121,194	122,918	-
	1,112	5,313	36,763	43,188	510,345	553,533	2,380
Non-traditional	-	326	3,543	3,869	14,401	18,270	-
Loss mitigation program	7,233	3,331	18,923	29,487	73,793	103,280	4,981
	8,345	8,970	59,229	76,544	598,539	675,083	7,361
Home equity secured personal loans	-	-	-	-	256	256	-
GNMA's buy-back option program	-	-	8,268	8,268	-	8,268	-
	8,345	**8,970**	**67,497**	**84,812**	**598,795**	**683,607**	**7,361**
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	235,426	235,426	-
Institutional	-	-	118	118	44,648	44,766	-
Middle market	765	-	3,527	4,292	225,649	229,941	-
Retail	352	936	9,695	10,983	235,084	246,067	-
Floor plan	-	-	-	-	3,998	3,998	-
Real estate	-	-	-	-	17,556	17,556	-
	1,117	936	13,340	15,393	762,361	777,754	-
Other commercial and industrial:							
Corporate	-	-	-	-	170,015	170,015	-
Institutional	-	-	-	-	125,591	125,591	-
Middle market	-	-	881	881	84,482	85,363	-
Retail	455	103	1,616	2,174	111,078	113,252	-
Floor plan	9	-	51	60	35,226	35,286	-
	464	103	2,548	3,115	526,392	529,507	-
	1,581	**1,039**	**15,888**	**18,508**	**1,288,753**	**1,307,261**	**-**

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

At December 31, 2018 and 2017, Oriental had a carrying balance of $91.4 million and $94.9 million, respectively, in originated and other loans held for investment granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All originated and other loans granted to the Puerto Rico government are general obligations of municipalities secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations.

Acquired Loans

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

Acquired BBVAPR Loans

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

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

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

	December 31, 2018						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Retail	$ -	$ -	$ 54	$ 54	$ -	$ 54	$ -
Floor plan	-	-	888	888	94	982	-
	-	-	942	942	94	1,036	-
Other commercial and industrial							
Retail	30	11	8	49	1,461	1,510	-
	30	11	8	49	1,461	1,510	-
	30	**11**	**950**	**991**	**1,555**	**2,546**	**-**
Consumer							
Credit cards	499	147	380	1,026	20,796	21,822	-
Personal loans	64	32	18	114	2,052	2,166	-
	563	**179**	**398**	**1,140**	**22,848**	**23,988**	**-**
Auto	**405**	**241**	**200**	**846**	**3,589**	**4,435**	**-**
Total	**$ 998**	**$ 431**	**$ 1,548**	**$ 2,977**	**$ 27,992**	**$ 30,969**	**$ -**

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

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

Acquired BBVAPR loans, except for credit cards, retail and commercial revolving lines of credits, floor plans and performing auto loans with FICO scores over 660 acquired at a premium, are accounted for by Oriental in accordance with ASC 310-30.

The carrying amount corresponding to acquired BBVAPR loans with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at December 31, 2018 and 2017 is as follows:

	December 31,	
	2018	2017
	(In thousands)	
Contractual required payments receivable:	$ 1,304,545	$ 1,481,616
Less: Non-accretable discount	345,423	352,431
Cash expected to be collected	959,122	1,129,185
Less: Accretable yield	269,510	308,913
Carrying amount, gross	689,612	820,272
Less: allowance for loan and lease losses	42,010	45,755
Carrying amount, net	**$ 647,602**	**$ 774,517**

At December 31, 2018 and 2017, Oriental had $44.5 million and $50.3 million, respectively, in loans granted to Puerto Rico municipalities as part of its acquired BBVAPR loans accounted for under ASC 310-30. These loans are primarily secured municipal general obligations.

The following tables describe the accretable yield and non-accretable discount activity of acquired BBVAPR loans accounted for under ASC 310-30 for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31, 2018				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of year	$ 258,498	$ 46,764	$ 2,766	$ 885	$ 308,913
Accretion	(27,248)	(14,160)	(2,360)	(871)	(44,639)
Change in expected cash flows	-	7,895	890	484	9,269
Transfer (to) non-accretable discount	949	(3,991)	(1,053)	62	(4,033)
Balance at end of year	**$ 232,199**	**$ 36,508**	**$ 243**	**$ 560**	**$ 269,510**
Non-Accretable Discount Activity:					
Balance at beginning of year	$ 299,501	$ 10,596	$ 23,050	$ 19,284	$ 352,431
Change in actual and expected losses	(6,665)	(4,241)	142	(277)	(11,041)
Transfer from accretable yield	(949)	3,991	1,053	(62)	4,033
Balance at end of year	**$ 291,887**	**$ 10,346**	**$ 24,245**	**$ 18,945**	**$ 345,423**

	Year Ended December 31, 2017				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of year	$ 292,115	$ 50,366	$ 8,538	$ 3,682	$ 354,701
Accretion	(30,205)	(20,572)	(6,339)	(1,841)	(58,957)
Change in actual and expected losses	2	22,250	170	143	22,565
Transfer (to) from non-accretable discount	(3,414)	(5,280)	397	(1,099)	(9,396)
Balance at end of year	**$ 258,498**	**$ 46,764**	**$ 2,766**	**$ 885**	**$ 308,913**
Non-Accretable Discount Activity:					
Balance at beginning of year	$ 305,615	$ 16,965	$ 22,407	$ 18,120	$ 363,107
Change in actual and expected losses	(9,528)	(11,649)	1,040	65	(20,072)
Transfer from (to) accretable yield	3,414	5,280	(397)	1,099	9,396
Balance at end of year	**$ 299,501**	**$ 10,596**	**$ 23,050**	**$ 19,284**	**$ 352,431**

	Year Ended December 31, 2016				
	Mortgage	Commercial	Auto	Consumer	Total
			(In thousands)		
Accretable Yield Activity:					
Balance at beginning of year	$ 268,794	$ 65,026	$ 21,578	$ 6,290	$ 361,688
Accretion	(32,834)	(26,254)	(13,567)	(2,982)	(75,637)
Change in actual and expected losses	(1)	14,259	1,251	(242)	15,267
Transfer (to) from non-accretable discount	56,156	(2,665)	(724)	616	53,383
Balance at end of year	**$ 292,115**	**$ 50,366**	**$ 8,538**	**$ 3,682**	**$ 354,701**
Non-Accretable Discount Activity:					
Balance at beginning of year	$ 374,772	$ 18,545	$ 22,039	$ 18,834	$ 434,190
Change in actual and expected losses	(13,001)	(4,245)	(356)	(98)	(17,700)
Transfer from (to) accretable yield	(56,156)	2,665	724	(616)	(53,383)
Balance at end of year	**$ 305,615**	**$ 16,965**	**$ 22,407**	**$ 18,120**	**$ 363,107**

Acquired Eurobank Loans

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

	December 31	
	2018	2017
	(In thousands)	
Contractual required payments receivable:	$ 156,722	$ 179,960
Less: Non-accretable discount	2,959	5,845
Cash expected to be collected	153,763	174,115
Less: Accretable yield	41,699	49,672
Carrying amount, gross	112,064	124,443
Less: Allowance for loan and lease losses	24,971	25,174
Carrying amount, net	**$ 87,093**	**$ 99,269**

The following tables describe the accretable yield and non-accretable discount activity of acquired Eurobank loans for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31, 2018					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of year	$ 41,474	$ 6,751	$ 1,447	$ -	$ -	$ 49,672
Accretion	(5,964)	(6,430)	-	(52)	(389)	(12,835)
Change in expected cash flows	(1,129)	5,023	-	(329)	700	4,265
Transfer from (to) non-accretable discount	3,353	(2,034)	(792)	381	(311)	597
Balance at end of year	**$ 37,734**	**$ 3,310**	**$ 655**	**$ -**	**$ -**	**$ 41,699**
Non-Accretable Discount Activity:						
Balance at beginning of year	$ 4,576	$ 276	$ 758	$ -	$ 235	$ 5,845
Change in actual and expected losses	53	(2,310)	-	381	(413)	(2,289)
Transfer from (to) accretable yield	(3,353)	2,034	792	(381)	311	(597)
Balance at end of year	**$ 1,276**	**$ -**	**$ 1,550**	**$ -**	**$ 133**	**$ 2,959**

	Year Ended December 31, 2017					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of year	$ 45,839	$ 16,475	$ 2,194	-	$ -	$ 64,508
Accretion	(7,180)	(12,985)	(82)	(30)	(283)	(20,560)
Change in actual and expected losses	121	1,881	121	(217)	759	2,665
Transfer from (to) non-accretable discount	2,694	1,380	(786)	247	(476)	3,059
Balance at end of year	**$ 41,474**	**$ 6,751**	**$ 1,447**	**$ -**	**$ -**	**$ 49,672**
Non-Accretable Discount Activity:						
Balance at beginning of year	$ 8,441	$ 3,880	$ 11	$ -	$ 8	$ 12,340
Change in actual and expected losses	(1,171)	(2,224)	(39)	247	(249)	(3,436)
Transfer (to) from accretable yield	(2,694)	(1,380)	786	(247)	476	(3,059)
Balance at end of year	**$ 4,576**	**$ 276**	**$ 758**	**$ -**	**$ 235**	**$ 5,845**

	Year Ended December 31, 2016					
	Loans Secured by 1-4 Family Residential Properties	Commercial	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 51,954	$ 26,970	$ 2,255	$ -	$ 3,212	$ 84,391
Accretion	(8,942)	(19,593)	(90)	(60)	(1,813)	(30,498)
Change in expected cash flows	2,134	13,722	1	(15)	(1,386)	14,456
Transfer from (to) non-accretable discount	693	(4,624)	28	75	(13)	(3,841)
Balance at end of period	**$ 45,839**	**$ 16,475**	**$ 2,194**	**$ -**	**$ -**	**$ 64,508**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 12,869	$ -	$ -	$ -	$ 8,287	$ 21,156
Change in actual and expected cash flows	(3,735)	(744)	39	75	(8,292)	(12,657)
Transfer (to) from accretable yield	(693)	4,624	(28)	(75)	13	3,841
Balance at end of period	**$ 8,441**	**$ 3,880**	**$ 11**	**$ -**	**$ 8**	**$ 12,340**

Non-accrual Loans

The following table presents the recorded investment in loans in non-accrual status by class of loans as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
	(In thousands)	
Originated and other loans and leases held for investment		
Mortgage		
Traditional (by origination year):		
Up to the year 2002	$ 2,538	$ 3,070
Years 2003 and 2004	5,818	6,380
Year 2005	3,600	3,280
Year 2006	5,140	5,905
Years 2007, 2008 and 2009	6,697	7,984
Years 2010, 2011, 2012, 2013	8,427	6,259
Years 2014, 2015, 2016, 2017 and 2018	1,462	1,649
	33,682	34,527
Non-traditional	3,085	3,543
Loss mitigation program	22,107	16,783
	58,874	54,853
Commercial		
Commercial secured by real estate		
Institutional	9,911	118
Middle market	7,266	11,394
Retail	16,123	14,438
	33,300	25,950
Other commercial and industrial		
Middle market	6,481	6,323
Retail	2,629	2,929
Floor plan	46	51
	9,156	9,303
	42,456	**35,253**
Consumer		
Credit cards	411	1,227
Overdrafts	-	31
Personal lines of credit	31	102
Personal loans	2,909	900
Cash collateral personal loans	3	312
	3,354	**2,572**
Auto and leasing	**13,494**	**4,232**
Total non-accrual originated loans	$ **118,178**	$ **96,910**

	December 31, 2018	December 31, 2017
	(In thousands)	
Acquired BBVAPR loans accounted for under ASC 310-20		
Commercial		
Commercial secured by real estate		
Retail	$ 54	$ 119
Floor plan	888	928
	942	1,047
Other commercial and industrial		
Retail	8	221
Floor plan	-	2
	8	223
	950	**1,270**
Consumer		
Credit cards	380	1,310
Personal loans	18	45
	398	**1,355**
Auto	**200**	**179**
Total non-accrual acquired BBVAPR loans accounted for under ASC 310-20	**1,548**	**2,804**
Total non-accrual loans	**$ 119,726**	**$ 99,714**

Loans accounted for under ASC 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses or are accounted under the cost recovery method.

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

At December 31, 2018 and 2017, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $112.9 million and $109.2 million, respectively, as they are performing under their new terms.

At December 31, 2018 and 2017, loans that are current in their monthly payments, but placed in non-accrual due to credit deterioration amounted to $21.2 million and $20.1 million, respectively.

Impaired Loans

Oriental evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans that were individually evaluated for impairment was $82.0 million and $72.3 million at December 31, 2018 and 2017, respectively. The impairments on these commercial loans were measured based on the fair value of collateral or the present value of cash flows, including those identified as troubled-debt restructurings. The allowance for loan and lease losses for these impaired commercial loans amounted to $8.4 million and $10.6 million at December 31, 2018 and 2017, respectively. The total investment in impaired mortgage loans that were individually evaluated for impairment was $84.2 million and $85.4 million at December 31, 2018 and 2017, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The allowance for loan losses for these impaired mortgage loans amounted to $10.2 million and $9.1 million at December 31, 2018 and 2017, respectively.

Originated and Other Loans and Leases Held for Investment

Oriental's recorded investment in commercial and mortgage loans categorized as originated and other loans and leases held for investment that were individually evaluated for impairment and the related allowance for loan and lease losses at December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance:				
Commercial	$ 54,636	$ 49,092	$ 8,434	17%
Residential impaired and troubled-debt restructuring	95,659	84,174	10,186	12%
Impaired loans with no specific allowance:				
Commercial	38,241	32,137	N/A	0%
Total investment in impaired loans	**$ 188,536**	**$ 165,403**	**$ 18,620**	**11%**

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

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

Oriental's recorded investment in acquired BBVAPR commercial loans accounted for under ASC 310-20 that were individually evaluated for impairment and the related allowance for loan and lease losses at December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 926	$ 747	$ 14	2%
Impaired loans with no specific allowance				
Commercial	$ -	$ -	N/A	0%
Total investment in impaired loans	**$ 926**	**$ 747**	**$ 14**	**2%**

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

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

Oriental's recorded investment in acquired BBVAPR loan pools accounted for under ASC 310-30 that have recorded impairments and their related allowance for loan and lease losses at December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools with specific allowance:				
Mortgage	$ 498,537	$ 492,890	$ 15,225	3%
Commercial	188,413	180,790	20,641	11%
Auto	14,551	14,403	6,144	43%
Total investment in impaired loan pools	**$ 701,501**	**$ 688,083**	**$ 42,010**	6%

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

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

Acquired Eurobank Loans

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

	December 31, 2018			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools with specific allowance:				
Loans secured by 1-4 family residential properties	$ 70,153	$ 63,406	$ 15,382	24%
Commercial	47,342	47,820	9,585	20%
Consumer	15	4	4	100%
Total investment in impaired loan pools	**$ 117,510**	**$ 111,230**	**$ 24,971**	22%

	December 31, 2017			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools with specific allowance				
Loans secured by 1-4 family residential properties	$ 81,132	$ 69,538	$ 15,187	22%
Commercial	58,099	53,793	9,983	19%
Consumer	15	4	4	100%
Total investment in impaired loan pools	**$ 139,246**	**$ 123,335**	**$ 25,174**	20%

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

The following table presents the interest recognized in commercial and mortgage loans that were individually evaluated for impairment, which excludes loans accounted for under ASC 310-30, for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,					
	2018		2017		2016	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)					
Originated and other loans held for investment:						
Impaired loans with specific allowance						
Commercial	$ 1,624	$ 44,727	$ 1,538	$ 25,797	$ 452	$ 118,980
Residential troubled-debt restructuring	2,556	84,494	3,301	87,414	3,190	91,139
Impaired loans with no specific allowance						
Commercial	1,091	26,199	875	36,666	1,941	40,443
Total interest income from impaired loans	**$ 5,271**	**$ 155,420**	**$ 5,714**	**$ 149,877**	**$ 5,583**	**$ 250,562**
Acquired loans accounted for under ASC 310-20:						
Impaired loans with specific allowance						
Commercial	$ -	$ 747	$ -	$ 794	$ -	$ 319
Impaired loans with no specific allowance						
Commercial	-	-	-	-	-	608
Total interest income from impaired loans	**$ 5,271**	**$ 156,167**	**$ 5,714**	**$ 150,671**	**$ 5,583**	**$ 251,489**

Modifications

The following tables present the troubled-debt restructurings in all loan portfolios during the years ended December 31, 2018, 2017 and 2016.

Year Ended December 31, 2018

	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
		(Dollars in thousands)					
Mortgage	143	$ 19,029	5.09%	342	$ 18,237	4.41%	314
Commercial	23	26,019	5.75%	118	25,973	5.64%	136
Consumer	174	2,313	13.24%	51	2,332	9.86%	61
Auto	2	40	10.42%	37	40	10.28%	32

Year Ended December 31, 2017

	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
		(Dollars in thousands)					
Mortgage	85	$ 10,441	6.23%	390	$ 10,343	4.40%	384
Commercial	24	13,828	6.05%	57	13,829	5.73%	62
Consumer	107	1,391	11.68%	62	1,430	10.85%	69
Auto	9	134	7.24%	66	135	11.75%	37

Year Ended December 31, 2016

	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
		(Dollars in thousands)					
Mortgage	90	$ 11,684	6.05%	351	$ 11,625	4.77%	439
Commercial	20	9,833	5.73%	64	10,151	5.93%	116
Consumer	75	817	13.60%	73	902	11.23%	66

The following table presents troubled-debt restructurings for which there was a payment default during the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,					
	2018		2017		2016	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)					
Mortgage	23	$ 3,262	34	$ 3,129	19	$ 2,241
Commercial	4	$ 2,141	5	$ 452	2	$ 157
Consumer	28	$ 341	20	$ 249	11	$ 126

Credit Quality Indicators

Oriental categorizes originated and other loans and acquired loans accounted for under ASC 310-20 into risk categories based on relevant information about the ability of borrowers to service their debt, such as economic conditions, portfolio risk characteristics, prior loss experience, and the results of periodic credit reviews of individual loans.

Oriental uses the following definitions for risk ratings:

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

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

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

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

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

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

As of December 31, 2018 and 2017, and based on the most recent analysis performed, the risk category of gross originated and other loans and BBVAPR acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

	December 31, 2018					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 289,052	$ 246,711	$ 26,544	$ 15,797	$ -	$ -
Institutional	69,613	59,509	-	10,104	-	-
Middle market	207,463	151,638	32,638	23,187	-	-
Retail	224,114	198,402	3,996	21,716	-	-
Floor plan	4,184	2,890	-	1,294	-	-
Real estate	19,009	19,009	-	-	-	-
	813,435	678,159	63,178	72,098	-	-
Other commercial and industrial:						
Corporate	179,885	154,629	25,256	-	-	-
Institutional	156,410	156,410	-	-	-	-
Middle market	87,967	63,876	13,737	10,354	-	-
Retail	310,212	307,160	318	2,734	-	-
Floor plan	49,679	47,092	2,541	46	-	-
	784,153	729,167	41,852	13,134	-	-
Total	1,597,588	1,407,326	105,030	85,232	-	-
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	54	-	-	54	-	-
Floor plan	982	94	-	888	-	-
	1,036	94	-	942	-	-
Other commercial and industrial:						
Retail	1,510	1,510	-	-	-	-
	1,510	1,510	-	-	-	-
Total	2,546	1,604	-	942	-	-

	December 31, 2018					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Retail - originated and other loans held for investment						
Mortgage:						
Traditional	527,732	493,952	-	33,780	-	-
Non-traditional	14,273	11,188	-	3,085	-	-
Loss mitigation program	106,833	87,444	-	19,389	-	-
Home equity secured personal loans	250	250	-	-	-	-
GNMA's buy-back option program	19,721	-	-	19,721	-	-
	668,809	592,834	-	75,975	-	-
Consumer:						
Credit cards	28,034	27,623	-	411	-	-
Overdrafts	214	204	-	10	-	-
Unsecured personal lines of credit	1,917	1,895	-	22	-	-
Unsecured personal loans	303,119	301,857	-	1,262	-	-
Cash collateral personal loans	15,696	15,693	-	3	-	-
	348,980	347,272	-	1,708	-	-
Auto and Leasing	1,129,695	1,116,201	-	13,494	-	-
Total	2,147,484	2,056,307	-	91,177	-	-
Retail - acquired loans (accounted for under ASC 310-20)						
Consumer:						
Credit cards	21,822	21,442	-	380	-	-
Personal loans	2,166	2,148	-	18	-	-
	23,988	23,590	-	398	-	-
Auto	4,435	4,235	-	200	-	-
	28,423	27,825	-	598	-	-
	$ 3,776,041	**$ 3,493,062**	**$ 105,030**	**$ 177,949**	**$ -**	**$ -**

	December 31, 2017					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 235,426	$ 200,395	$ 33,094	$ 1,937	$ -	$ -
Institutional	44,766	33,856	-	10,910	-	-
Middle market	229,941	196,058	4,749	29,134	-	-
Retail	246,067	215,121	8,058	22,888	-	-
Floor plan	3,998	2,678	1,320	-	-	-
Real estate	17,556	17,556	-	-	-	-
	777,754	665,664	47,221	64,869	-	-
Other commercial and industrial:						
Corporate	170,015	157,683	12,332	-	-	-
Institutional	125,591	125,591	-	-	-	-
Middle market	85,363	71,222	6,386	7,755	-	-
Retail	113,252	109,477	562	3,213	-	-
Floor plan	35,286	32,165	3,070	51	-	-
	529,507	496,138	22,350	11,019	-	-
Total	1,307,261	1,161,802	69,571	75,888	-	-
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	119	-	-	119	-	-
Floor plan	1,321	393	-	928	-	-
	1,440	393	-	1,047	-	-
Other commercial and industrial:						
Retail	2,938	2,933	-	5	-	-
Floor plan	2	-	-	2	-	-
	2,940	2,933	-	7	-	-
Total	4,380	3,326	-	1,054	-	-

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

NOTE 7 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

	December 31,	
	2018	2017
	(In thousands)	
Allowance for loans and lease losses:		
Originated and other loans and leases held for investment:		
Mortgage	$ 19,783	$ 20,439
Commercial	30,326	30,258
Consumer	15,571	16,454
Auto and leasing	29,508	25,567
Total allowance for originated and other loans and lease losses	**95,188**	**92,718**
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	22	42
Consumer	1,905	3,225
Auto	135	595
	2,062	**3,862**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	15,225	14,085
Commercial	20,641	23,691
Consumer	-	18
Auto	6,144	7,961
	42,010	**45,755**
Total allowance for acquired BBVAPR loans and lease losses	**44,072**	**49,617**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	15,382	15,187
Commercial	9,585	9,983
Consumer	4	4
Total allowance for acquired Eurobank loan and lease losses	**24,971**	**25,174**
Total allowance for loan and lease losses	**$ 164,231**	**$ 167,509**

Oriental maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. Oriental's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors. While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond Oriental's control. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition.

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

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

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

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

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

During 2018, Oriental continued its monitoring process of the performance of those affected borrowers. As information became available, it was incorporated into the allowance framework.

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

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

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

	Year Ended December 31, 2018				
	Mortgage	Commercial	Consumer	Auto and Leasing	Total
	(In thousands)				
Allowance for loan and lease losses for originated and other loans:					
Balance at beginning of year	$ 20,439	$ 30,258	$ 16,454	$ 25,567	$ 92,718
Charge-offs	(5,297)	(6,782)	(17,629)	(42,685)	(72,393)
Recoveries	1,047	654	1,757	19,344	22,802
Provision for loan and lease losses	3,594	6,196	14,989	27,282	52,061
Balance at end of year	**$ 19,783**	**$ 30,326**	**$ 15,571**	**$ 29,508**	**$ 95,188**

	Year Ended December 31, 2017					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of year	$ 17,344	$ 8,995	$ 13,067	$ 19,463	$ 431	$ 59,300
Charge-offs	(6,623)	(7,684)	(13,641)	(33,908)	-	(61,856)
Recoveries	585	1,281	1,209	12,314	-	15,389
Provision (recapture) for originated and other loan and lease losses	9,133	27,666	15,819	27,698	(431)	79,885
Balance at end of year	**$ 20,439**	**$ 30,258**	**$ 16,454**	**$ 25,567**	**$ -**	**$ 92,718**

	Year Ended December 31, 2016					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of year	$ 18,352	$ 64,791	$ 11,197	$ 18,261	$ 25	$ 112,626
Charge-offs	(6,767)	(62,445)	(11,554)	(31,731)	-	(112,497)
Recoveries	330	460	452	12,871	-	14,113
Provision for originated and other loan and lease losses	5,429	6,189	12,972	20,062	406	45,058
Balance at end of year	**$ 17,344**	**$ 8,995**	**$ 13,067**	**$ 19,463**	**$ 431**	**$ 59,300**

	December 31, 2018				
	Mortgage	Commercial	Consumer	Auto and Leasing	Total
	(In thousands)				
Allowance for loan and lease losses on originated and other loans:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 10,186	$ 8,434	$ -	$ -	$ 18,620
Collectively evaluated for impairment	9,597	21,892	15,571	29,508	76,568
Total ending allowance balance	**$ 19,783**	**$ 30,326**	**$ 15,571**	**$ 29,508**	**$ 95,188**
Loans:					
Individually evaluated for impairment	$ 84,174	$ 81,229	$ -	$ -	$ 165,403
Collectively evaluated for impairment	584,635	1,516,359	348,980	1,129,695	3,579,669
Total ending loan balance	**$ 668,809**	**$ 1,597,588**	**$ 348,980**	**$ 1,129,695**	**$ 3,745,072**

	December 31, 2017					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 9,121	$ 10,573	$ -	$ -	$ -	$ 19,694
Collectively evaluated for impairment	11,318	19,685	16,454	25,567	-	73,024
Total ending allowance balance	**$ 20,439**	**$ 30,258**	**$ 16,454**	**$ 25,567**	**$ -**	**$ 92,718**
Loans:						
Individually evaluated for impairment	$ 85,403	$ 71,538	$ -	$ -	$ -	$ 156,941
Collectively evaluated for impairment	598,204	1,235,723	330,039	883,985	-	3,047,951
Total ending loan balance	**$ 683,607**	**$ 1,307,261**	**$ 330,039**	**$ 883,985**	**$ -**	**$ 3,204,892**

Allowance for BBVAPR Acquired Loan Losses

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

The following tables present the activity in our allowance for loan losses and related recorded investment of the associated loans in our BBVAPR acquired loan portfolio accounted for under ASC 310-20, for the periods indicated:

	Year Ended December 31, 2018			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 42	$ 3,225	$ 595	$ 3,862
Charge-offs	(6)	(2,459)	(372)	(2,837)
Recoveries	23	480	831	1,334
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	(37)	659	(919)	(297)
Balance at end of year	**$ 22**	**$ 1,905**	**$ 135**	**$ 2,062**

	Year Ended December 31, 2017			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 169	$ 3,028	$ 1,103	$ 4,300
Charge-offs	(132)	(3,048)	(976)	(4,156)
Recoveries	5	446	1,420	1,871
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	-	2,799	(952)	1,847
Balance at end of year	**$ 42**	**$ 3,225**	**$ 595**	**$ 3,862**

	Year Ended December 31, 2016			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Balance at beginning of year	$ 26	$ 3,429	$ 2,087	$ 5,542
Charge-offs	(42)	(3,619)	(2,155)	(5,816)
Recoveries	73	301	1,945	2,319
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	112	2,917	(774)	2,255
Balance at end of year	**$ 169**	**$ 3,028**	**$ 1,103**	**$ 4,300**

	December 31, 2018			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 14	$ -	$ -	$ 14
Collectively evaluated for impairment	8	1,905	135	2,048
Total ending allowance balance	**$ 22**	**$ 1,905**	**$ 135**	**$ 2,062**
Loans:				
Individually evaluated for impairment	$ 747	$ -	$ -	$ 747
Collectively evaluated for impairment	1,799	23,988	4,435	30,222
Total ending loan balance	**$ 2,546**	**$ 23,988**	**$ 4,435**	**$ 30,969**

	December 31, 2017			
	Commercial	Consumer	Auto	Total
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 20	$ -	$ -	$ 20
Collectively evaluated for impairment	22	3,225	595	3,842
Total ending allowance balance	**$ 42**	**$ 3,225**	**$ 595**	**$ 3,862**
Loans:				
Individually evaluated for impairment	$ 747	$ -	$ -	$ 747
Collectively evaluated for impairment	3,633	28,915	21,969	54,517
Total ending loan balance	**$ 4,380**	**$ 28,915**	**$ 21,969**	**$ 55,264**

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

For loans accounted for under ASC 310-30, as part of the evaluation of actual versus expected cash flows, Oriental assesses on a quarterly basis the credit quality of these loans based on delinquency, severity factors and risk ratings, among other assumptions. Migration and credit quality trends are assessed at the pool level, by comparing information from the latest evaluation period through the end of the reporting period.

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

	Year Ended December 31, 2018				
	Mortgage	Commercial	Consumer	Auto	Total
	(In thousands)				
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:					
Balance at beginning of year	$ 14,085	$ 23,691	$ 18	$ 7,961	45,755
Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	1,331	1,360	(18)	(887)	1,786
Allowance de-recognition	(191)	(4,410)	-	(930)	(5,531)
Balance at end of year	**$ 15,225**	**$ 20,641**	**$ -**	**$ 6,144**	**42,010**

	Year Ended December 31, 2017				
	Mortgage	Commercial	Consumer	Auto	Total
	(In thousands)				
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:					
Balance at beginning of year	$ 2,682	$ 23,452	$ -	$ 4,922	$ 31,056
Provision for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	11,497	9,758	18	3,408	24,681
Allowance de-recognition	(94)	(9,519)	-	(369)	(9,982)
Balance at end of year	**$ 14,085**	**$ 23,691**	**$ 18**	**$ 7,961**	**$ 45,755**

	Year Ended December 31, 2016				
	Mortgage	Commercial	Consumer	Auto	Total
	(In thousands)				
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:					
Balance at beginning of year	$ 1,762	$ 21,161	$ -	$ 2,862	$ 25,785
Provision for acquired BBVAPR loans and ease losses accounted for under ASC 310-30	1,105	11,710	-	2,693	15,508
Loan pools fully charged-off	(14)	(66)	-	(202)	(282)
Allowance de-recognition	(171)	(9,353)	-	(431)	(9,955)
Balance at end of year	**$ 2,682**	**$ 23,452**	**$ -**	**$ 4,922**	**$ 31,056**

Allowance for Acquired Eurobank Loan Losses

The changes in the allowance for loan and lease losses on acquired Eurobank loans for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31, 2018			
	Loans Secured by 1-4 Family Residential Properties	Commercial	Consumer	Total
	(In thousands)			
Allowance for loan and lease losses for acquired Eurobank loans:				
Balance at beginning of year	$ 15,187	$ 9,983	$ 4	$ 25,174
Provision for loan and lease losses, net	1,806	761	-	2,567
Allowance de-recognition	(1,611)	(1,159)	-	(2,770)
Balance at end of year	**$ 15,382**	**$ 9,585**	**$ 4**	**$ 24,971**

	Year Ended December 31, 2017			
	Loans secured by 1-4 Family Residential Properties	Commercial	Consumer	Total
	(In thousands)			
Allowance for loan and lease losses for acquired Eurobank loans:				
Balance at beginning of year	$ 11,947	$ 9,328	$ 6	$ 21,281
Provision for acquired Eurobank loan and lease losses, net	5,045	1,680	-	6,725
Allowance de-recognition	(1,805)	(1,025)	(2)	(2,832)
Balance at end of year	**$ 15,187**	**$ 9,983**	**$ 4**	**$ 25,174**

	Year Ended December 31, 2016			
	Loans secured by 1-4 Family Residential Properties	Commercial	Consumer	Total
	(In thousands)			
Allowance for loan and lease losses for Eurobank loans:				
Balance at beginning of year	$ 22,570	$ 67,365	$ 243	$ 90,178
Provision (recapture) for acquired Eurobank loan and lease losses, net	1,080	1,183	(8)	2,255
FDIC shared-loss portion of provision for covered loan and lease losses, net	3,391	-	-	3,391
Loan pools fully charged-off	-	(134)	-	(134)
Allowance de-recognition	(15,094)	(59,086)	(229)	(74,409)
Balance at end of year	**$ 11,947**	**$ 9,328**	**$ 6**	**$ 21,281**

NOTE 8- FDIC SHARED-LOSS AGREEMENTS

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

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the years ended December 31, 2018, 2017, and 2016:

	Year Ended December 31,		
	2018	2017	2016
		(In thousands)	
FDIC indemnification asset:			
Balance at beginning of year	$ -	$ 14,411	$ 22,599
Shared-loss agreements reimbursements from the FDIC	-	-	(1,573)
Increase in expected credit losses to be covered under shared-loss agreements, net	-	-	3,391
FDIC indemnification asset benefit (expense)	-	1,403	(8,040)
Net expenses incurred under shared-loss agreements	-	-	(1,966)
Shared-loss termination settlement	-	(15,814)	-
Balance at end of year	**$ -**	**$ -**	**$ 14,411**
True-up payment obligation:			
Balance at beginning of year	$ -	$ 26,786	$ 24,658
Change in true-up payment obligation	-	-	2,128
Shared-loss termination settlement	-	(26,786)	-
Balance at end of year	**$ -**	**$ -**	**$ 26,786**

Oriental recognized an FDIC shared-loss (benefit) expense, net in the consolidated statements of operations, which consists of the following, for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
		(In thousands)	
FDIC indemnification asset (benefit) expense	$ -	$ (1,403)	$ 8,040
Change in true-up payment obligation	-	-	2,128
Reimbursement to FDIC for recoveries	-	-	3,413
Total FDIC shared-loss (benefit) expense, net	**$ -**	**$ (1,403)**	**$ 13,581**

NOTE 9 — FORECLOSED REAL ESTATE

The following tables present the activity related to foreclosed real estate for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31, 2018			
	Originated and other loans and leases held for investment	Acquired BBVAPR loans	Acquired Eurobank loans	Total
	(In thousands)			
Balance at beginning of year	**$ 14,283**	**$ 18,347**	**$ 11,544**	**$ 44,174**
Decline in value	(1,535)	(2,899)	(1,323)	(5,757)
Additions	6,674	9,832	3,505	20,011
Sales	(9,851)	(10,663)	(4,146)	(24,660)
Balance at end of year	**$ 9,571**	**$ 14,617**	**$ 9,580**	**$ 33,768**

	Year Ended December 31, 2017			
	Originated and other loans and leases held for investment	Acquired BBVAPR loans	Acquired Eurobank loans	Total
	(In thousands)			
Balance at beginning of year	**$ 12,390**	**$ 21,379**	**$ 13,751**	**$ 47,520**
Decline in value	(1,913)	(2,850)	(1,797)	(6,560)
Additions	10,565	9,416	3,120	23,101
Sales	(6,615)	(9,453)	(3,530)	(19,598)
Other adjustments	(144)	(145)	-	(289)
Balance at end of year	**$ 14,283**	**$ 18,347**	**$ 11,544**	**$ 44,174**

	Year Ended December 31, 2016			
	Originated and other loans and leases held for investment	Acquired BBVAPR loans	Acquired Eurobank loans	Total
	(In thousands)			
Balance at beginning of year	**$ 10,324**	**$ 26,757**	**$ 21,095**	**$ 58,176**
Decline in value	(1,966)	(6,124)	(4,913)	(13,003)
Additions	10,170	7,872	3,591	21,633
Sales	(6,138)	(7,126)	(6,022)	(19,286)
Balance at end of year	**$ 12,390**	**$ 21,379**	**$ 13,751**	**$ 47,520**

NOTE 10 — PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2018 and 2017 are stated at cost less accumulated depreciation and amortization as follows:

	Useful Life (Years)	December 31, 2018	December 31, 2017
		(In thousands)	
Land	—	$ 5,028	$ 5,638
Buildings and improvements	40	67,856	64,277
Leasehold improvements	5 — 10	18,274	20,647
Furniture and fixtures	3 — 7	17,137	16,242
Information technology and other	3 — 7	24,855	28,783
		133,150	135,587
Less: accumulated depreciation and amortization		(64,258)	(67,727)
		$ 68,892	**$ 67,860**

Depreciation and amortization of premises and equipment totaled $8.9 million in 2018, $9.0 million in 2017 and $9.4 million in 2016. These are included in the consolidated statements of operations as part of occupancy and equipment expenses.

NOTE 11 - SERVICING ASSETS

Oriental periodically sells or securitizes mortgage loans while retaining the obligation to perform the servicing of such loans. In addition, Oriental may purchase or assume the right to service mortgage loans originated by others. Whenever Oriental undertakes an obligation to service a loan, management assesses whether a servicing asset and/or liability should be recognized. A servicing asset is recognized whenever the compensation for servicing is expected to more than adequately compensate Oriental for servicing the loans and leases. Likewise, a servicing liability would be recognized in the event that servicing fees to be received are not expected to adequately compensate Oriental for its expected cost.

All separately recognized servicing assets are recognized at fair value using the fair value measurement method. Under the fair value measurement method, Oriental measures servicing rights at fair value at each reporting date, reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and includes these changes, if any, with mortgage banking activities in the consolidated statements of operations. The fair value of servicing rights is subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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

At December 31, 2018, the servicing asset amounted to $10.7 million ($9.8 million — December 31, 2017) related to mortgage servicing rights.

The following table presents the changes in servicing rights measured using the fair value method for years ended December 31, 2018, 2017, and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Fair value at beginning of year	$ 9,821	$ 9,858	$ 7,455
Servicing from mortgage securitizations or asset transfers	1,481	1,658	2,616
Changes due to payments on loans	(814)	(590)	(489)
Changes in fair value due to changes in valuation model inputs or assumptions	228	(1,105)	276
Fair value at end of year	**$ 10,716**	**$ 9,821**	**$ 9,858**

The following table presents key economic assumption ranges used in measuring the mortgage-related servicing asset fair value for the years ended 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
Constant prepayment rate	4.30% - 9.02%	3.94% - 8.49%	4.24% - 9.14%
Discount rate	10.00% - 12.00%	10.00% - 12.00%	10.00% - 12.00%

The sensitivity of the current fair value of servicing assets to immediate 10 percent and 20 percent adverse changes in the above key assumptions were as follows:

	December 31, 2018
	(In thousands)
Mortgage-related servicing asset	
Carrying value of mortgage servicing asset	$ 10,716
Constant prepayment rate	
Decrease in fair value due to 10% adverse change	$ (207)
Decrease in fair value due to 20% adverse change	$ (406)
Discount rate	
Decrease in fair value due to 10% adverse change	$ (489)
Decrease in fair value due to 20% adverse change	$ (939)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption.

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

Servicing fee income is based on a contractual percentage of the outstanding principal balance and is recorded as income when earned. Servicing fees on mortgage loans for the years ended 2018, 2017 and 2016 totaled $4.1 million, $3.9 million and $3.7 million, respectively.

NOTE 12 — DERIVATIVES

The following table presents Oriental's derivative assets and liabilities at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
	(In thousands)	
Derivative assets:		
Interest rate swaps designated as cash flow hedges	$ 14	$ -
Interest rate swaps not designated as hedges	126	618
Interest rate caps	207	153
	$ 347	**$ 771**
Derivative liabilities:		
Interest rate swaps designated as cash flow hedges	$ -	$ 510
Interest rate swaps not designated as hedges	126	618
Interest rate caps	207	153
	$ 333	**$ 1,281**

Interest Rate Swaps

Oriental enters into interest rate swap contracts to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in a predetermined variable index rate. The interest rate swaps effectively fix Oriental's interest payments on an amount of forecasted interest expense attributable to the variable index rate corresponding to the swap notional stated rate. These swaps are designated as cash flow hedges for the forecasted wholesale borrowing transactions and are properly documented as such; therefore, qualify for cash flow hedge accounting. Any gain or loss associated with the effective portion of the cash flow hedges is recognized in other comprehensive (loss) and is subsequently reclassified into operations in the period during which the hedged forecasted transactions affect earnings. Changes in the fair value of these derivatives are recorded in accumulated other comprehensive income to the extent there is no significant ineffectiveness in the cash flow hedging relationships. Currently, Oriental does not expect to reclassify any amount included in other comprehensive (loss) related to these interest rate swaps to operations in the next twelve months.

The following table shows a summary of these swaps and their terms at December 31, 2018:

Type	Notional Amount	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
	(In thousands)					
Interest Rate Swaps	$ 33,964	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$ 33,964					

An accumulated unrealized gain of $14 thousand and a loss of $510 thousand were recognized in accumulated other comprehensive income related to the valuation of these swaps at December 31, 2018 and 2017, respectively, and the related asset or liability is being reflected in the consolidated statements of financial condition.

At December 31, 2018 and 2017, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $126 thousand and $618 thousand, respectively, and were included as part of derivative assets in the consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At December 31, 2018 and 2017, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $126 thousand and $618 thousand, respectively, and were included as part of derivative liabilities in the consolidated statements of financial condition.

The following table shows a summary of these interest rate swaps not designated as hedging instruments and their terms at December 31, 2018:

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

Interest Rate Caps

Oriental has entered into interest rate cap transactions with various clients with floating-rate debt who wish to protect their financial results against increases in interest rates. In these cases, Oriental simultaneously enters into mirror-image interest rate cap transactions with financial counterparties. None of these cap transactions qualify for hedge accounting, and therefore, they are marked to market through earnings. As of December 31, 2018 and 2017, the outstanding total notional amount of interest rate caps was $150.9 million and $152.6 million, respectively. At December 31, 2018 and 2017, the interest rate caps sold to clients represented a liability of $207 thousand and $153 thousand, respectively, and were included as part of derivative liabilities in the consolidated statements of financial condition. At December 31, 2018 and 2017, the interest rate caps purchased as mirror-images represented an asset of $207 thousand and $153 thousand, respectively, and were included as part of derivative assets in the consolidated statements of financial condition.

NOTE 13 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at December 31, 2018 and 2017 consists of the following:

	December 31, 2018	December 31, 2017
	(In thousands)	
Loans, excluding acquired loans	$ 30,409	$ 46,936
Investments	3,845	3,033
	$ 34,254	**$ 49,969**

Accrued interest receivable at December 31, 2017, included $39.7 million, resulting from the loan payment moratorium. Accrued interest receivable resulting from the loan payment moratorium has been decreasing, as most moratoriums have expired. Some of these accrued interests are payable at the end of the loan term.

Other assets at December 31, 2018 and 2017 consist of the following:

	December 31,	
	2018	2017
	(In thousands)	
Prepaid expenses	$ 9,788	$ 9,200
Other repossessed assets	2,986	3,548
Core deposit and customer relationship intangibles	3,369	4,687
Tax credits	2,277	4,277
Investment in Statutory Trust	1,083	1,083
Accounts receivable and other assets	37,842	41,898
	$ 57,345	**$ 64,693**

Prepaid expenses amounting to $9.8 million and $9.2 million at December 31, 2018 and 2017, respectively, include prepaid municipal, property and income taxes aggregating to $5.5million and $5.7 million, respectively.

In connection with the FDIC-assisted acquisition and the BBVAPR Acquisition, Oriental recorded a core deposit intangible representing the value of checking and savings deposits acquired. At December 31, 2018 and 2017 this core deposit intangible amounted to $2.5 million and $3.3 million, respectively. In addition, Oriental recorded a customer relationship intangible representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition. At December 31, 2018 and 2017, this customer relationship intangible amounted to $888 thousand and $1.4 million, respectively.

Other repossessed assets totaled $3.0 million and $3.5 million at December 31, 2018 and 2017, respectively, that consist mainly of repossessed automobiles, which are recorded at their net realizable value.

At December 31, 2018 and 2017, tax credits for Oriental totaled $2.3 million and $4.3 million, respectively. These tax credits do not have an expiration date.

NOTE 14— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of December 31, 2018 and 2017 consist of the following:

	December 31,	
	2018	2017
	(In thousands)	
Non-interest bearing demand deposits	$ 1,105,324	$ 969,525
Interest-bearing savings and demand deposits	2,274,423	2,274,116
Retail certificates of deposit	805,712	827,359
Institutional certificates of deposit	197,559	209,951
Total core deposits	**4,383,018**	**4,280,951**
Brokered deposits	525,097	518,531
Total deposits	**$ 4,908,115**	**$ 4,799,482**

Brokered deposits include $500.8 million in certificates of deposits and $24.3 million in money market accounts at December 31, 2018, and $471.6 million in certificates of deposits and $46.9 million in money market accounts at December 31, 2017.

The weighted average interest rate of Oriental's deposits was 0.67% and 0.65%, respectively, at December 31, 2018 and 2017. Interest expense for the years ended December 31, 2018, 2017, and 2016 was as follows:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Demand and savings deposits	$ 12,478	$ 11,426	$ 12,004
Certificates of deposit	20,475	18,872	17,249
	$ 32,953	**$ 30,298**	**$ 29,253**

At December 31, 2018 and 2017, time deposits in denominations of $250 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $346.0 million and $359.6 million, respectively. Such amounts include public funds time deposits from various Puerto Rico government municipalities, agencies and corporations of $19.6 million and $3.5 million at a weighted average rate of 116.4% and 0.28% at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, total public fund deposits from various Puerto Rico government municipalities, agencies and corporations amounted to $207.4 million and $153.1 million, respectively. These public funds were collateralized with commercial loans amounting to $281.2 million and $173.0 million at December 31, 2018 and 2017, respectively.

Excluding accrued interest of approximately $3.1 million, the scheduled maturities of certificates of deposit at December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
	(In thousands)	
Within one year:		
Three (3) months or less	$ 305,088	$ 316,382
Over 3 months through 1 year	545,363	508,285
	850,451	**824,667**
Over 1 through 2 years	484,197	470,670
Over 2 through 3 years	89,340	137,016
Over 3 through 4 years	34,018	36,125
Over 4 through 5 years	42,998	38,623
	$ 1,501,004	**$ 1,507,101**

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

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans amounted to $1.1 million and $2.2 million as of December 31, 2018 and 2017, respectively.

NOTE 15— BORROWINGS AND RELATED INTEREST

Securities Sold under Agreements to Repurchase

At December 31, 2018, securities underlying agreements to repurchase were delivered to, and are being held by, the counterparties with whom the repurchase agreements were transacted. The counterparties have agreed to resell to Oriental the same or similar securities at the maturity of these agreements. The purpose of these transactions is to provide financing for Oriental's securities portfolio.

The following table shows Oriental's repurchase agreements, excluding accrued interest in the amount of $785 thousand and $369 thousand, respectively, at December 31, 2018 and 2017:

	December 31,	
	2018	**2017**
	(In thousands)	
Short-term fixed-rate repurchase agreements, interest ranging from 2.45% to 2.95%	$ 214,723	$ -
Long-term fixed-rate repurchase agreements, interest ranging from 1.42% to 2.86% (December 31, 2017: 1.42% to 1.85%)	240,000	192,500
Total assets sold under agreements to repurchase	**$ 454,723**	**$ 192,500**

Repurchase agreements mature as follows:

	December 31,	
	2018	2017
	(In thousands)	
Less than 90 days	$ 214,723	$ -
Over 90-days	240,000	192,500
Total	**$ 454,723**	**$ 192,500**

The following securities were sold under agreements to repurchase:

	December 31, 2018			
Underlying Securities	**Amortized Cost of Underlying Securities**	**Balance of Borrowing**	**Approximate Fair Value of Underlying Securities**	**Weighted Average Interest Rate of Security**
		(Dollars in thousands)		
FNMA and FHLMC Certificates	$ 496,814	$ 454,723	$ 487,181	3.01%
Total	**$ 496,814**	**$ 454,723**	**$ 487,181**	**3.01%**

	December 31, 2017			
Underlying Securities	**Amortized Cost of Underlying Securities**	**Balance of Borrowing**	**Approximate Fair Value of Underlying Securities**	**Weighted Average Interest Rate of Security**
		(Dollars in thousands)		
FNMA and FHLMC Certificates	$ 207,506	$ 192,500	$ 205,483	3.03%
Total	**$ 207,506**	**$ 192,500**	**$ 205,483**	**3.03%**

The following summarizes significant data on securities sold under agreements to repurchase as of December 31, 2018, 2017 and 2016, excluding accrued interest:

	December 31,		
	2018	2017	2016
	(In thousands)		
Average daily aggregate balance outstanding	$ 357,086	$ 393,133	$ 663,845
Maximum outstanding balance at any month-end	$ 457,053	$ 606,210	$ 902,500
Weighted average interest rate during the year	2.17%	1.80%	2.83%
Weighted average interest rate at year end	2.49%	1.63%	2.47%

Advances from the Federal Home Loan Bank of New York

Advances are received from the FHLB-NY under an agreement whereby Oriental is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At December 31, 2018 and 2017, these advances were secured by mortgage and commercial loans amounting to $847.3 million and $1.3 billion, respectively. Also, at December 31, 2018 and 2017, Oriental had an additional borrowing capacity with the FHLB-NY of $762.0 million and $920.0 million, respectively. At December 31, 2018 and 2017, the weighted average remaining maturity of FHLB's advances was 26.6 months and 3.2 months, respectively. The original terms of these advances range between one day and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of December 31, 2018.

The following table shows a summary of the advances and their terms, excluding accrued interest in the amount of $176 thousand and $322 thousand, at December 31, 2018 and 2017, respectively:

	December 31	
	2018	2017
	(In thousands)	
Short-term fixed-rate advances from FHLB, with a weighted average interest rate of 2.61% (December 31, 2017 - 1.49%)	33,572	35,113
Long-term fixed-rate advances from FHLB, with a weighted average interest rate of 2.89% (December 31, 2017 - 2.24%)	43,872	64,208
	$ 77,444	**99,321**

Advances from FHLB mature as follows:

	December 31, 2018
	(In thousands)
Under 90 days	33,572
Over one to three years	8,867
Over three to five years	35,005
	$ 77,444

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

Subordinated Capital Notes

Subordinated capital notes amounted to $36.1 million at December 31, 2018 and 2017, respectively.

In August 2003, the Statutory Trust II, a special purpose entity of the Company, was formed for the purpose of issuing trust redeemable preferred securities. In September 2003, $35.0 million of trust redeemable preferred securities were issued by the Statutory Trust II as part of a pooled underwriting transaction.

The proceeds from this issuance were used by the Statutory Trust II to purchase a like amount of a floating rate junior subordinated deferrable interest debenture issued by Oriental. The subordinated deferrable interest debenture has a par value of $36.1 million, bears interest based on 3-month LIBOR plus 295 basis points (5.74% at December 31, 2018; 4.55.% at December 31, 2017), is payable quarterly, and matures on September 17, 2033. It may be called at par after five years and quarterly thereafter (next call date March 2019). The trust redeemable preferred securities have the same maturity and call provisions as the subordinated deferrable interest debenture. The subordinated deferrable interest debenture issued by Oriental is accounted for as a liability denominated as a subordinated capital note on the consolidated statements of financial condition.

The subordinated capital note is treated as Tier 1 capital for regulatory purposes. Under the Dodd-Frank Act and the Basel III capital rules issued by the federal banking regulatory agencies in July 2013, bank holding companies are prohibited from including in their Tier 1 capital hybrid debt and equity securities, including trust preferred securities, issued on or after May 19, 2010. Any such instruments issued before May 19, 2010 by a bank holding company, such as Oriental, with total consolidated assets of less than $15 billion as of December 31, 2009, may continue to be included as Tier 1 capital. Therefore, Oriental is permitted to continue to include its existing trust preferred securities as Tier 1 capital.

NOTE 16 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

The following table presents the potential effect of rights of set-off associated with Oriental's recognized financial assets and liabilities at December 31, 2018 and 2017:

December 31, 2018						
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	$ 347	$ -	$ 347	$ 2,037	$ -	$ (1,690)

December 31, 2017						
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	$ 771	$ -	$ 771	$ 2,010	$ -	$ (1,239)

December 31, 2018

	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Condition: Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 333	$ -	$ 333	$ -	$ 1,980	$ (1,647)
Securities sold under agreements to repurchase	454,723	-	454,723	487,181	-	(32,458)
Total	**$ 455,056**	**$ -**	**$ 455,056**	**$ 487,181**	**$ 1,980**	**$ (34,105)**

December 31, 2017

	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Condition: Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 1,281	$ -	$ 1,281	$ -	$ 1,980	$ (699)
Securities sold under agreements to repurchase	192,500	-	192,500	205,483	-	(12,983)
Total	**$ 193,781**	**$ -**	**$ 193,781**	**$ 205,483**	**$ 1,980**	**$ (13,682)**

NOTE 17 — EMPLOYEE BENEFIT PLAN

Oriental has a profit sharing plan containing a cash or deferred arrangement qualified under Sections 1081.01(a) and 1081.01(d) of the Puerto Rico Internal Revenue Code of 2011, as amended, (the "PR Code"), and Sections 401(a) and 401(k) of the United States Internal Revenue Code of 1986, as amended. This plan is subject to the provisions of Title I of the Employee Retirement Income Security Act of 1976, as amended ("ERISA"). This plan covers all full-time employees of Oriental who are age 21 or older. Under this plan, participants may contribute each year up to $18,500. Oriental's matching contribution is 50 cents for each dollar contributed by an employee, up to 4% of such employee's base salary. It is invested in accordance with the employee's decision among the available investment alternatives provided by the plan. This plan is entitled to acquire and hold qualified employer securities as part of its investment of the trust assets pursuant to ERISA Section 407. Oriental contributed $853 thousand, $835 thousand and $792 thousand in cash during 2018, 2017 and 2016, respectively. Oriental's contribution becomes 100% vested once the employee completes three years of service.

Also, Oriental offers to its senior management a non-qualified deferred compensation plan, where executives can defer taxable income. Both the employer and the employee have flexibility because non-qualified plans are not subject to ERISA contribution limits nor are they subject to discrimination tests in terms of who must be included in the plan. Under this plan, the employee's current taxable income is reduced by the amount being deferred. Funds deposited in a deferred compensation plan can accumulate without current income tax to the individual. Income taxes are due when the funds are withdrawn.

NOTE 18 — RELATED PARTY TRANSACTIONS

Oriental grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. The activity and balance of these loans for the years December 31, 2018, 2017, and 2016 was as follows:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Balance at the beginning of year	$ 28,138	$ 29,020	$ 31,475
New loans and disbursements	10,388	2,875	2,329
Repayments	(10,006)	(3,757)	(4,784)
Balance at the end of year	**$ 28,520**	**$ 28,138**	**$ 29,020**

Oriental also hires professional services amounting to $1.5 million from a related party.

NOTE 19 — INCOME TAXES

Oriental is subject to the dispositions of the 2011 Puerto Rico Internal Revenue Code, as amended (the "Puerto Rico Code"). For 2018, the Puerto Rico Code imposed a maximum statutory corporate tax rate of 39%. Oriental has operations in U.S. through its wholly owned subsidiary OPC, a retirement plan administration based in Florida. Also, in October 2017, Oriental expanded its operations in U.S. through the Bank's wholly owned subsidiary OFG USA. Both subsidiaries are subject to state and federal taxes. OPC is subject to Florida state taxes and OFG USA is subject to North Carolina state taxes. OFG USA elected to be classified as a corporation.

Under the Puerto Rico Code, all companies are treated as separate taxable entities and are not entitled to file consolidated tax returns. OFG Bancorp and its subsidiaries are subject to Puerto Rico regular income tax or the alternative minimum tax ("AMT") on income earned from all sources. The AMT is payable if it exceeds regular income tax. The excess of AMT over regular income tax paid in any one year may be used to offset regular income tax in future years, subject to certain limitations.

The components of income tax expense for the years ended December 31, 2018, 2017, and 2016 are as follows:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Current income tax expense	$ 33,618	$ 19,101	$ 2,768
Deferred income tax expense (benefit)	14,772	(3,658)	23,226
Total income tax expense (benefit)	**$ 48,390**	**$ 15,443**	**$ 25,994**

In relation to the exempt income level, the Bank's investment securities portfolio and loans portfolio generated net tax-exempt interest income of $11.0 million at 2018 and $10.0 million at both, 2017 and 2016. OIB generated exempt income of $5.3 million, $9.6 million and $10.3 million for 2018, 2017 and 2016, respectively.

Oriental maintained an effective tax rate lower than statutory rate for the year ended December 31, 2018, mainly by investing in tax-exempt obligations, doing business through its international banking entity Oriental International Bank and by expanding its subsidiary operations in the U.S., which are taxed at a lower rate.

Oriental's income tax expense differs from amounts computed by applying the applicable statutory rate to income before income taxes as follow:

	Year Ended December 31,					
	2018		2017		2016	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)					
Income tax expense at statutory rates	$ 51,792	39.00%	$ 26,555	39.00%	$ 33,220	39.00%
Tax effect of exempt and excluded income, net	(6,645)	-5.01%	(9,506)	-13.96%	(11,178)	-13.12%
Disallowed net operating loss carryover	269	0.20%	281	0.41%	1,406	1.65%
Change in valuation allowance	1,504	1.13%	(305)	-0.45%	(9)	-0.01%
Release of unrecognized tax benefits, net	(386)	-0.29%	(775)	-1.14%	(135)	-0.16%
Capital (gain) loss at preferential rate	(20)	-0.02%	(279)	-0.41%	2,394	2.81%
Effect of change in tax rate	4,069	3.06%	-	0.00%	-	0.00%
Other items, net	(2,193)	-1.63%	(528)	-0.79%	296	0.34%
Income tax expense	**$ 48,390**	**36.44%**	**$ 15,443**	**22.66%**	**$ 25,994**	**30.51%**

Oriental's effective tax rate for the years ended December 31, 2018 was 36.44%, and it was mainly affected by the discrete tax adjustments related to recent changes in the tax legislation and changes to the proportion of exempt income to total income. For the years ended December 31, 2017 and 2016, effective tax rate was 22.7% and 30.5%, respectively. On December 10, 2018, the Puerto

Rico government enacted Act 257-2018 introducing several amendments to the Puerto Rico Code. Some of the most relevant income tax changes include: a reduction of the maximum corporate income tax rate to 37.5%, from 39%, and a restriction of the use of partnership gains to offset current and accumulated operating losses generated by a corporate partner. The change in tax rate resulted in the reduction of Oriental's deferred tax assets by $4.1 million, generating a discrete tax expense for the period. In addition, the restriction on the use of partnership gains to offset the partner's current and accumulated operating losses, resulted in a change in outlook as to the realizability of the Holding company's deferred tax assets resulting in an increase in valuation allowance of $1.5 million. The 2018 effective tax rate included discrete items and the impact of recent tax legislation changes, that increased the effective tax rate by 2.8%. Act 257-2018 also contains other provisions, effective January 1, 2019, however Oriental's does not expect that the recent tax legislation will result in significant changes on its 2019 effective tax rate.

Oriental classifies unrecognized tax benefits in other liabilities. These gross unrecognized tax benefits would affect the effective tax rate if realized. At December 31, 2018, the amount of unrecognized tax benefits was $875 thousand (December 31, 2017 - $1.3 million). Oriental had accrued $81 thousand at December 31, 2018 (December 31, 2017 - $97 thousand) for the payment of interest and penalties relating to unrecognized tax benefits and released $466 thousand due to expiration of statute of limitation.

The following table presents a reconciliation of unrecognized tax benefits:

	Year Ended December 31,		
	2018	2017	2016
		In thousands)	
Balance at beginning of year	$ 1,260	$ 2,040	$ 2,175
Additions for tax positions of prior years	81	97	229
Additions due to new tax positions	-	-	999
Reduction for tax positions as a result of lapse of statute of limitations	(466)	(877)	(1,363)
Balance at end of year	**$ 875**	**$ 1,260**	**$ 2,040**

Oriental follows a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals of litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The amount of unrecognized tax benefits may increase or decrease in the future due to new or current tax year positions, expiration of open income tax returns, changes in management's judgment about the level of uncertainty, status of examinations, litigations and legislative activity.

The statute of limitations under the Puerto Rico Code is four years and the statute of limitations for federal tax purposes is three years, after a tax return is due or filed, whichever is later. Oriental is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years 2014 to 2017, until the applicable statute of limitations expires. In addition, Oriental's US subsidiaries are potentially subject to income tax audits by the IRS for taxable years 2015 to 2017. Tax audits by their nature are often complex and can require several years to complete.

The determination of the deferred tax expense or benefit is generally based on changes in the carrying amounts of assets and liabilities that generate temporary differences. The carrying value of Oriental's net deferred tax assets assumes that Oriental will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change in the future, Oriental may be required to record valuation allowances against its deferred tax assets resulting in additional income tax expense in the consolidated statements of operations. Significant components of Oriental's deferred tax assets and liabilities as of December 31, 2018, and 2017 were as follows:

	December 31,	
	2018	2017
	(In thousands)	
Deferred tax asset:		
Allowance for loan and lease losses and other reserves	$ 85,227	$ 97,682
Loans and other real estate valuation adjustment	7,842	10,457
Net operating loss carry forwards	5,466	5,169
Alternative minimum tax	14,631	15,672
Acquired portfolio	35,753	35,293
Other assets allowances	966	858
Other deferred tax assets	5,298	5,304
Total gross deferred tax asset	155,183	170,435
Less: valuation allowance	(4,629)	(3,135)
Net gross deferred tax assets	150,554	167,300
Deferred tax liability:		
FDIC-assisted acquisition, net	(22,825)	(24,564)
Customer deposit and customer relationship intangibles	(1,263)	(1,828)
Building valuation ajustment	(8,284)	(9,069)
Servicing asset	(4,018)	(3,830)
Other deferred tax liabilities	(401)	(588)
Total gross deferred tax liabilities	(36,791)	$ (39,879)
Net deferred tax asset	**$ 113,763**	**$ 127,421**

As of December 31, 2018 and 2017, Oriental's net deferred tax asset, net of a valuation allowance of $4.6 million and $3.1 million, respectively, amounted to $113.8 million and $127.4 million, respectively. As discussed above, the deferred tax assets as of December 31, 2018 are affected by a change in tax legislation which resulted in a reduction of $4.1 million in deferred tax assets and an increase in valuation allowance of $1.5 million. The increase in valuation allowance was related to a change in outlook as to the realizability of the Holding company's deferred tax assets. In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future income, and tax planning strategies in making this assessment. Based upon the assessment of positive and negative evidence, the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax asset are deductible, management believes it is more likely than not that Oriental will realize the benefits of these deductible differences, net of the existing valuation allowances, at December 31, 2018. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

NOTE 20 — REGULATORY CAPITAL REQUIREMENTS

Regulatory Capital Requirements

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

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

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

4.5% CET1 to risk-weighted assets;
6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;
8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and
4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

As of December 31, 2018 and 2017, OFG Bancorp and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2018 and 2017, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the tables presented below.

OFG Bancorp's and the Bank's actual capital amounts and ratios as of December 31, 2018 and 2017 are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
OFG Bancorp Ratios						
As of December 31, 2018						
Total capital to risk-weighted assets	$ 990,499	**20.48%**	$ 386,977	**8.00%**	$ 483,721	**10.00%**
Tier 1 capital to risk-weighted assets	$ 928,577	**19.20%**	$ 290,233	**6.00%**	$ 386,977	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 811,707	**16.78%**	$ 217,675	**4.50%**	$ 314,419	**6.50%**
Tier 1 capital to average total assets	$ 928,577	**14.22%**	$ 261,125	**4.00%**	$ 326,406	**5.00%**
As of December 31, 2017						
Total capital to risk-weighted assets	$ 899,258	**20.34%**	$ 353,653	**8.00%**	$ 442,067	**10.00%**
Tier 1 capital to risk-weighted assets	$ 842,133	**19.05%**	$ 265,240	**6.00%**	$ 353,653	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 644,804	**14.59%**	$ 198,930	**4.50%**	$ 287,343	**6.50%**
Tier 1 capital to average total assets	$ 842,133	**13.92%**	$ 242,057	**4.00%**	$ 302,571	**5.00%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Bank Ratios						
As of December 31, 2018						
Total capital to risk-weighted assets	$ 949,596	**19.68%**	$ 385,992	**8.00%**	$ 482,490	**10.00%**
Tier 1 capital to risk-weighted assets	$ 887,918	**18.40%**	$ 289,494	**6.00%**	$ 385,992	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 887,918	**18.40%**	$ 217,120	**4.50%**	$ 313,618	**6.50%**
Tier 1 capital to average total assets	$ 887,918	**13.68%**	$ 259,547	**4.00%**	$ 324,434	**5.00%**
As of December 31, 2017						
Total capital to risk-weighted assets	$ 879,648	**19.92%**	$ 353,265	**8.00%**	$ 441,581	**10.00%**
Tier 1 capital to risk-weighted assets	$ 822,776	**18.63%**	$ 264,949	**6.00%**	$ 353,265	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 822,776	**18.63%**	$ 198,712	**4.50%**	$ 287,028	**6.50%**
Tier 1 capital to average total assets	$ 822,776	**13.63%**	$ 241,417	**4.00%**	$ 301,771	**5.00%**

NOTE 21 – EQUITY-BASED COMPENSATION PLAN

The Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, and dividend equivalents, as well as equity-based performance awards.

The activity in outstanding options for the years ended December 31, 2018, 2017, and 2016 is set forth below:

	Year Ended December 31,					
	2018		2017		2016	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Beginning of year	845,619	$ 14.14	917,269	$ 14.08	951,523	$ 12.45
Options exercised	(101,268)	13.41	(71,150)	12.96	(24,752)	12.43
Options forfeited	(5,025)	17.05	(500)	15.26	(9,502)	16.65
End of year	**739,326**	**$ 14.28**	**845,619**	**$ 14.14**	**917,269**	**$ 14.08**

The following table summarizes the range of exercise prices and the weighted average remaining contractual life of the options outstanding at December 31, 2018:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Contract Life Remaining (Years)	Number of Options	Weighted Average Exercise Price
$5.63 to $8.45	3,532	8.28	0.3	3,532	8.28
11.27 to 14.08	313,394	11.81	2.2	313,394	11.81
14.09 to 16.90	265,675	15.40	4.7	228,625	15.29
16.91 to 19.71	156,725	17.00	6.2	78,362	17.44
	739,326	**$ 14.28**	**3.9**	**623,913**	**$ 13.77**
Aggregate Intrinsic Value	**$ 1,767,596**			**$ 1,754,258**	

There were no options granted during 2018, 2017 and 2016. The average fair value of each option granted would have been estimated at the date of the grant using the Black-Scholes option pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no restrictions and are fully transferable and negotiable in a free trading market. Black-Scholes does not consider the employment, transfer or vesting restrictions that are inherent in Oriental's stock options. Use of an option valuation model, as required by GAAP, includes highly subjective assumptions based on long-term predictions, including the expected stock price volatility and average life of each option grant.

The following table summarizes the activity in restricted units under the Omnibus Plan for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,					
	2018		2017		2016	
	Restricted Units	Weighted Average Grant Date Fair Value	Restricted Units	Weighted Average Grant Date Fair Value	Restricted Units	Weighted Average Grant Date Fair Value
Beginning of year	105,800	$ 14.19	59,800	$ 16.64	138,400	$ 16.17
Restricted units granted	176,250	12.12	83,000	13.31	-	-
Restricted units lapsed	(24,017)	17.12	(33,100)	16.10	(76,903)	16.04
Restricted units forfeited	(3,983)	12.48	(3,900)	16.79	(1,697)	17.02
End of year	**254,050**	**$ 12.50**	**105,800**	**$ 14.19**	**59,800**	**$ 16.64**

The total unrecognized compensation cost related to non-vested restricted units to members of management at December 31, 2018 was $2.3 million and is expected to be recognized over a weighted-average period of 1.8 years.

NOTE 22 – STOCKHOLDERS' EQUITY

Preferred Stock and Common Stock

On October 22, 2018, Oriental announced the mandatory conversion of its Series C preferred stock into common stock. Each share of Series C preferred stock was converted into 86.4225 shares of common stock. There were 84,000 shares of Series C preferred stock outstanding, all of which were converted to common stock. Upon conversion, the Series C preferred stock is no longer outstanding and all rights with respect to the Series C preferred stock have ceased and terminated, except the right to receive the number of whole shares of common stock issuable upon conversion of the Series C preferred stock and any required cash-in-lieu of fractional shares. At December 31, 2018 preferred and common stock paid-in capital amounted $92.0 million and $59.9 million, respectively. At December 31, 2017, preferred and common stock paid-in capital amounted $176.0 and $52.6 million, respectively.

Additional Paid-in Capital

Additional paid-in capital represents contributed capital in excess of par value of common and preferred stock net of the costs of issuance. As of both December 31, 2018 and 2017, accumulated issuance costs charged against additional paid-in capital amounted to $13.6 million and $10.1 million for preferred and common stock, respectively.

Legal Surplus

The Puerto Rico Banking Act requires that a minimum of 10% of the Bank's net income 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, 2018 and 2017, the Bank's legal surplus amounted to $90.2 million and $81.5 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

Treasury Stock

Under Oriental's current stock repurchase program, it is authorized to purchase in the open market up to $7.7 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by Oriental as treasury shares. During the years ended December 31, 2018, 2017 and 2016, Oriental did not repurchase any shares under the program.

At December 31, 2018 the number of shares that may yet be purchased under the $70 million program is estimated at 469,675 and was calculated by dividing the remaining balance of $7.7 million by $16.46 (closing price of Oriental's common stock at December 31, 2018).

The activity in connection with common shares held in treasury by Oriental for the years ended December 31, 2018, 2017 and 2016 is set forth below:

	Year Ended December 31,					
	2018		2017		2016	
	Shares	Dollar Amount	Shares	Dollar Amount	Shares	Dollar Amount
	(In thousands, except shares data)					
Beginning of period	8,678,427	$ 104,502	8,711,025	$ 104,860	8,757,960	$ 105,379
Common shares used upon lapse of restricted stock units	(87,117)	(869)	(32,598)	(358)	(46,935)	(519)
End of period	**8,591,310**	**$ 103,633**	**8,678,427**	**$ 104,502**	**8,711,025**	**$ 104,860**

NOTE 23 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income taxes, as of December 31, 2018 and 2017 consisted of:

	December 31,	
	2018	2017
	(In thousands)	
Unrealized loss on securities available-for-sale which are not other-than-temporarily impaired	$ (12,654)	$ (3,003)
Income tax effect of unrealized loss on securities available-for-sale	1,682	365
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	(10,972)	(2,638)
Unrealized gain (loss) on cash flow hedges	14	(510)
Income tax effect of unrealized (gain) loss on cash flow hedges	(5)	199
Net unrealized gain (loss) on cash flow hedges	9	(311)
Accumulated other comprehensive (loss), net of income taxes	$ **(10,963)**	**$ (2,949)**

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31, 2018		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income
	(In thousands)		
Beginning balance	$ (2,638)	$ (311)	$ (2,949)
Other comprehensive loss before reclassifications	(8,104)	(1,555)	(9,659)
Amounts reclassified out of accumulated other comprehensive income (loss)	(230)	1,875	1,645
Other comprehensive income (loss)	(8,334)	320	(8,014)
Ending balance	**$ (10,972)**	**$ 9**	**$ (10,963)**

	Year Ended December 31, 2017		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income
	(In thousands)		
Beginning balance	$ 2,209	$ (613)	$ 1,596
Other comprehensive loss before reclassifications	(11,563)	(186)	(11,749)
Amounts reclassified out of accumulated other comprehensive income (loss)	6,716	488	7,204
Other comprehensive income (loss)	(4,847)	302	(4,545)
Ending balance	**$ (2,638)**	**$ (311)**	**$ (2,949)**

	Year Ended December 31, 2016		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income
	(In thousands)		
Beginning balance	$ 16,924	(2,927)	13,997
Other comprehensive loss before reclassifications	(26,661)	(1,628)	(28,289)
Amounts reclassified out of accumulated other comprehensive income (loss)	11,946	3,942	15,888
Other comprehensive income (loss)	(14,715)	2,314	(12,401)
Ending balance	**$ 2,209**	**$ (613)**	**$ 1,596**

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2018, 2017 and 2016:

	Amount reclassified out of accumulated other comprehensive income Year Ended December 31,			Affected Line Item in Consolidated Statement of Operations
	2018	2017	2016	
	(In thousands)			
Cash flow hedges:				
Interest-rate contracts	$ 1,875	$ 488	$ 3,642	
Tax effect from changes in tax rates	-	-	300	Income tax expense
Available-for-sale securities:				Net interest expense
Gain on sale of investments	-	6,896	12,207	
Residual tax effect from OIB's change in applicable tax rate	5	104	32	Net impairment losses recognized in earnings
Tax effect from changes in tax rates	(235)	(284)	(293)	Income tax expense
	$ 1,645	**$ 7,204**	**$ 15,888**	

NOTE 24 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for the years ended December 31, 2018, 2017 and 2016 is as follows:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except per share data)		
Net income	$ 84,410	$ 52,646	$ 59,186
Less: Dividends on preferred stock			
Non-convertible preferred stock (Series A, B, and D)	(6,511)	(6,512)	(6,512)
Convertible preferred stock (Series C)	(5,513)	(7,350)	(7,350)
Income available to common shareholders	**$ 72,386**	**$ 38,784**	**$ 45,324**
Effect of assumed conversion of the convertible preferred stock	5,513	7,350	7,350
Income available to common shareholders assuming conversion	**$ 77,899**	**$ 46,134**	**$ 52,674**
Weighted average common shares and share equivalents:			
Average common shares outstanding	45,400	43,939	43,913
Effect of dilutive securities:			
Average potential common shares-options	142	19	37
Average potential common shares-assuming conversion of convertible preferred stock	5,807	7,138	7,138
Total weighted average common shares outstanding and equivalents	**51,349**	**51,096**	**51,088**
Earnings per common share - basic	**$ 1.59**	**$ 0.88**	**$ 1.03**
Earnings per common share - diluted	**$ 1.52**	**$ 0.88**	**$ 1.03**

During the last quarter of 2018, Oriental converted all of its outstanding Series C Preferred Stock into Oriental common stock. Each of the 84,000 Series C Preferred Stock shares were converted into 86.4225 shares of common stock. In computing diluted earnings per common share during 2016, 2017 and the first nine months of 2018, the 84,000 shares of Series C Preferred Stock that remained outstanding, with a conversion rate, subject to certain conditions, of 86.4225 shares of common stock per share, were included as average potential common shares from the date they were issued and outstanding. Moreover, in computing diluted earnings per common share, the dividends declared during the years ended December 31, 2018, 2017 and 2016 on the convertible preferred stock were added back as income available to common shareholders.

For the years ended December 31, 2018, 2017 and 2016, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 432,522, 932,306, and 949,134, respectively.

NOTE 25 – GUARANTEES

At December 31, 2018 and 2017, the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $23.9 million and $21.1 million, respectively.

Oriental has a liability for residential mortgage loans sold subject to credit recourse pursuant to FNMA's residential mortgage loan sales and securitization programs. At December 31, 2018 and 2017, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $5.4 million and $6.4 million, respectively.

The following table shows the changes in Oriental's liability for estimated losses from these credit recourse agreements, included in the consolidated statements of financial condition during the years ended December 31, 2018, 2017 and 2016.

	Year Ended December 31,		
	2018	**2017**	**2016**
Balance at beginning of period	$ 358	$ 710	$ 439
Net (charge-offs/terminations) recoveries	(12)	(352)	271
Balance at end of period	**$ 346**	**$ 358**	**$ 710**

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

If a borrower defaults, pursuant to the credit recourse provided, Oriental is required to repurchase the loan or reimburse the third-party investor for the incurred loss. The maximum potential amount of future payments that Oriental would be required to make under the recourse arrangements is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During 2018, Oriental repurchased approximately $705 thousand of unpaid principal balance in mortgage loans subject to the credit recourse provisions. During 2017, Oriental repurchased $107 thousand of unpaid principal balance in mortgage loans subject to the credit recourse provisions. If a borrower defaults, Oriental has rights to the underlying collateral securing the mortgage loan. Oriental suffers losses on these mortgage loans when the proceeds from a foreclosure sale of the collateral property are less than the outstanding principal balance of the loan, any uncollected interest advanced, and the costs of holding and disposing the related property. At December 31, 2018, Oriental's liability for estimated credit losses related to loans sold with credit recourse amounted to $346 thousand (December 31, 2017– $358 thousand).

When Oriental sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. Oriental's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under such mortgage backed securities programs, quality review procedures are performed by Oriental to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, Oriental may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. During the year ended December 31, 2018, Oriental repurchased $7.7 million (December 31, 2017 – $3.1 million) of unpaid principal balance in mortgage loans, excluding mortgage loans subject to credit recourse provision referred above.

During 2018, 2017, and 2016, Oriental recognized $556 thousand, $260 thousand and $380 thousand, respectively, in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $160 thousand, $477 thousand and $1.3 million, respectively, in losses from the repurchase of residential mortgage loans as a result of breaches of customary representations and warranties.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including the FHLMC, require Oriental to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At December 31, 2018, Oriental serviced $895.6 million (December 31, 2017 - $864.9 million) in mortgage loans for third-parties. Oriental generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, Oriental must absorb the cost of the funds it advances during the time the advance is outstanding. Oriental must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and Oriental would not receive any future servicing income with respect to that loan. At December 31, 2018, the outstanding balance of funds advanced by Oriental under such mortgage loan servicing agreements was approximately $706 thousand (December 31, 2017 - $440 thousand). To the extent the mortgage loans underlying Oriental's servicing portfolio experience increased delinquencies, Oriental would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

NOTE 26— COMMITMENTS AND CONTINGENCIES

Loan Commitments

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

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

Credit-related financial instruments at December 31, 2018 and 2017 were as follows:

	December 31,	
	2018	2017
	(In thousands)	
Commitments to extend credit	$ 541,423	$ 485,019
Commercial letters of credit	340	494

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

At December 31, 2018 and 2017, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused commitments does not necessarily represent future cash requirements. These lines of credit had a reserve of $627 thousand and $567 thousand, at December 31, 2018 and 2017, respectively.

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

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, at December 31, 2018 and 2017, is as follows:

	December 31,	
	2018	2017
	(In thousands)	
Standby letters of credit and financial guarantees	$ 23,889	$ 21,107
Loans sold with recourse	5,414	6,420

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

Lease Commitments

Oriental has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the years ended December 31, 2018, 2017, and 2016, amounted to $9.0 million, $9.9 million and $8.5 million, respectively, and is included in the "occupancy and equipment" caption in the unaudited consolidated statements of operations. Future rental commitments under leases in effect at December 31, 2018, exclusive of taxes, insurance, and maintenance expenses payable by Oriental, are summarized as follows:

Year Ending December 31,	Minimum Rent (In thousands)
2019	$ 5,618
2020	4,293
2021	3,360
2022	2,494
2023	1,968
Thereafter	6,679
	$ 24,412

Contingencies

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

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

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

NOTE 27 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Oriental follows the fair value measurement framework under U.S. Generally Accepted Accounting Principles (“GAAP”).

Fair Value Measurement

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

Money market investments

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

Investment securities

The fair value of investment securities is based on quoted market prices, when available, or market prices provided by Interactive Data Corporation ("IDC"), an independent, well-recognized pricing company. Such securities are classified as Level 1 or Level 2 depending on the basis for determining fair value. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument, and such securities are classified as Level 3. At December 31, 2018 and 2017, Oriental did not have investment securities classified as Level 3.

Securities purchased under agreements to resell

The fair value of securities purchased under agreements to resell is based on the carrying amounts reflected in the consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of instruments.

Derivative instruments

The fair value of the interest rate swaps is largely a function of the financial market’s expectations regarding the future direction of interest rates. Accordingly, current market values are not necessarily indicative of the future impact of derivative instruments on earnings. This will depend, for the most part, on the shape of the yield curve, the level of interest rates, as well as the expectations for rates in the future. The fair value of most of these derivative instruments is based on observable market parameters, which include discounting the instruments’ cash flows using the U.S. dollar LIBOR-based discount rates, and also applying yield curves that account for the industry sector and the credit rating of the counterparty and/or Oriental. Certain other derivative instruments with limited market activity are valued using externally developed models that consider unobservable market parameters. Based on their valuation methodology, derivative instruments are classified as Level 2 or Level 3.

Servicing assets

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

Impaired Loans

Impaired loans are carried at the present value of expected future cash flows using the loan’s existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value described in ASC 820-10 and would generally result in a higher value than the exit-price approach. For loans

measured using the estimated fair value of collateral less costs to sell, fair value is generally determined based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC 310-10-35 less disposition costs. Currently, the associated loans considered impaired are classified as Level 3.

Foreclosed real estate

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

Other repossessed assets

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

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

	December 31, 2018			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 841,857	$ -	$ 841,857
Trading securities	-	360	-	360
Money market investments	4,930	-	-	4,930
Derivative assets	-	347	-	347
Servicing assets	-	-	10,716	10,716
Derivative liabilities	-	(333)	-	(333)
	$ 4,930	**$ 842,231**	**$ 10,716**	**$ 857,877**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 81,976	$ 81,976
Foreclosed real estate	-	-	33,768	33,768
Other repossessed assets	-	-	2,986	2,986
	$ -	**$ -**	**$ 118,730**	**$ 118,730**

	December 31, 2017			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 645,797	$ -	$ 645,797
Trading securities	-	191	-	191
Money market investments	7,021	-	-	7,021
Derivative assets	-	771	-	771
Servicing assets	-	-	9,821	9,821
Derivative liabilities	-	(1,281)	-	(1,281)
	$ 7,021	**$ 645,478**	**$ 9,821**	**$ 662,320**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 72,285	$ 72,285
Foreclosed real estate	-	-	44,174	44,174
Other repossessed assets	-	-	3,548	3,548
	$ -	**$ -**	**$ 120,007**	**$ 120,007**

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2018, 2017 and 2016:

Level 3 Instruments Only	Servicing Assets	
	(In thousands)	
	Year Ended December 31,	
	2018	2017
Balance at beginning of period	$ 9,821	$ 9,858
New instruments acquired	1,481	1,658
Principal repayments	(814)	(590)
Changes in fair value of servicing assets	228	(1,105)
Balance at end of period	**$ 10,716**	**$ 9,821**

	Year Ended December 31, 2016			
Level 3 Instruments Only	Derivative asset (S&P Purchased Options)	Servicing Assets	Derivative liability (S&P Embeded Options)	Total
	(In thousands)			
Balance at beginning of period	$ 1,171	$ 7,455	$ (1,095)	$ 7,531
Gains (losses) included in earnings	(1,171)	-	1,067	(104)
New instruments acquired	-	2,616	-	2,616
Principal repayments	-	(489)	-	(489)
Amortization	-	-	28	28
Changes in fair value of servicing assets	-	276	-	276
Balance at end of period	**$ -**	**$ 9,858**	**$ -**	**$ 9,858**

During the years ended December 31, 2018, 2017 and 2016, there were purchases and sales of assets and liabilities measured at fair value on a recurring basis. There were no transfers into and out of Level 1 and Level 2 fair value measurements during such periods.

The table below presents quantitative information for all assets and liabilities measured at fair value on a recurring and non-recurring basis using significant unobservable inputs (Level 3) at December 31, 2018:

	December 31, 2018			
	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range
Servicing assets	$ 10,716	Cash flow valuation	Constant prepayment rate	4.30% -9.02%
			Discount rate	10.00% - 12.00%
Collateral dependent impaired loans	$ 36,618	Fair value of property or collateral	Appraised value less disposition costs	17.20% - 36.20%
Other non-collateral dependent impaired loans	$ 45,358	Cash flow valuation	Discount rate	4.25% - 12.25%
Foreclosed real estate	$ 33,768	Fair value of property or collateral	Appraised value less disposition costs	17.20% - 36.20%
Other repossessed assets	$ 2,986	Fair value of property or collateral	Estimated net realizable value less disposition costs	38.00% - 62.00%

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

Fair Value of Financial Instruments

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

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

The estimated fair value and carrying value of Oriental's financial instruments at December 31, 2018 and 2017 is as follows:

	December 31,			
	2018		2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Level 1				
Financial Assets:				
Cash and cash equivalents	$ 447,033	$ 447,033	$ 485,203	$ 485,203
Restricted cash	$ 3,030	$ 3,030	$ 3,030	$ 3,030
Level 2				
Financial Assets:				
Trading securities	$ 360	$ 360	$ 191	$ 191
Investment securities available-for-sale	$ 841,857	$ 841,857	$ 645,797	$ 645,797
Investment securities held-to-maturity	$ 410,353	$ 424,740	$ 497,681	$ 506,064
Federal Home Loan Bank (FHLB) stock	$ 12,644	$ 12,644	$ 13,995	$ 13,995
Other investments	$ 3	$ 3	$ 3	$ 3
Derivative assets	$ 347	$ 347	$ 771	$ 771
Financial Liabilities:				
Derivative liabilities	$ 333	$ 333	$ 1,281	$ 1,281
Level 3				
Financial Assets:				
Total loans (including loans held-for-sale)	$ 4,106,628	$ 4,431,594	$ 3,842,907	$ 4,056,329
Accrued interest receivable	$ 34,254	$ 34,254	$ 49,969	$ 49,969
Servicing assets	$ 10,716	$ 10,716	$ 9,821	$ 9,821
Accounts receivable and other assets	$ 37,842	$ 37,842	$ 41,898	$ 41,898
Financial Liabilities:				
Deposits	$ 4,881,903	$ 4,908,115	$ 4,782,197	$ 4,799,482
Securities sold under agreements to repurchase	$ 453,135	$ 455,508	$ 191,104	$ 192,869
Advances from FHLB	$ 78,503	$ 77,620	$ 99,509	$ 99,643
Other borrowings	$ 1,214	$ 1,214	$ 153	$ 153
Subordinated capital notes	$ 36,184	$ 36,083	$ 33,080	$ 36,083
Accrued expenses and other liabilities	$ 87,665	$ 87,665	$ 86,791	$ 86,791

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2018 and 2017:

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

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

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

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

- The fair values of the derivative instruments are provided by valuation experts and counterparties. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters.

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

- The fair value of the loan portfolio (including loans held-for-sale and non-performing loans) is based on the exit market price, which is estimated by segregating by type, such as mortgage, commercial, consumer, auto and leasing. Each loan segment is further segmented into fixed and adjustable interest rates. The fair value is calculated by discounting contractual cash flows, adjusted for prepayment estimates (voluntary and involuntary), if any, using estimated current market discount rates that reflect the credit and interest rate risk inherent in the loan.

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

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

NOTE 28 – BANKING AND FINANCIAL SERVICE REVENUES

The following table presents the major categories of banking and financial service revenues for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
		(In thousands)	
Banking service revenues:			
Checking accounts fees	$ 5,878	$ 6,903	$ 7,511
Savings accounts fees	635	601	548
Electronic banking fees	32,431	28,174	30,081
Credit life commissions	541	492	636
Branch service commissions	1,581	811	620
Servicing and other loan fees	1,844	1,758	1,689
International fees	718	712	528
Miscellaneous income	10	17	34
Total banking service revenues	**43,638**	**39,468**	**41,647**
Wealth management revenue:			
Insurance income	6,956	6,652	7,287
Broker fees	6,996	7,131	8,385
Trust fees	10,878	10,930	10,789
Retirement plan and administration fees	1,095	1,048	971
Investment banking fees	9	29	1
Total wealth management revenue	**25,934**	**25,790**	**27,433**
Mortgage banking activities:			
Net servicing fees	5,024	3,865	6,058
Net gains on sale of mortgage loans and valuation	305	923	693
Other	(562)	(738)	(1,730)
Total mortgage banking activities	**4,767**	**4,050**	**5,021**
Total banking and financial service revenues	**$ 74,339**	**$ 69,308**	**$ 74,101**

In May 2014 issued ASU No. 2014-09 - Revenue from Contracts with Customers (ASC 606) to clarify the principles for recognizing revenue and to develop a common revenue standard that would remove inconsistencies in revenue requirements, provide a more robust framework for addressing the revenue issues, improve comparability in revenue recognition and to simplify the preparation of financial statements by reducing the number of requirements t which an entity must refer.

The standard defines revenue (ASC-606-10-20) as inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Revenue is recognized when (or as) the performance obligation is satisfied by transferring control of a promised good or service to a customer, either at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

Following is a description of the nature and timing of revenue streams from contracts with customers:

Banking Revenue Services

- Electronic banking fees are credit and debit card processing services, use of the Bank's ATMs by non-customers, debit card interchange income and service charges on deposits accounts. Revenue is recorded once the contracted service has been provided.

- Service charges on checking and saving accounts as consumer periodic maintenance revenue is recognized once the service is rendered, while overdraft and late charges revenue are recorded after the contracted service has been provided.

- Other income as credit life commissions, servicing and other loan fees, international fees, and miscellaneous fees recognized as banking revenue services are out of the scope of the 606 guideline.

Wealth Management Revenue

- Insurance income from commissions and sale of annuities are recorded once the sale has been completed.

- Brokers fees consist of two categories:

    - Wealth management service revenue subject to commission represents sales commissions generated by advisors for their clients' purchases and sales of securities on exchanges and over-the-counter, as well as purchases of other investment products like mutual funds, and are collected once the stand alone transactions are completed at trade date or as earned. Also, managed account fees which are fees charged to advisors' clients' accounts on the Company corporate advisory platform. Fees do not cover future services, as a result there is no need to allocate the amount received to any other service.

    - Wealth management service revenue not subject to commission are primarily revenues from transactions related to mutual funds for providing distribution services and, in turn, compensates service provider who entered into agreements with the Company to provide such services netted against revenues, as well as trailer fees (also known as 12-b1 fess). These fees are considered variable and are recognized over time, as the uncertainty of the fees to be received is resolved as NAV is determined and investor activity occurs. Fees do not cover future services, as a result there is no need to allocate the amount received to any other service.

- Retirement plan and administration fees are revenues related to the payment received from the clients of OPC for provide assistance with the planning, design, administration, act as third party administrator, daily record keeping services of retirement plans. Fees are collected once the stand alone transaction was completed at trade date. Fees do not cover future services, as a result there is no need to allocate the amount received to any other service.

- Trust fees are revenues related to the full fiduciary services of 401k, the dividend growth IRA, and retirement plans which include investment management, payment of distributions, if any, safekeeping, custodial services of plan assets, servicing of Trust officers, on-going due diligence of the Trust, and recordkeeping of transactions. Fees are billed based on services contracted. Negotiated fees are detailed in the contract. Fees collected in advance, are amortized over the term of the contract. Fees are collected on a monthly basis once the administrative service has been completed. Monthly fee does not include future services.

- Investment banking fees as compensation fees are out of the scope of the 606 guideline.

Mortgage Banking Activities

- Mortgage banking activities as servicing fees, gain on sale of mortgage loans valuation and other are out of the scope of the 606 guideline.

NOTE 29 – BUSINESS SEGMENTS

Oriental segregates its businesses into the following major reportable segments of business: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as 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. These factors are reviewed on a periodical basis and may change if the conditions warrant.

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

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

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

Following are the results of operations and the selected financial information by operating segment for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31, 2018					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 320,084	$ 46	$ 40,289	$ 360,419	$ -	$ **360,419**
Interest expense	(29,746)	-	(14,779)	(44,525)	-	**(44,525)**
Net interest income	290,338	46	25,510	315,894	-	**315,894**
Provision for loan and lease losses, net	(55,885)	-	(223)	(56,108)	-	**(56,108)**
Non-interest income	53,592	26,457	46	80,095	-	**80,095**
Non-interest expenses	(186,460)	(16,440)	(4,181)	(207,081)	-	**(207,081)**
Intersegment revenue	2,126	-	-	2,126	(2,126)	**-**
Intersegment expenses	-	(788)	(1,338)	(2,126)	2,126	**-**
Income before income taxes	$ 103,711	$ 9,275	$ 19,814	$ 132,800	$ -	$ **132,800**
Income tax expense	40,447	3,617	4,326	48,390	-	**48,390**
Net income	**$ 63,264**	**$ 5,658**	**$ 15,488**	**$ 84,410**	**$ -**	**$ 84,410**
Total assets	**$ 5,863,067**	**$ 25,757**	**$ 1,708,455**	**$ 7,597,279**	**$ (1,013,927)**	**$ 6,583,352**

	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, net	(113,108)	-	(31)	(113,139)	-	**(113,139)**
Non-interest income	45,102	26,069	7,516	78,687	-	**78,687**
Non-interest expenses	(184,567)	(13,486)	(3,578)	(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	$ 33,478	$ 11,499	$ 23,112	$ 68,089	$ -	$ **68,089**
Income tax expense (benefit)	13,057	4,485	(2,099)	15,443	-	**15,443**
Net income	**$ 20,421**	**$ 7,014**	**$ 25,211**	**$ 52,646**	**$ -**	**$ 52,646**
Total assets	**$ 5,597,077**	**$ 25,980**	**$ 1,536,417**	**$ 7,159,474**	**$ (970,421)**	**$ 6,189,053**

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

NOTE 30 – OFG BANCORP (HOLDING COMPANY ONLY) FINANCIAL INFORMATION

As a bank holding company subject to the regulations and supervisory guidance of the Federal Reserve Board, Oriental generally should inform the Federal Reserve Board and eliminate, defer or significantly reduce its dividends if: (i) its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The payment of dividends by the Bank to Oriental may also be affected by other regulatory requirements and policies, such as the maintenance of certain regulatory capital levels. During 2018, 2017 and 2016, Oriental Insurance paid $4.0 million, $4.0 million and $5.0 million, respectively, in dividends to Oriental. Oriental Financial Services paid $1.0 million in dividends to Oriental during 2016 but did not pay any dividends during 2017 and 2018.

The following condensed financial information presents the financial position of the holding company only as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended December 31, 2018, 2017 and 2016:

OFG BANCORP
CONDENSED STATEMENTS OF FINANCIAL POSITION INFORMATION
(Holding Company Only)

	December 31,	
	2018	2017
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 39,207	$ 24,430
Investment in bank subsidiary, equity method	983,718	941,198
Investment in nonbank subsidiaries, equity method	19,341	20,231
Due from bank subsidiary,net	40	22
Deferred tax asset, net	-	2,230
Other assets	1,122	1,616
Total assets	**$ 1,043,428**	**$ 989,727**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Dividend payable	5,219	6,504
Due to affiliates	14	-
Accrued expenses and other liabilities	2,235	2,033
Subordinated capital notes	36,083	36,083
Total liabilities	**43,551**	**44,620**
Stockholders' equity	999,877	945,107
Total liabilities and stockholders' equity	**$ 1,043,428**	**$ 989,727**

OFG BANCORP
CONDENSED STATEMENTS OF OPERATIONS INFORMATION
(Holding Company Only)

	Year Ended December 31,		
	2018	2017	2016
		(In thousands)	
Income:			
Interest income	$ 477	$ 188	$ 174
Gain on sale of securities	-	-	211
Investment trading activities, net and other	6,003	4,511	4,066
Total income	**6,480**	**4,699**	**4,451**
Expenses:			
Interest expense	1,905	1,556	1,370
Operating expenses	7,980	6,700	7,179
Total expenses	**9,885**	**8,256**	**8,549**
Loss before income taxes	**(3,405)**	**(3,557)**	**(4,098)**
Income tax expense	2,400	403	518
Loss before changes in undistributed earnings of subsidiaries	**(5,805)**	**(3,960)**	**(4,616)**
Equity in undistributed earnings from:			
Bank subsidiary	87,128	51,612	58,580
Nonbank subsidiaries	3,087	4,994	5,222
Net income	$ **84,410**	$ **52,646**	$ **59,186**

OFG BANCORP
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME INFORMATION
(Holding Company Only)

	Year ended December 31,		
	2018	2017	2016
		(In thousands)	
Net income	**$ 84,410**	**$ 52,646**	**$ 59,186**
Other comprehensive loss before tax:			
Unrealized loss on securities available-for-sale	-	-	(204)
Other comprehensive income from bank subsidiary	(8,014)	(4,545)	(12,238)
Other comprehensive loss before taxes	**(8,014)**	**(4,545)**	**(12,442)**
Income tax effect	-	-	41
Other comprehensive loss after taxes	**(8,014)**	**(4,545)**	**(12,401)**
Comprehensive income	**$ 76,396**	**$ 48,101**	**$ 46,785**

OFG BANCORP
CONDENSED STATEMENTS OF CASH FLOWS INFORMATION
(Holding Company Only)

	Year Ended December 31,		
	2018	2017	2016
		(In thousands)	
Cash flows from operating activities:			
Net income	$ **84,410**	$ **52,646**	$ **59,186**
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings from banking subsidiary	(87,128)	(51,612)	(58,580)
Equity in undistributed earnings from nonbanking subsidiaries	(3,087)	(4,994)	(5,222)
Amortization of investment securities premiums, net of accretion of discounts	-	-	12
Realized gain on sale of securities	-	-	211
Stock-based compensation	1,401	1,109	1,270
Employee benefit adjustment	-	(99)	-
Deferred income tax, net	2,230	414	444
Net decrease (increase) in other assets	372	(205)	42
Net (decrease) increase in accrued expenses and other liabilities	203	(1,185)	800
Dividends from banking subsidiary	37,700	26,743	17,600
Dividends from non-banking subsidiary	4,000	4,002	6,000
Net cash provided by operating activities	**40,101**	**26,819**	**21,763**
Cash flows from investing activities:			
Maturities and redemptions of investment securities available-for-sale	-	-	702
Proceeds from sales of investment securities available-for-sale	-	-	4,888
Net decrease in due from bank subsidiary, net	-	307	317
Net decrease in due to non-bank subsidiary, net	14	-	-
Proceeds from sales of premises and equipment	200	-	324
Capital contribution to banking subsidiary	(1,105)	(788)	(894)
Capital contribution to non-banking subsidiary	(24)	(50)	(68)
Additions to premises and equipment	(97)	(19)	(381)
Net cash (used in) provided by investing activities	**(1,012)**	**(550)**	**4,888**
Cash flows from financing activities:			
Proceeds from (payments to) exercise of stock options and lapsed restricted units, net	508	-	(315)
Dividends paid	(24,820)	(24,412)	(24,003)
Net cash used in financing activities	(24,312)	(24,412)	(24,318)
Net change in cash and cash equivalents	**14,777**	**1,857**	**2,333**
Cash and cash equivalents at beginning of year	24,430	22,573	20,240
Cash and cash equivalents at end of year	**$ 39,207**	**$ 24,430**	**$ 22,573**

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

Disclosure Controls and Procedures

Oriental's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2018, an evaluation was carried out under the supervision and with the participation of Oriental's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of Oriental's disclosure controls and procedures. Based upon such evaluation, the CEO and CFO have concluded that, as of the end of the period covered by this annual report on Form 10-K, Oriental's disclosure controls and procedures provided reasonable assurance of effectiveness in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by Oriental in the reports that it files or submits under the Securities Exchange Act of 1934. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within Oriental to disclose material information otherwise required to be set forth in Oriental's periodic reports.

Management's Annual Report on Internal Control over Financial Reporting

The Management's Annual Report on Internal Control over Financial Reporting is included in Item 8 of this report.

Report of the Registered Public Accounting Firm

The registered public accounting firm's report on Oriental's internal control over financial reporting is included in Item 8 of this report.

Changes in Internal Control over Financial Reporting

There have not been any changes in Oriental's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last quarter of the year ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, Oriental's internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

None.

PART III

Items 10 through 14 are incorporated herein by reference to Oriental's definitive proxy statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this report, except with respect to the information set forth below under Item 12.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Oriental's 2007 Omnibus Performance Incentive Plan, as amended and restated (the "Omnibus Plan"), provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted units and dividend equivalents, as well as equity-based performance awards. The Omnibus Plan was adopted in 2007, amended and restated in 2008, and further amended in 2010.

The following table shows certain information pertaining to the awards under the Omnibus Plan as of December 31, 2018:

	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding those reflected in column (a))**
Plan Category			
Equity compensation plans approved by shareholders:			
Omnibus Plan	993,376 (1)	$ 10.63 (2)	$ 832,146
	993,376	**$ 10.63**	**832,146**

(1) Includes 739,326 stock options and 254,050 restricted stock units.

(2) Exercise price related to stock options.

Oriental recorded $1.401 million, $1.109 million and $1.270 million related to stock-based compensation expense during the years ended December 31, 2018, 2017 and 2016, respectively.

Other information required by this Item is incorporated herein by reference to Oriental's definitive proxy statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this report.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

The following financial statements are filed as part of this report under Item 8 — Financial Statements and Supplementary Data.

Management's Report on Internal Control Over Financial Reporting

Financial Statements:
Reports of Independent Registered Public Accounting Firm
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting
Consolidated Statements of Financial Condition as of December 31, 2018 and 2017
Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016
Notes to the Consolidated Financial Statements

Financial Statement Schedules

No schedules are presented because the information is not applicable or is included in the accompanying consolidated financial statements or in the notes thereto described above.

ITEM 16. *FORM 10-K SUMMARY*

Not applicable.

Exhibits

Exhibit No.:	Description Of Document:
2.1	Purchase and Assumption Agreement — Whole Bank, All Deposits, dated as of April 30, 2010, among the Federal Deposit Insurance Corporation, Receiver of Eurobank, San Juan, Puerto Rico, the Federal Deposit Insurance Corporation, and Oriental Bank and Trust.(1)
2.2	Acquisition Agreement dated as of June 28, 2012 between Oriental and BBVA relating to the purchase and sale of 100% of the Common Stock of BBVAPR Holding and BBVA Securities.(2)
3.1	Composite Certificate of Incorporation. (3)
3.2	By-Laws.(4)
4.1	Certificate of Designation of the 7.125% Noncumulative Monthly Income Preferred Stock, Series A.(5)
4.2	Certificate of Designation of the 7.0% Noncumulative Monthly Income Preferred Stock, Series B.(6)
4.3	Certificate of Designations of 7.125% Non-Cumulative Perpetual Preferred Stock, Series D.(7)
4.4	Form of Certificate for the 7.125% Noncumulative Monthly Income Preferred Stock, Series A.(8)
4.5	Form of Certificate for the 7.0% Noncumulative Monthly Income Preferred Stock, Series B.(9)
4.6	Form of Certificate for the 7.125% Non-Cumulative Perpetual Preferred Stock, Series D.(7)
10.1	Change in Control Compensation Agreement between Oriental and José R. Fernández.(10)
10.2	Change in Control Compensation Agreement between Oriental and Ganesh Kumar (11)
10.3	Technology Outsourcing Agreement dated as of January 26, 2007, between Oriental and Metavante Corporation.(12)
10.4	OFG Bancorp 2007 Omnibus Performance Incentive Polan, as amended and restated.(13)
10.5	Form of qualified stock option award and agreement (14)
10.6	Form of restricted stock award and agreement (15)
10.7	Form of restricted unit award and agreement (16)
10.8	Form of performance shares award and agreement (17)
10.9	Employment Agreement dated as of February 28, 2018 between Oriental and José R. Fernández (18)
10.10	Amendment, effective as of December 19, 2018, to Employment Agreement between Oriental and José R. Fernández
10.11	Amendment dated as of May 31, 2018 to Technology Outsourcing Agreement between Oriental and Metavante Corporation (19)
10.12	Termination Agreement, dated as of February 6, 2017, among the Federal Deposit Insurance Corporation, Receiver of Eurobank, San Juan, Puerto Rico, the Federal Deposit Insurance Corporation, and Oriental Bank (20)
12.1	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends (included in Item 6 hereof)
21.1	List of subsidiaries
23.1	Consent of KPMG LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following materials from Oriental's annual report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Changes in Stockholders' Equity, (iv) Consolidated Statements of Comprehensive Income, and (v) Consolidated Statements of Cash Flow.

(1) Incorporated herein by reference to Exhibit 2.1 of Oriental's current report on Form 8-K filed with the SEC on May 6, 2010.

(2) Incorporated herein by reference to Exhibit 2.1 of Oriental's current report on Form 8-K filed with the SEC on July 3, 2012.

(3) Incorporated herein by reference to Exhibit 3.1 of Oriental's annual report on Form 10-K filed with the SEC on March 14, 2016.

(4) Incorporated herein by reference to Exhibit 3.1 of Oriental's current report on Form 8-K filed with the SEC on January 30, 2018.

(5) Incorporated herein by reference to Exhibit 4.1 of Oriental's registration statement on Form 8-A filed with the SEC on April 30, 1999.

(6) Incorporated herein by reference to Exhibit 4.1 of Oriental's registration statement on Form 8-A filed with the SEC on September 26, 2003.

(7) Incorporated herein by reference to Exhibit 3.1 of Oriental's current report on Form 8-K filed with the SEC on November 8, 2012.

(8) Incorporated herein by reference to Exhibit 4.2 of Oriental's registration statement on Form S-3 filed with the SEC on April 2, 1999.

(9) Incorporated herein by reference to Exhibit 4.2 of Oriental's registration statement on Form S-3, as amended, filed with the SEC on September 23, 2003.

(10) Incorporated herein by reference to Exhibit 10.12 of Oriental's annual report on Form 10-K filed with the SEC on September 13, 2005.

(11) Incorporated herein by reference to Exhibit 10.14 of Oriental's annual report on Form 10-K filed with the SEC on September 13, 2005.

(12) Incorporated herein by reference to Exhibit 10.23 of Oriental's annual report on Form 10-K filed with the SEC on March 28, 2007. Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

(13) Incorporated herein by reference to Exhibit 4.1 of Oriental's registration statement on Form S-8 filed with the SEC on October 7, 2013.

(14) Incorporated herein by reference to Exhibit 10.1 of Oriental's registration statement on Form S-8 filed with the SEC on November 30, 2007.

(15) Incorporated herein by reference to Exhibit 10.2 of Oriental's registration statement on Form S-8 filed with the SEC on November 30, 2007.

(16) Incorporated herein by reference to Exhibit 10.1 of Oriental's quarterly report on Form 10-Q filed with the SEC on May 8, 2015.

(17) Incorporated herein by reference to Exhibit 10.1 of Oriental's quarterly report on Form 10-Q filed with the SEC on November 2, 2018.

(18) Incorporated herein by reference to Exhibit 10.1 of Oriental's quarterly report on Form 10-Q filed with the SEC on May 4, 2018.

(19) Incorporated herein by reference to Exhibit 10.1 of Oriental's quarterly report on Form 10-Q filed with the SEC on August 3, 2018. Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

(20) Incorporated herein by reference to Exhibit 10.1 of Oriental's current report on Form 8-K filed with the SEC on February 7, 2017.

SIGNATURES

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

OFG BANCORP

By: /s/ José Rafael Fernández — Dated: March 8, 2019
José Rafael Fernández
President and Chief Executive Officer

By: /s/ Maritza Arizmendi Díaz — Dated: March 8, 2019
Maritza Arizmendi Díaz
Executive Vice President and Chief Financial Officer

By: /s/ Krisen Aguirre Torres — Dated: March 8, 2019
Krisen Aguirre Torres
Vice President Financial Reporting and Accounting Control

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

By: /s/ Julian Inclán — Dated: March 8, 2019
Julian Inclán
Chairman of the Board

By: /s/ José Rafael Fernández — Dated: March 8, 2019
José Rafael Fernández
Vice Chairman of the Board

By: /s/ Juan Carlos Aguayo — Dated: March 8, 2019
Juan Carlos Aguayo
Director

By: /s/ Jorge Colón Gerena — Dated: March 8, 2019
Jorge Colón Gerena
Director

By: /s/ Pedro Morazzani — Dated: March 8, 2019
Pedro Morazzani
Director

By: /s/ Edwin Pérez Hernández — Dated: March 8, 2019
Edwin Pérez Hernández
Director

By: /s/ Néstor de Jesús — Dated: March 8, 2019
Néstor de Jesús
Director

BOARD OF DIRECTORS

Julian S. Inclán
Chair Board of Directors
Chair - Strategic Committee;
Member of all other Board Committees

José R. Fernández
President, CEO and Vice Chair of the Board;
Member - Strategic Committee

Nestor de Jesús
Chair - Board Risk and Compliance Committee;
Member - Corporate Governance and Nominating and Strategic Committees

Juan C. Aguayo
Chair - Corporate Governance and Nominating Committee;
Member - Board Risk and Compliance Committee

Jorge Colón Gerena
Chair - Compensation Committee;
Member - Corporate Governance and Nominating, Audit and Strategic Committees

Pedro Morazzani
Chair - Audit Committee

Edwin Pérez
Member - Compensation Committee

Carlos O. Souffront
Secretary

EXECUTIVES & OFFICERS

Executive Team:

José Rafael Fernández
President, CEO and Vice Chairman of the Board

Ganesh Kumar
Senior Executive Vice President, Chief Operating Officer

Martiza Arizmendi
Executive Vice President, Chief Financial Officer

Carlos O. Souffront
Executive Vice President, General Counsel

Leadership Team:

Rafael Cruz
Senior Vice President and Chief Risk and Compliance Officer

Ada García
Senior Vice President, Retail Channel Business Development

Félix Silva
Senior Vice President, Retail Operations and Collections

Patrick Haggarty
Executive Vice President, Commercial Banking and Trust

César Ortiz
Senior Vice President, Commercial Credit and Operations

Ramón Rosado
Senior Vice President and Director US Loans Program

Jennifer Zapata Nazario
Senior Vice President, Human Resources

Carlos Viña
Senior Vice President, Oriental Insurance

Vanessa de Armas
Vice President, General Auditor

Sean Miles
Senior Vice President, Financial Services

GENERAL INFORMATION

Main Office
Oriental Center
254 Muñoz Rivera Avenue
San Juan, PR 00918
Telephone: (787) 771-6800

Transfer Agent and Register
American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219
Telephone: (718) 921-8257

Dividend Reinvestment Plan
Corporate Legal Department
OFG Bancorp
PO Box 195115
San Juan, PR 00919
Telephone: (787) 771-6800

Independent Certified Public Accountants
KPMG LLP
250 Muñoz Rivera Avenue, Suite 1100
San Juan, PR 00918

Form 10-K
Annual Report on Form 10-K filed with the SEC is available on request at: www.proxyvote.com

Annual Meeting
April 24, 2019 at 10:00 AM (EST)
Oriental Center Lobby
254 Muñoz Rivera Avenue
San Juan, PR 00918

Annual Certifications
Our President and CEO has submitted to the NYSE the Domestic Company Section 303A Annual CEO Certification regarding our compliance with the corporate governance listing standards of the NYSE. Also, we have filed with the SEC, as exhibits 31.1 and 31.2 to our annual report on Form 10-K for fiscal 2018, the Sarbanes-Oxley Act Section 302 Certifications of both our CEO and CFO regarding the quality of our public disclosures.

Business Lines
BANKING: Retail, Commercial and Wholesale
AUTO LENDING
MORTGAGE LENDING
WEALTH MANAGEMENT: Trust and Retirement Services, Securities Brokerage, Investment Advisory Services
INSURANCE

CREATIVE DESIGN: MARKHAM & STEIN IN COLLABORATION WITH ID GROUP. EDITORIAL TEXT: ANREDER & COMPANY. PRINTING: MODEL OFFSET PRINTING.