FRESH DEL MONTE PRODUCE INC
Form DEF 14A
March 31, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

FRESH DEL MONTE PRODUCE INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11(set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Table of Contents

March 31, 2014

Dear Shareholder:

On behalf of the board of directors and management, it is my pleasure to invite you to attend the 2014 Annual General Meeting of Shareholders of Fresh Del Monte Produce Inc. (the "Company") on Wednesday, April 30, 2014, at 11:30 a.m., Eastern Time, at the Conrad Hotel, 1395 Brickell Avenue, Miami, Florida.

Details regarding admission to the meeting and information concerning the matters to be acted upon at the Annual General Meeting are provided in the accompanying Notice of Annual General Meeting and Proxy Statement. All registered holders of Ordinary Shares as of the close of business on Tuesday, March 11, 2014, will be entitled to vote at the Annual General Meeting on the basis of one vote for each Ordinary Share held.

Whether or not you plan to attend the Annual General Meeting, it is important that your Ordinary Shares be represented in accordance with your wishes. To ensure that, please vote your shares either through the Internet, by telephone or by completing, signing and returning your proxy in the enclosed envelope as soon as possible.

On behalf of your board of directors, management and our employees, I thank you for your continued support and interest in Fresh Del Monte Produce Inc.

Sincerely,

Mohammad Abu-Ghazaleh

Chairman and Chief Executive Officer

Table of Contents

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS
OF FRESH DEL MONTE PRODUCE INC.

Date:	Wednesday, April 30, 2014
Time:	11:30 a.m., Eastern Time
Place:	Conrad Hotel, 1395 Brickell Avenue, Miami, Florida 33131
Purpose:	(1) Elect three directors for terms expiring at the 2017 Annual General Meeting of Shareholders; (2) Approve and adopt the Company's financial statements for the fiscal year ended December 27, 2013; (3) Ratify the appointment of Ernst & Young LLP as independent registered public accounting firm for the fiscal year ending December 26, 2014; (4) Approve the Company's Dividend for the fiscal year ended December 27, 2013; (5) Approve the Company's 2014 Omnibus Share Incentive Plan; (6) Approve, by non-binding vote, Executive Compensation for the 2013 fiscal year; and (7) Transact other business properly presented at the Annual General Meeting or any postponement or adjournment thereof.
Record Date:	March 11, 2014—Owners of Ordinary Shares at the close of business on that date are entitled to receive notice of and to vote at the Annual General Meeting.
Voting by Proxy:	Please submit a proxy card or, for Ordinary Shares held in street name, voting instruction form, as soon as possible so your Ordinary Shares can be voted at the Annual General Meeting. You may submit your proxy card or voting instruction form by mail. As a registered shareholder, you may also vote electronically by telephone or over the Internet by following the instructions included with your proxy card. If your Ordinary Shares are held in street name, you may have the choice of instructing the record holder as to the voting of your Ordinary Shares over the Internet or by telephone. Follow the instructions on the voting instruction form you receive from your broker, bank or other nominee.
Admission to the Annual General Meeting:	Either an admission ticket or proof of ownership of Ordinary Shares, as well as a form of personal photo identification, must be presented in order to be admitted to the Annual General Meeting. (See the section captioned Information About Admission to the Annual General Meeting in this proxy statement.)

Bruce A. Jordan
Senior Vice President, General Counsel and

Secretary

March 31, 2014

Table of Contents

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL GENERAL MEETING TO BE HELD ON APRIL 30, 2014

Copies of the enclosed Proxy Statement for the 2014 Annual General Meeting and the Annual Report to Shareholders for the fiscal year ended December 27, 2013 are also available at http://freshdelmonte.com under the "Investor Relations" tab.

Table of Contents

Table of Contents

	Page
Proxy Statement	1
Voting	2
Proposal 1—Election of Directors	3
Director Qualifications, Skills and Experience	4
Information Regarding Nominees and Continuing Directors	5
Director Compensation for Fiscal Year 2013	8
Structure and Practices of the Board of Directors	10
Corporate Governance Guidelines	10
Board’s Role in Risk Oversight	10
Meetings of the Board	10
Communication with the Board	11
Director Independence	11
Code of Conduct and Business Ethics Policy	11
Board Committees	11
Nomination Process	13
Proposal 2—Approval and Adoption of the 2013 Fiscal Year Financial Statements	15
Proposal 3—Ratification of the Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm for the Fiscal Year 2014	15
Audit and Non-Audit Fees	15
Policy on Audit Committee Pre-Approval of Audit and Permitted Non-Audit Services	15
Audit Committee Report	16
Proposal 4—Approval of the Company’s Dividend for the Fiscal Year Ended December 27, 2013	16
Proposal 5—Approval of the Company's 2014 Omnibus Share Incentive Plan	17
Proposal 6—Advisory, Non-Binding Vote, Approving Executive Compensation for the 2013 Fiscal Year	22
Beneficial Ownership of Ordinary Shares	23
Section 16(a) Beneficial Ownership Reporting Compliance	24
Policies and Procedures for Related Person Transactions	25
Related Person Transactions	26
Executive Officers	26
Executive Compensation	27
Compensation Committee	27
Compensation Committee Processes and Procedures	28
Compensation Committee Interlocks and Insider Participation	29
Compensation Committee Report	30
Compensation Discussion and Analysis	31
Compensation Tables	43
Equity Compensation Plans	53
Annual Reports and Other Materials	53
Shareholder Proposals for the 2015 Annual General Meeting of Shareholders	54
Requirements for Shareholder Proposals to be Considered for Inclusion in the Company’s Materials	54
Requirements for Shareholder Proposals to be Brought Before the Annual General Meeting	54
Information About Admission to the Annual General Meeting	55
Exhibit A: Fresh Del Monte produce inc. 2014 Omnibus Share Incentive Plan	A-1

Table of Contents

FRESH DEL MONTE PRODUCE INC.
c/o Del Monte Fresh Produce Company
241 Sevilla Avenue
Coral Gables, Florida 33134

PROXY STATEMENT

The enclosed proxy card is solicited by the board of directors (the “board”) of Fresh Del Monte Produce Inc., an exempted limited company incorporated under the laws of the Cayman Islands (the “Company”), for use at the 2014 Annual General Meeting of Shareholders to be held on Wednesday, April 30, 2014, at 11:30 a.m., Eastern Time, at the Conrad Hotel, 1395 Brickell Avenue, Miami, Florida, and at any postponements or adjournments thereof. Either an admission ticket or proof of ownership of Ordinary Shares, as well as a form of personal photo identification, must be presented in order to be admitted to the Annual General Meeting. (See the section captioned Information About Admission to the Annual General Meeting in this proxy statement.)

The proxy materials are being sent to shareholders beginning on or about March 31, 2014. The cost of the solicitation of proxies will be paid by the Company. You may vote over the Internet, by telephone, by completing and mailing the enclosed proxy card or by voting in person at the Annual General Meeting. The solicitation is to be made primarily by mail, and the Company does not intend to use a proxy solicitor.

Table of Contents

VOTING

Whether or not you plan to attend the Annual General Meeting, we request that you date and execute the enclosed proxy card and return it in the enclosed postage-paid return envelope or use the telephone or the Internet to grant your proxy and vote. Telephone and Internet voting instructions are provided on the proxy card.

If your Ordinary Shares are registered in the name of a bank, broker or other nominee, follow the voting instructions on the form you receive from the nominee. The availability of telephone and Internet voting will depend on the nominee's voting processes.

The Ordinary Shares represented by your properly completed proxy card will be voted in accordance with your instructions. If you properly sign, date and deliver to us your proxy card, but you mark no instructions on it with respect to any of the proposals, the Ordinary Shares represented by your proxy will be voted FOR the election as directors of the three nominees proposed in Proposal 1, FOR Proposal 2, FOR Proposal 3, FOR Proposal 4, FOR Proposal 5 and FOR Proposal 6, as the case may be. Alternatively, you can vote by telephone or the Internet using the instructions outlined on your proxy card.

Under the laws of the Cayman Islands and our Articles of Association, the affirmative vote of a majority of the Ordinary Shares present in person at the Annual General Meeting, or represented by proxy, is necessary for approval of each of Proposal 1, Proposal 2, Proposal 3, Proposal 4, Proposal 5 and Proposal 6. Under the shareholder approval policy of the New York Stock Exchange ("NYSE"), approval of Proposal 5 also requires the favorable vote of a majority of the votes cast. Abstentions will have no effect on the outcome of the vote for any of the Proposals under Cayman Islands law, but, for purposes of the NYSE shareholder approval policy, will have the effect of a vote against Proposal 5.

Under NYSE rules, brokerage firms may vote in their discretion on certain matters on behalf of clients who have not furnished voting instructions. These are called "discretionary" items. Proposal 2, Proposal 3, and Proposal 4 are considered "discretionary" items. In contrast, brokerage firms may not vote on certain other matters for which they have not received voting instructions from their clients. These are called "non-discretionary" items, and a lack of voting instructions for "non-discretionary" items will result in so-called "broker non-votes." Proposal 1, Proposal 5 and Proposal 6 are considered "non-discretionary" items. In the case of Proposal 1, Proposal 5 and Proposal 6, broker non-votes will not be counted and will have no effect on the vote for purposes of Cayman Islands law.

The board is not aware of any other matters to be presented for action at the Annual General Meeting, but if other matters are properly brought before the Annual General Meeting, Ordinary Shares represented by properly completed proxies received by mail, telephone or the Internet will be voted in accordance with the judgment of the persons named as proxies.

Shareholders have the right to revoke their proxies at any time before a vote is taken by (1) notifying the corporate secretary, Fresh Del Monte Produce Inc., c/o Del Monte Fresh Produce Company, 241 Sevilla Avenue, Coral Gables, Florida 33134, (2) executing a new proxy card bearing a later date or by voting by telephone or the Internet on a later date, provided the new proxy is received by Computershare Investor Services, P.O. Box 30170, College Station, Texas 77842, by 11:59 p.m., Eastern Time, on April 29, 2014, (3) attending the Annual General Meeting and voting in person or (4) any other method available to shareholders by law.

The close of business on March 11, 2014 has been fixed as the record date for the Annual General Meeting, and only shareholders of record at that time will be entitled to vote. The only capital stock and the only issued shares of the Company are the Ordinary Shares. There were 55,657,094 Ordinary Shares issued and outstanding and entitled to vote on the record date. Each shareholder is entitled to one vote for each Ordinary Share held. The holders of a majority of the Ordinary Shares issued and outstanding on the record date, present in person or represented by valid proxy received by mail, telephone or the Internet, will constitute a quorum at the Annual General Meeting.

All votes cast at the Annual General Meeting will be tabulated by Shareowner Services, which has been appointed the independent inspector of election. Shareowner Services tabulation will determine whether or not a quorum is present.

Table of Contents

PROPOSAL 1—ELECTION OF DIRECTORS

The Board of Directors unanimously recommends a vote
FOR the election of all the below nominees

At the date of this proxy statement, the board consists of nine members, seven of whom are non-employee directors. At the Annual General Meeting, three directors are proposed for election for terms that will expire at the 2017 Annual General Meeting of Shareholders. The other directors will serve the remainder of their respective terms, which expire at the 2015 and 2016 Annual General Meetings of Shareholders as set forth below.

All nominees are expected to serve if elected, and each of them has consented to being named in the proxy statement and to serve if elected. Michael J. Berthelot and Madeleine L. Champion are current directors of the Company. Robert S. Bucklin has been nominated by the Board to stand for election at the annual meeting. After many years of distinguished service, Dr. Elias K. Hebeka will be retiring from the board at the April 2014 Board meeting. Mr. Bucklin was recommended as a candidate for our board of directors by the Chairman and Chief Executive Officer of the Company and another executive officer of the Company.

If a nominee is unable or unwilling to serve at the time of the election, the persons named in the form of proxy shall have the right to vote according to their judgment for another person instead of the unavailable nominee.

The governance committee is responsible for reviewing at least annually the qualifications of directors and nominees, as well as the composition of the board as a whole, in accordance with its charter and the Company's corporate governance guidelines. The governance committee takes into account each individual's background, as well as considerations of diversity, age, skills and experience in the context of the needs of the board. The governance committee also considers whether, by significant accomplishment in his or her field, the director or nominee has demonstrated an ability to make a meaningful contribution to the board's oversight of the business and affairs of the Company, as well as his or her reputation for honesty and ethical conduct in his or her personal and professional activities and independence from management. While the Company's corporate governance guidelines do not prescribe specific diversity standards, and the board does not have a formal diversity policy, as a matter of practice, the board considers diversity in the context of the board as a whole and takes into account, among other factors, considerations relating to ethnicity, gender, cultural diversity and the range of perspectives that the directors bring to their work.

Our global branded Company is one of the world's leading vertically integrated producers, marketers and distributors of high-quality fresh and fresh-cut fruit and vegetables, as well as a leading producer and distributor of prepared fruit and vegetables, juices, beverages and snacks in Europe, Africa, the Middle East and countries formerly part of the Soviet Union. Our directors' experience encompasses the areas of technology, marketing, international business and finance, economics and public policy. Each of them has held senior positions in government or as leaders of complex organizations and gained expertise in core management skills, such as strategy and business development, innovation, line operations, brand management, finance, compensation and leadership development, compliance and risk management. They also have significant experience in corporate governance and management oversight through their positions as senior executives and as directors of other public companies, and several have served as members of audit, compensation and governance committees at these companies, as well as at the Company. These skills and experiences are pertinent to the Company's current and evolving business strategies, as well as to the board's oversight role, and enable our directors to provide diverse perspectives about the complex issues facing the Company.

The following table highlights specific qualifications, skills and experiences considered by the governance committee in concluding that the Company's existing directors and its slate of director nominees should serve on the Company's board of directors. Additional biographical details about our nominees follow.

Table of Contents

Director Nominee	Qualifications, Skills and Experience
Michael J. Berthelot	• Operating and management experience in manufacturing and distribution businesses, including experience as chief executive officer of a publicly traded multinational manufacturing and distribution business for 14 years and as a director and/or chief executive officer of a publicly traded company subject to FDA oversight for four years • Core management and leadership skills gained through experience overseeing and managing multinational operations at the director and chief executive officer levels, including experience in evaluating strategic development opportunities and challenges, risk management, senior leadership development, vendor and customer relationships, competitive and financial positioning and shareholder relationships • Experience in financial reporting, taxation, accounting and financial controls, business combination transactions, divestiture, restructuring and international business operations, including training as a Certified Public Accountant • Experience in governance matters through public and private directorships over 30 years, as a consultant on governance best practices and as a faculty member at a leading university, and including experience with matters addressed by compensation, governance and audit committees • Independent of Company management
Madeleine L. Champion	• Management experience in the global financial services industry, particularly in emerging markets, including over 10 years managing division financing for international companies in the fruit industry • Core management skills, including managing different business lines and overseas offices, competitive and financial positioning, strategic orientation, thought leadership on global economic trends and perspectives • Experience in marketing, finance, credit and risk management, including leadership of an international banking association addressing global regulatory, compliance and risk issues • Experience in compliance, governance and compensation oversight including in positions as treasurer of a major bank's international holding company and as director of an international banking subsidiary • Independent of Company management
Robert S. Bucklin	• Over 35 years of experience in banking and finance, including commercial banking, corporate finance, funding and investment banking, and mergers and acquisitions • Core management and leadership skills gained as senior executive with oversight of complex financial transactions, leadership development, competitive positioning and risk management and oversight • Extensive experience in food and agribusiness research and financing • Familiarity with agricultural practices through banking relationships and company directorships • Independent of Company management

Continuing Directors	Qualifications, Skills and Experience
Mohammad Abu-Ghazaleh	• Over 40 years of operations and management experience in fresh produce-related businesses, including at chief executive officer level of a publicly traded company • Core management skills gained through experience managing multinational fresh and prepared food businesses, including at chief executive officer level, including managing and developing businesses, vendor and customer relationships, distribution and sourcing, productivity, competitive positioning, senior leadership development, quality control and evaluation of strategic opportunities and challenges

	• Experience in governance matters through public and private company directorships • Experience in risk management and oversight
Hani El-Naffy	• Over 30 years of management and operations experience in shipping and fresh produce-related businesses, including at executive officer level • Core management skills gained as senior level executive of the third-largest exporter of fresh produce in Chile, including oversight of shipping, logistics, financial positioning, business development, contract negotiations, insurance, senior leadership development, supply chain management, facilities and equipment utilization, and evaluation of strategic opportunities and challenges • Experience in shipping, distribution, finance, marketing, insurance, production and international business with one of the world's leading fresh and prepared food businesses • Experience in risk management and oversight

Table of Contents

Continuing Directors	Qualifications, Skills and Experience
John H. Dalton	• Over 40 years of experience in the formulation of policies and strategies in government and financial services companies providing banking, insurance, and investment products • Core management skills and experience, including investments, finance, financial reporting, financial controls and international business operations • Experience in governance matters through public and private company directorships, including experience with matters addressed by compensation, governance and audit committees • Experience in risk management and oversight • Independent of Company management
Amir Abu-Ghazaleh	• Operating and management experience in wholesale fresh fruit-related businesses, including at executive officer level • Core management skills gained through over 20 years of experience as general manager of Abu-Ghazaleh International Company and general manager and partner of Abu-Ghazaleh & Sons Co. Ltd., including in managing businesses, vendor and customer relationships, competitive and financial positioning, senior leadership development and evaluation of strategic opportunities and challenges • Experience in marketing, customer service, finance and international business • Experience in governance matters through public and private company directorship experience
Salvatore H. Alfiero	• Operating and management experience in manufacturing and distribution businesses, including as founder and chief executive officer of a publicly held multi-national company • Core management skills gained through experience at the board level for life insurance, banking and finance businesses in the context of multi-national operations. Extensive experience in managing businesses, vendor and customer relationships, competitive and financial positioning, senior leadership development and evaluation of strategic opportunities • Experience in finance, financial reporting, accounting and financial controls, business combination transactions and international business operations, including accessing capital markets • Experience in governance matters through public and private company directorships, including matters addressed by compensation and audit committees • Independent of Company management
Edward L. Boykin	• Experience in financial reporting, accounting, auditing and financial controls gained through more than 30 years of providing audit and related services to public and private clients, including companies engaged in retail and distribution businesses and through experience as a chief financial officer and training as a Certified Public Accountant • Core management skills, including in managing businesses, competitive and financial positioning, senior leadership development and evaluation of strategic opportunities and challenges • Experience in risk management and oversight • Experience in governance matters through public and private company directorships, including experience with matters addressed by compensation, governance and audit committees • Independent of Company management

Information Regarding Nominees and Continuing Directors
Set forth below is information with respect to the nominees and each other director of the Company continuing in office after the Annual General Meeting.

Table of Contents

Nominees for Election to the Board of Directors for a
Term Expiring at the 2017 Annual General Meeting of Shareholders (Class II)

Michael J. Berthelot—63, Director. Mr. Berthelot has served as a Director since 2006, and is a Certified Public Accountant. He is the Chief Executive Officer of Cito Capital Corporation, a strategic consulting firm. Mr. Berthelot has served as the managing principal and founder of Corporate Governance Advisors Inc., a consulting firm that provides board evaluation and advisory services since 2010. He is also a faculty member of the University of California San Diego's Rady School of Management, where he teaches corporate governance in the MBA program. From 1992 to 2003, he served as Chairman and Chief Executive Officer of TransTechnology Corporation, a publicly traded multinational manufacturing firm, and from 2003 until 2006, he continued to serve as its non-executive Chairman. Mr. Berthelot served on the board of directors of Pro-Dex, Inc. from 2009 to January 2013, where he also served as the Chief Executive Officer and President from 2012 to February 2013. Mr. Berthelot serves on the boards of directors of a privately held software company and of the Corporate Directors Forum in San Diego.

Madeleine L. Champion—69, Director. Ms. Champion has served as a Director since April 2009. She is the Chief Executive Officer of Champion Global Advisors, LLC, a consulting firm that offers strategic advisory services to companies expanding internationally. Ms. Champion is an international management and trade consultant for financial and non-financial institutions. She was previously Managing Director/Senior Vice President, International Banking at JP Morgan Chase & Co. from 2004 to 2008. Prior to that, Ms. Champion served as Managing Director and Head of Emerging Markets, International Financial Institutions, at Banc One Capital Markets, Inc. from 2001 to 2004. From 1997 to 2001, she held various other management positions at Bank One, N.A. Beginning in 1982, as head of the Latin America Division at Fidelity Bank in Philadelphia, she established and managed the Global Fruit Trade Finance Division. In 2005, Ms. Champion became the first woman to be elected President of the Bankers' Association for Finance and Trade (BAFT), an affiliate of the American Bankers Association. In 2011 she was elected by the U.S. Treasury to the Board of Citizens Republic Bancorp (under the Capital Purchase program) and served on the Audit and Governance Committees until April 2013 when the Bank was merged with FirstMerit. Ms. Champion has previously served on a number of boards, including the board of the Port of Philadelphia and Camden. She also sat on the International Trade Committee of the United Fruit and Vegetable Association.

Robert S. Bucklin—64, Director Nominee. Mr. Bucklin retired in July 2013 as Vice Chairman of Rabobank International’s North America Wholesale banking, a position he held since October 2010. Mr. Bucklin served as Chief Corporate Banking Officer of Rabobank International from 1994 to 2010, and as the Senior Vice President and Manager of the Dallas office of Rabobank International from 1993 to 1994. Prior to joining Rabobank International, Mr. Bucklin served as President and Chief Operating Officer of First City-Dallas bank from 1991 to 1993. He currently serves on the boards of directors of the OSI Group, LLC, Agrivida, Inc. and Bay State Milling Company. Mr. Bucklin is also a member of the Advisory Board for Jacob Stern & Sons, as well as serves as Chairman of Global Green USA, a non-profit organization.

Members of the Board of Directors Continuing in Office for a
Term Expiring at the 2015 Annual General Meeting of Shareholders (Class III)

Mohammad Abu-Ghazaleh—72, Chairman and Chief Executive Officer. Mr. Abu-Ghazaleh has served as the Company's Chairman and Chief Executive Officer since 1996. He also serves as the Chairman of the Royal Jordanian Air Academy. From 1997 to November 2010 he served as Chairman and Chief Executive Officer of IAT Group Inc. ("IAT"). Mr. Abu-Ghazaleh was President and Chief Executive Officer of United Trading Company from 1986 to 1996. Prior to that time, he was Managing Director of Metico from 1967 to 1986. Mr. Abu-Ghazaleh serves as Chairman of the board of directors of International General Insurance Co. Ltd. He also serves on the boards of directors of Bank Misr Liban and United Cable Company, Inc. From 2004 to March 2011, Mr. Abu-Ghazaleh served on the board of directors of Jordan Kuwait Bank. Mr. Abu-Ghazaleh and Mr. Amir Abu-Ghazaleh are brothers.

Hani El-Naffy—63, Director. President and Chief Operating Officer. Mr. El-Naffy has served as a Director and the Company's President and Chief Operating Officer since 1996. Prior to that time, he served as Executive Director for United Trading Company from 1986 until 1996.

John H. Dalton—72, Director. Secretary Dalton has served as a Director since 1999. He is the President of the Housing Policy Council of the Financial Services Roundtable, which represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services. Formerly, he was President of IPG Photonics Corporation. He has held four presidential appointments requiring confirmation by the United States Senate. Secretary Dalton served as Secretary of the Navy from 1993 through 1998. He served on the President's Advisory Council on the Arts from 1999 until 2001. He served as a member and Chairman of the Federal Home Loan Bank Board from 1979 through 1981. Secretary Dalton held the position of President of the Government National Mortgage Association of the U.S. Department of

Table of Contents

Housing and Urban Development from 1977 through 1979. Secretary Dalton currently serves on the boards of directors of WashingtonFirst Bancshares, Inc. and BGC Partners, Inc. From 2000 to June 2011, Secretary Dalton served on the board of directors of IPG Photonics Corporation.

Members of the Board of Directors Continuing in Office for a
Term Expiring at the 2016 Annual General Meeting of Shareholders (Class I)

Amir Abu-Ghazaleh—67, Director. Mr. Abu-Ghazaleh has served as a Director since 1996. He is the General Manager and Partner of Abu-Ghazaleh & Sons Co. Ltd. Mr. Abu-Ghazaleh was previously the General Manager of Abu-Ghazaleh International Company from 1987 to March 2011. Mr. Abu-Ghazaleh has over 20 years of experience in the fresh produce industry, with extensive knowledge of the Middle East markets. Mr. Abu-Ghazaleh also serves on the boards of directors of Clemenceau Medical Center, Arab Wings and Royal Jordanian Air Academy. From 2001 to April 2010, Mr. Abu-Ghazaleh served on the board of directors of International General Insurance Co. Ltd. Jordan. Mr. Abu-Ghazaleh and Mr. Mohammad Abu-Ghazaleh are brothers.

Salvatore H. Alfiero—76, Director. Mr. Alfiero has served as a Director since 2002. In 2001, Mr. Alfiero founded P I Ventures, LLC and currently serves as its Chairman and Chief Executive Officer. In 1969, Mr. Alfiero founded Mark IV Industries, Inc. and served as its Chairman and Chief Executive Officer until its sale in 2000. Mr. Alfiero also serves on the board of directors of Southwire Company. From 1996 to May 2010, Mr Alfiero served on the boards of directors of HSBC Bank USA and HSBC North America Holdings, Inc. From 1989 to May 2010, Mr. Alfiero served on the board of directors of The Phoenix Companies, Inc.

Edward L. Boykin—74, Director. Mr. Boykin has served as a Director since 1999, and is a retired Certified Public Accountant. Following a 30-year career with Deloitte & Touche LLP, Mr. Boykin retired in 1991. Mr. Boykin is a private consultant on financial matters. Mr. Boykin served on the board of directors of Blue Cross and Blue Shield of Florida, Inc. from 1982 to September 2011.

Table of Contents

DIRECTOR COMPENSATION FOR FISCAL YEAR 2013

Director Compensation

The following table shows for the fiscal year ended December 27, 2013, certain information with respect to the compensation of all non-employee directors of the Company. Employee directors of the Company do not receive compensation for their participation on the board; therefore, neither Mr. Mohammad Abu-Ghazaleh nor Mr. Hani El-Naffy received any additional compensation for service as a director in fiscal year 2013.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Total ($)
(a)	(b)	(c)	(d)
Salvatore H. Alfiero	87,500	100,013	187,513
Michael J. Berthelot	100,000	100,013	200,013
Madeleine Champion	82,500	100,013	182,513
Dr. Elias K. Hebeka	90,000	100,013	190,013
John H. Dalton	92,500	100,013	192,513
Edward L. Boykin	135,000	100,013	235,013
Amir Abu-Ghazaleh	70,000	100,013	170,013

(1) Amounts reflect the aggregate dollar amount of all fees earned or paid in cash for services as a director, including annual retainer fees, committee and/or chairmanship fees for the Company’s 2013 fiscal year.

(2) Amounts reflect the full grant date fair value of a grant of restricted shares, determined in accordance with Financial Accounting Standards Boards ASC 718-10 Compensation - Stock Based Compensation. The assumptions used in determining these valuations are the same as those used in our financial statements for fiscal year 2013. Those assumptions can be found in Note 15 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 27, 2013. This grant is based on the 2010 Non-Employee Directors Equity Plan which was approved by the shareholders in 2010.

Compensation Benchmarking and Peer Group. On July 31, 2013, the compensation committee engaged the services of Towers Watson, which on July 1, 2013 had acquired The Delves Group which had served as the committee's independent compensation consultant since 2008. For purposes of this document, all work will be cited to Towers Watson although some of the work may have been previously completed by The Delves Group.

Towers Watson reviewed the compensation program for the Company's Board of Directors, benchmarking the current program to programs of a nationally recognized peer group companies which is the same as the peer group for executive compensation benchmarking purposes described in the section captioned Executive Compensation under the heading "Compensation Discussion and Analysis - Compensation Benchmarking and Peer Group." The compensation review was conducted to ensure that the non-employee directors’ compensation structure is designed to attract and retain qualified directors. The compensation program is comprised of three components: (1) board service compensation: (2) committee service compensation; and (3) equity based compensation and ownership guidelines in order to closely align director's interests with those of shareholders. Upon completion of their 2013 analysis, Towers Watson reported that the Company's board service cash compensation was below the 25th percentile of the peer group, while the equity based compensation was aligned with the median of the peer group. At its October 30, 2013 meeting, the compensation committee recommended to the Board that effective January 1, 2014, the annual board retainer be increased to $80,000 from $70,000 and the annual grant of restricted stock to non-employee directors be increased to $105,000 from $100,000 so as to align Board member compensation to the median of the peer group of companies. The recommendation was unanimously approved by the Board on October 30, 2013.

Annual Retainer. The 2013 annual retainer fees paid to non-employee directors of the Company are detailed on the following table. Directors are also eligible for reimbursement of their expenses incurred in attending board meetings in accordance with Company policy. Examples of reimbursable expenses are airfare, hotel and meals for the director.

8

Table of Contents

Annual Retainer for	Annual Retainer Fees paid ($)
Non-employee Board Member	70,000
Audit Committee Member	15,000
Compensation Committee Member	7,500
Governance Committee Member	5,000

Effective January 1, 2014, the annual retainer fees paid to non-employee directors of the Company are detailed in the following table.

Annual Retainer for	Annual Retainer Fees paid ($)
Non-employee Board Member	80,000
Audit Committee Member	15,000
Compensation Committee Member	7,500
Governance Committee Member	5,000

Board Committee Chair and Lead Independent Director Retainers. In addition to the annual committee retainer described above, the Company paid annual retainers to each of the chairs of the committees as shown below. In addition, the Lead Independent Director received a separate annual retainer equal to the amount indicated in the table below:

Annual Retainer for	Annual Retainer Fees paid ($)
Audit Committee Chair	25,000
Compensation Committee Chair	15,000
Governance Committee Chair	10,000
Lead Independent Director	35,000

Total Cash Compensation Paid in Fiscal Year 2013. In fiscal year 2013, the total cash compensation paid to our non-employee directors for service on the board or committees of the board was $657,500.

Share Ownership Policy. We have a share ownership and retention policy that applies to non-employee directors. Under the policy, non-employee directors are expected, within five years of the director’s appointment, to acquire and hold 5,000 Ordinary Shares. In addition to these general share ownership requirements, as part of the non-employee directors’ compensation program which began in 2011, directors are required to hold 50% of their annual award of restricted stock until six months after they leave the Company’s board. The Company believes that this ownership policy further aligns director and shareholder interests and thereby promotes the objective of increasing shareholder value.

Equity Compensation. The 2010 Non-Employee Directors Equity Plan provides for annual grants to each non-employee board member of restricted shares equivalent to $100,000 ($105,000 effective January 1, 2014) based on the fair market value of the Company’s shares on the first trading day of each year. This plan was established based on Towers Watson’s study of our board’s equity compensation and our policy to maintain director equity compensation at the approximate median for our peer group of companies. On January 2, 2013, each non-employee board member was granted 3,743 shares based on the fair value grant price of $26.72. Fifty percent of these awards vest on the date of grant and the other 50% vest six months after the date the director ceases to serve on the Board for any reason.

On December 27, 2013, the aggregate number of option awards and restricted shares outstanding for each director was as follows: Salvatore H. Alfiero—18,750 and 16,369; Michael J. Berthelot—12,250 and 8,183; Madeleine Champion—30,000 and 12,779; Dr. Elias K. Hebeka—36,500 and 14,015; John H. Dalton—31,250 and 16,369; Edward L. Boykin—12,500 and 8,183; Amir Abu-Ghazaleh—12,500 and 8,183, respectively. In addition to the options and restricted shares outstanding, each non-employee director is holding additional shares that they purchased using at least 50% of a one-time payment of $21,000 paid to each non-employee board member who was a current member as of July 1, 2009. At the minimum, each of the non-employee board members has purchased 500 shares. They are required to retain these shares for at least six months after he or she leaves the board.

Table of Contents

STRUCTURE AND PRACTICES OF THE BOARD OF DIRECTORS

Corporate Governance Guidelines

The board has adopted corporate governance guidelines that provide the framework for the governance of the Company. The governance rules for companies listed on the NYSE and those contained in the Sarbanes-Oxley Act of 2002 and related regulations are reflected in the guidelines. The board reviews these guidelines and other aspects of its governance periodically. The guidelines are available on the Company's Web site at www.freshdelmonte.com under the "Investor Relations" tab.

The Chief Executive Officer of the Company, Mohammad Abu-Ghazaleh, is also the Chairman of the Board. This structure reflects the significant shareholdings in the Company of the Abu-Ghazaleh family, but also serves other purposes. While it retains the discretion to separate the roles in the future as it deems appropriate and acknowledges that there is no single best organizational model that is most effective in all circumstances, the board currently believes that the Company and its shareholders are best served by having Mr. Abu-Ghazaleh hold both of these positions concurrently. Notably, the Company believes that this leadership structure promotes accountability and clarity in the direction of the Company's business strategy. The board's leadership structure also includes the role of lead independent director, and Mr. Boykin has served in that capacity since April 2008. The lead independent director's responsibilities include acting as chairman for all meetings of the non-employee and independent directors, convening meetings of the independent directors on the request of any of them, and establishing the agenda and approving the materials for those meetings, and acting as a liaison between the Chairman and the non-employee and independent directors.

Board's Role in Risk Oversight

The board as a whole has responsibility for risk oversight, which it fulfills directly and through its committees, depending on the nature of the risks. Oversight is supported by management reports, reports by the Company's independent auditors and advisors, as well as visits to the Company's operations, all of which are intended to provide visibility to the board or the relevant committees about the identification and management of key risks and exposures. These include competitive, operational, financial, legal, compliance, information technology and reputational risks. The board and its committees also have regular executive sessions with the head of internal audit, as well as with the independent accountants and, where appropriate, other advisors, without any other management personnel present. The allocation of risk oversight among the board and its committees is summarized below.

Board / Committee	Primary Areas of Risk Oversight
Board	Strategic, financial and execution risks and exposures associated with the Company's operations, including matters affecting capital allocation; major litigation exposures; significant regulatory changes that present risks or may otherwise affect the Company's business operations; senior management succession planning; major acquisitions and divestitures; and other matters that present material reputational risk or risk to the Company's operations, plans and prospects, taken as a whole.
Audit Committee	Risks and exposures associated with financial reporting, the Company's public disclosures; internal control over financial reporting; legal compliance; financial policies; and credit and liquidity matters.
Governance Committee	Risks and exposures relating to corporate governance; and director succession.
Compensation Committee	

Risks and exposures associated with the Company’s compensation programs and arrangements.

Meetings of the Board

The board had four regularly scheduled meetings during fiscal year 2013. The Company’s non-employee directors meet at regularly scheduled executive sessions, without any members of management present. The Company’s independent directors meet separately, without the participation of directors who do not qualify as independent directors. During fiscal year 2013, the non-employee directors had two meetings.

Each director has full access to the Company’s management.

Table of Contents

Directors are expected to attend all meetings of the board and each committee on which they serve. In fiscal year 2013, the board held six meetings and committees of the board held a total of seventeen meetings. No director attended less than 75% of the total number of meetings of the board and committees of the board on which he or she served during the period that he or she served. Although the Company does not have a formal policy with respect to director attendance at annual general meetings of shareholders, all directors are expected to attend, and all of the Company's directors then in office attended the Company's 2013 Annual General Meeting of Shareholders.

Communication with the Board

Shareholders or other interested parties may contact any individual director by writing to them in care of the Company's general counsel, Fresh Del Monte Produce Inc., c/o Del Monte Fresh Produce Company, 241 Sevilla Avenue, Coral Gables, Florida 33134. This centralized process assists the board in reviewing and responding to shareholder communications in an appropriate manner. The Company's general counsel will forward such correspondence only to the intended recipient(s). Communications relating to accounting, audit matters, or internal controls will also be referred to the audit committee. Prior to forwarding any correspondence, the general counsel will review such correspondence and, in his discretion, not forward correspondence deemed to be of a commercial nature or relating to an improper or irrelevant topic. The general counsel also will attempt to handle the inquiry directly, for example, when it is a request for information about the Company or it is a stock-related matter. The policy is available on the Company's Web site at www.freshdelmonte.com by clicking on "Investor Relations" and then "Corporate Governance" tab.

Director Independence

The Company's corporate governance guidelines provide that the board must have a majority of directors who are independent as required by NYSE listing standards. The listing standards require the board to affirmatively determine that each director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), other than as a director, and specifically preclude an independence determination in the case of specified relationships. The board considers relationships involving directors and their immediate family members that may implicate any of the listing standards of the NYSE and relies on information derived from Company records, questionnaires completed by directors and, as necessary, inquiries of other relevant parties. During fiscal year 2013, there were no such relationships.

The board has determined that the following directors are independent as required by the NYSE listing standards and the Company's corporate governance guidelines: Salvatore H. Alfiero, Michael J. Berthelot, Edward L. Boykin, Madeleine L. Champion, John H. Dalton and Dr. Elias K. Hebeka. The Board has also determined that Robert S. Bucklin, who has been nominated by the Board to stand for election at the 2014 annual meeting of shareholders, will be an independent director.

All members of the audit committee, the compensation committee and the governance committee are independent directors as required by applicable law and NYSE listing standards.

Code of Conduct and Business Ethics Policy

The Company has a code of conduct and business ethics policy that applies to every employee and to its directors. The code is designed to ensure that the Company's business is conducted in a consistently legal and ethical manner. The code includes policies on employment, conflicts of interest and the protection of confidential information, and requires adherence to all laws and regulations applicable to the conduct of the Company's business. The code specifically addresses the requirements and obligations applicable to officers and employees with important roles in the financial reporting process. The code is available on, and the Company will disclose any amendments to, or waivers of, the code relating to its directors or executive officers on its Web site at www.freshdelmonte.com under the "Investor Relations" tab in accordance with applicable law and NYSE listing standards.

Board Committees

The board has an audit committee, a compensation committee and a governance committee. The board has adopted a written charter for each of these committees. Board committee charters are available on the Company's Web site at www.freshdelmonte.com under the "Investor Relations" tab.

Table of Contents

Each committee conducts an annual assessment to review the sufficiency of resources and time to fulfill its obligations and to review the performance of its obligations. Under the Company's corporate governance guidelines, each committee may retain consultants for assistance in carrying out its responsibilities. If Robert S. Bucklin is elected to the Board at the annual meeting, the Board intends to appoint him to the Audit and Governance Committees. The following table shows the current directors and the members of each of the board's committees and the number of committee meetings held during fiscal year 2013:

	Audit	Compensation	Governance
Mohammad Abu-Ghazaleh	—	—	—
Hani El-Naffy	—	—	—
Amir Abu-Ghazaleh	—	—	—
Salvatore H. Alfiero *	—	X	Chair
Michael J. Berthelot *	X	Chair	—
Edward L. Boykin *	Chair	—	X
Madeleine L. Champion *	—	X	X
John H. Dalton *	X	X	—
Elias K. Hebeka *	X	—	X
Number of meetings	9	4	4

* Independent director. Mr. Boykin serves as the lead independent director in accordance with NYSE listing standards.
Chair = chairman
X = member

The Audit Committee

The audit committee (i) appoints, retains and evaluates the selection of independent auditors for the Company, (ii) confirms the scope of audits to be performed by such auditors and (iii) reviews audit results and the Company's accounting and internal control procedures and policies. The audit committee also reviews and recommends approval of the audited financial statements of the Company and the quarterly and annual filings of the Company with the Securities and Exchange Commission ("SEC"). In addition, the audit committee has the authority to monitor and oversee compliance matters relating to the conduct of the Company's business.

Each member of the audit committee meets the independence requirements of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The board has determined that Edward L. Boykin and Michael J. Berthelot each qualify as an "audit committee financial expert" as defined by SEC rules.

The Compensation Committee

The compensation committee (i) reviews the Company's general compensation structure and (ii) reviews and recommends the compensation and benefits of directors, the Chief Executive Officer, President and Chief Operating Officer and other executive officers, subject to approval by the board. The compensation committee also acts as the administrator for the Company's 1999 Share Incentive Plans and 2011 Omnibus Share Incentive Plan and reviews and recommends approval of all reports in respect of executive and other compensation required to be made by the Company with the SEC.

The compensation committee has engaged The Delves Group as its consultant. The Delves Group has been its consultant since August 2008 through July 2013 when it was acquired by Towers Watson. The consultant conducted studies and provided recommendations to the committee on matters pertaining to the compensation of the Chief Executive Officer, the President and Chief Operating Officer and other executive officers and the board. Further information about the role of the committee's consultant in the design and implementation of the Company's executive compensation programs is provided in the section of this proxy statement captioned Executive Compensation under the heading "Compensation Discussion and Analysis."

The compensation committee also has the responsibility to review and make recommendations to the board with respect to the compensation of members of the board and its committees (including fees and equity awards). The board approved the revised non-employee board member compensation schedule, which was effective January 1,

2014, changing the cash compensation and equity compensation for non-employee directors. The committee took into consideration the consultant's study of peer group boards of directors’ compensation in recommending the changes to board compensation. Further

Table of Contents

information about recent changes to director compensation is provided in the section of this proxy statement captioned Director Compensation for Fiscal Year 2013.

Each member of the compensation committee meets the independence requirements of the NYSE. In addition, the Compensation Committee members each qualify as "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986.

The Governance Committee

The governance committee develops policy on the size and composition of the board, criteria for director nomination, and procedures for the nomination process. The committee identifies and recommends candidates for election to the board. The committee reviews and makes recommendations to the board and/or management with respect to corporate governance issues and management succession plans. Each member of the governance committee meets the independence requirements of the NYSE.

Nomination Process

The governance committee considers shareholder recommendations for director nominees. A shareholder desiring the committee to consider any person for nomination for election to the board must deliver a written submission to the governance committee in care of the corporate secretary, Fresh Del Monte Produce Inc., c/o Del Monte Fresh Produce Company, 241 Sevilla Avenue, Coral Gables, Florida 33134. Such submission must include:

- the candidate’s name and contact information;
- a detailed resume of the candidate and a statement explaining the qualifications of the candidate that, in the view of the candidate and/or the shareholder, would make such person a suitable director and a description of the candidate’s reasons for seeking election as a director, which description must include any plans or proposals that such person or the shareholder may have that relate to, or would result in any of the actions described in Item 4 of Schedule 13D (or any successor provision) under the Exchange Act;
- a statement of whether the candidate meets applicable law and listing requirements pertaining to director independence;
- a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and other material relationships, between or among the candidate, the shareholder (and/or any beneficial owner on whose behalf the recommendation is made) and its affiliates and associates, or others acting in concert therewith, on the one hand, and the candidate and his or her respective affiliates and associates, or others acting in concert therewith;
- any information relating to the candidate, the shareholder and their respective affiliates or associates that would be required to be disclosed in a proxy solicitation for the election of directors of the Company pursuant to Regulation 14A under the Exchange Act or otherwise be required to be provided pursuant to the Company’s Articles of Association; and
- the written consent of the candidate to serve as a director, if elected.

Such submission should include an undertaking to submit to the corporate secretary of the Company a statement amending any of the foregoing information promptly after any material change occurs in such information as previously submitted. The committee may require additional information from the nominee to perform its evaluation of the eligibility of the nominee to serve as an independent director of the Company or that could be material to a reasonable shareholder’s understanding of the independence, or lack thereof, of such nominee.

Any nomination by a shareholder of any person for election to the board of the Company must comply with the foregoing and the requirements of the Company’s Articles of Association (Articles 36(b) and 56), which are available on the Company’s Web site at www.freshdelmonte.com under the “Investor Relations” tab.

Recommendations for nomination and nominations that are made by shareholders in accordance with these procedures and, if applicable, the Company’s Articles of Association will receive the same consideration as recommendations or nominations initiated by the governance committee.

13

Table of Contents

In its assessment of each person considered for nomination, the governance committee considers the board's and the Company's needs at the time and reviews the candidates for nomination as director in light of the entirety of their credentials, including:

- their reputation for honesty and ethical conduct in their personal and professional activities and their strength of character and judgment;
- their ability and willingness to devote sufficient time to board duties;
- their potential contribution to the diversity and culture of the board;
- their educational and industry background, as well as their business and professional achievements and experience, particularly in light of the Company's business and its size, complexity and strategic challenges and whether they have demonstrated, by significant accomplishment in their fields, an ability to make a meaningful contribution to the board's oversight of the business and affairs of the Company; and
- their independence from management under requirements of applicable law and listing standards.

The committee reviews each candidate's information and assesses each candidate's credentials based on the criteria described above. Based on its assessment of each candidate, the committee will make recommendations regarding potential director candidates to the board.

PROPOSAL 2—APPROVAL AND ADOPTION OF THE 2013 FISCAL YEAR FINANCIAL STATEMENTS

The Board of Directors unanimously recommends a vote FOR the approval and adoption of the Company's 2013 fiscal year financial statements

The financial statements of the Company for the fiscal year ended December 27, 2013 are being submitted to the shareholders for approval and adoption. The Company's 2013 fiscal year financial statements appear in the Company's Annual Report to Shareholders accompanying this proxy statement.

PROPOSAL 3—RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2014

The Board of Directors unanimously recommends a vote FOR the ratification of Ernst & Young LLP as the Company's independent registered public accounting firm for 2014

The audit committee has selected Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 26, 2014 and has directed that management submit the selection of independent registered public accounting firm to shareholders for ratification at the Annual General Meeting. Representatives of Ernst & Young LLP are expected to be present at the meeting, will have an opportunity to make a statement if they so desire and are expected to be available to respond to appropriate questions.

Shareholder ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm is not required by the Company's Memorandum and Articles of Association. However, the Company is submitting the selection of Ernst & Young LLP to the shareholders for ratification as a matter of good corporate practice. If the shareholders fail to ratify the selection, the audit committee will reconsider whether or not to retain Ernst & Young LLP.

Audit and Non-Audit Fees

The following table presents all fees billed or expected to be billed for professional audit services rendered by Ernst & Young LLP for the audit of the Company's annual consolidated financial statements for its 2013 and 2012 fiscal years, and fees billed or expected to be billed for other services rendered to the Company by Ernst & Young LLP:

	Fiscal Year	
(U.S. dollars in millions)	2013	2012
Audit fees[1]	$3.4	$3.7
Audit-related fees [2]	0.2	—
Tax fees[3]	0.5	1.5
Total	$4.1	$5.2

(1) Audit fees consist of the fees for the audit of the Company's annual consolidated financial statements, review of the interim financial statements contained in the quarterly reports and for statutory audits. This category also includes other services, such as comfort letters, consents and review of documents filed with the SEC.

(2) Audit-related fees consist of fees that are not specifically required by statute or regulation and that are not included in audit fees. This category includes fees for due-diligence and other services.

(3) Tax fees consisted of fees for tax compliance and related services.

Policy on Audit Committee Pre-Approval of Audit and Permitted Non-Audit Services

The audit committee has implemented a policy for the pre-approval of all audit and permitted non-audit services proposed to be provided to the Company by Ernst & Young LLP, the Company's independent registered public accounting firm (also referred to as independent auditors). Under the policy, each engagement to provide audit or non-audit services and the scope and terms of the engagement, including any fees payable, are subject to pre-approval by the audit committee. Recurring services, such as annual audit and interim review services relating to the Company's financial statements, are generally approved on an annual basis, typically at the start of each fiscal year. The approvals for that type of service are generally effective for that fiscal year, whereas approvals of other services are generally effective for a period of six months. The committee may delegate authority to one or more of its members to approve

any service, subject to a maximum fee limitation of $25,000. Services for which fees are expected to be in excess of $25,000 must be pre-approved by the entire audit committee. All audit and permitted non-audit services provided by Ernst & Young LLP during fiscal year 2013 were pre-approved in accordance with the Company's policy.

Table of Contents

The Company's Chief Financial Officer is responsible for compliance with the Company's pre-approval policy and must report any non-compliance to the committee.

Audit Committee Report

The audit committee oversees the Company's financial reporting process on behalf of the board of directors. Management has the primary responsibility for the financial statements and the reporting process, including the internal control over financial reporting. In fulfilling its oversight responsibilities, the committee reviewed with management the audited consolidated financial statements of the Company, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with U.S. generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the committee under generally accepted auditing standards. In addition, the committee has discussed with the independent auditors the auditors' independence from management and the Company, including the matters in the written disclosures and the letter from the independent auditors required by Rule 3526 of the Public Company Accounting and Oversight Board, and considered the compatibility of non-audit services with the independent auditors' independence.

The committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The committee met with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The committee held nine meetings during fiscal year 2013.

In reliance on the reviews and discussions referred to above, the committee recommended to the board of directors (and the board approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 27, 2013 for filing with the SEC. The committee and the board have also appointed, subject to shareholder ratification, Ernst & Young LLP as the Company's independent auditors.

Edward L. Boykin, Chairman
John H. Dalton
Michael J. Berthelot
Dr. Elias K. Hebeka

PROPOSAL 4—APPROVAL OF THE DIVIDEND FOR THE FISCAL YEAR ENDED DECEMBER 27, 2013

The Board of Directors unanimously recommends a vote FOR the approval and payment of the dividend for the fiscal year ended December 27, 2013

The Board of Directors recommends that a dividend for the fiscal year ended December 27, 2013 of US$0.125 per Ordinary Share be declared and paid on the Ordinary Shares of the Company. The dividend would be payable to all Members (Shareholders) whose names appeared on the Register of Members (Shareholders) of the Company on May 7, 2014 and would be paid on May 30, 2014.

The proposed dividend of US$0.125 is payable out of lawfully distributable profits of the Company and is in addition to the interim dividend of US$0.125 per share declared on July 31, 2013 and paid on September 6, 2013 to all holders of Ordinary Shares as of August 14, 2013 and the interim dividend of US$0.125 per share declared on October 30, 2013 and paid on December 6, 2013 to all holders of Ordinary Shares as of November 13, 2013 and the interim dividend of US$0.125 per share declared on February 19, 2014 and payable on March 28, 2014 to all holders of Ordinary Shares as of March 5, 2014. Accordingly, the total dividend for the fiscal year ended December 27, 2013 would be US$0.50 per share.

Table of Contents

PROPOSAL 5—APPROVAL OF THE COMPANY'S 2014 OMNIBUS SHARE INCENTIVE PLAN
FOR THE 2013 FISCAL YEAR

The Board of Directors unanimously recommends a vote FOR the approval of the Company's 2014 Omnibus Share Incentive Plan

The 2014 Omnibus Share incentive Plan, referred to below as the "Omnibus Plan," was adopted by the compensation committee on February 19, 2014, subject to the approval of our shareholders. If approved, the 2014 Omnibus Plan will replace three current equity compensation plans sponsored by the Company -- the Fresh Del Monte Produce Inc. 2011 Omnibus Share Incentive Plan (the “2011 Omnibus Plan”), the Fresh Del Monte Produce Inc. 2010 Non-Employee Directors Equity Plan, and the Amended and Restated Fresh Del Monte Produce Inc. 1999 Share Incentive Plan. We sometimes refer to these three plans in this proposal as the “Predecessor Plans.”

No additional shares are available for awards under the Predecessor Plans. Approval of the 2014 Omnibus Plan is necessary to provide a new pool of shares for future equity-based compensation awards. Shareholder approval of the 2014 Omnibus Incentive Plan is also desired to ensure the tax deductibility by the Company of certain performance-based awards for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), and to meet the listing requirements of the New York Stock Exchange.

The 2014 Omnibus Plan is substantially similar to the 2011 Omnibus Plan. The material features of the 2014 Omnibus Plan are summarized below. The summary is qualified in its entirety by reference to the specific provisions of the 2014 Omnibus Plan, the full text of which is set forth as Exhibit A to this proxy statement.

Purpose and Function

The purpose of the 2014 Omnibus Plan is to attract and retain highly qualified persons to serve as non-employee directors, employees and consultants of the Company, and to promote greater ownership by such non-employee directors, employees and consultants in the Company, in order to align the interests of such individuals more closely with the interests of the Company’s shareholders.

Eligibility and Limitation on Awards

The board may grant awards to any employee, director or consultant providing services to the Company or a participating subsidiary. It is presently contemplated that approximately 200 persons will be eligible to receive awards.

The maximum awards that can be granted under the 2014 Omnibus Plan to a single participant in any calendar year will be (i) 2,000,000 shares of stock in the form of stock options, and (ii) 500,000 shares of stock intended to be performance-based awards under Section 162(m) of the Code, whether in the form of restricted stock, restricted stock units, and other stock-based awards.

Administration

The 2014 Omnibus Plan is administered by the board of directors. With respect to administration of the 2014 Omnibus Plan, the board also may rely on the recommendation and approval of the compensation committee of the board (the “Committee”). The board has the authority to determine, within the limits of the express provisions of the 2014 Omnibus Plan, the individuals to whom awards will be granted, the nature, amount and terms of such awards and the objectives and conditions for earning such awards.

Types of Awards

Awards under the 2014 Omnibus Plan may include incentive stock options, non-qualified stock options, restricted shares of common stock, restricted stock units and other stock-based awards.

Stock Options. The board may grant to a participant options to purchase Company common stock that qualify as incentive stock options for purposes of Section 422 of the Code (“incentive stock options”), options that do not qualify as incentive stock options (“non-qualified stock options”) or a combination thereof. The terms and conditions of stock option grants, including the quantity, exercise price, vesting periods, and other conditions on exercise will be determined by the board.

The exercise price for stock options may not be less than the fair market value of the Company’s common stock on the date such stock options are granted (other than in the case of certain substitute awards granted in connection with an acquisition), and the exercise period may not exceed ten years from the date of grant. On March 10, 2014, the market price per

Table of Contents

share of the Company's common stock was $27.84 based on the closing price of the common stock on the New York Stock Exchange on such date.

Restricted Stock and Restricted Stock Units. The board may award to a participant shares of common stock subject to specified restrictions, referred to in this proposal as "restricted stock." The board also may award to a participant restricted stock units representing the right to receive shares of common stock or the value of shares of stock in the future. Shares of restricted stock and restricted stock units are subject to forfeiture if the participant does not meet certain conditions such as continued employment over a specified period or the attainment of specified performance targets over such period.

Other Stock-Based Awards. The board may also grant equity-based or equity-related awards, referred to as "other stock-based awards," in addition to options, restricted stock, or restricted stock units.

Vesting Conditions

Unless otherwise provided in the applicable award agreement, twenty percent of each option award under the 2014 Omnibus Plan will vest and become exercisable on the date on which it was granted. Each year thereafter, it vests an additional 20% on each of the next four anniversaries. For restricted stock or restricted stock units, vesting will be subject to terms and conditions as indicated in the award agreement. All awards outstanding on the occurrence of a change in control of the Company will automatically vest on the date of the change in control.

The board retains the right in its discretion to accelerate the date on which any award of options, restricted stock, restricted stock units or other stock-based awards will vest.

Performance Awards and Section 162(m)

Section 162(m) of the Code ("Section 162(m)") potentially limits the tax deductions the Company can take for compensation paid to certain of our named executive officers. Compensation that qualifies as "performance-based compensation" under Section 162(m) is not subject to this limit. The 2014 Omnibus Plan includes provisions that permit the Committee to make awards intended to qualify as performance-based compensation under Section 162(m).

The 2014 Omnibus Plan authorizes the Committee to make awards of restricted stock, restricted stock units or other stock-based awards that are conditioned on the satisfaction of performance criteria. For those awards intended to meet the requirements of the performance-based compensation exception under Section 162(m), the Committee must establish the applicable performance conditions based on these performance criteria prior to or within a specified period after the start of the applicable performance period, based on one or more of the following measures:

- net earnings or net income (before or after taxes)
- earnings per share or earnings per share growth, total units, or unit growth
- net sales, sales growth, total revenue, or revenue growth
- net operating profit
- return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales, or revenue)
- cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity, and cash flow return on investment)
- earnings before or after taxes, interest, depreciation, and/or amortization
- gross or operating margins
- share price or relative share price (including, but not limited to, growth measures and total shareholder return)
- market share or change in market share
- customer retention or satisfaction
- working capital targets
- quantifiable, objective measures of individual performance relevant to the particular individual's job responsibilities

Table of Contents

At the time a performance condition is established, the Committee can specify the extent to which the performance condition will be calculated by excluding certain items, such as: expenses as a result of restructuring or productivity initiatives, non-operating items; acquisition expenses; and any other items of gain, loss or expense that are determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or to a change of accounting principles.

For those awards intended to meet the requirements of the performance-based compensation exception under Section 162(m), the performance conditions will be stated in the form of an objective, nondiscretionary formula, and targeted at a level so that the achievement of the condition is "substantially uncertain," within the meaning of Section 162(m). Further, the Committee will certify in writing the attainment of those performance conditions prior to any payment or distributions with respect to awards.

In addition, compensation realized from the exercise of stock options granted under the 2014 Omnibus Plan is intended to meet the requirements of the performance-based compensation exception under Section 162(m). These awards must have an exercise price equal at least to fair market value at the date of grant and are granted to eligible employees by a Committee consisting of at least two outside directors, and the 2014 Omnibus Plan limits the number of shares that may be the subject of stock options granted to any individual during any calendar year.

The Committee has the discretion to grant performance-based awards, including to Section 162(m) covered executives, that are not intended to meet the requirements of the performance-based compensation exception under Section 162(m).

In order to permit the Committee to grant restricted stock, restricted stock units and other stock-based awards under the 2014 Omnibus Plan that are intended to qualify for the Section 162(m) exclusion for performance-based compensation, and so that stock options granted under the 2014 Omnibus Plan may also qualify for that exclusion from Section 162(m), the 2014 Omnibus Plan is being submitted to our shareholders for approval. A vote in favor of approving the 2014 Omnibus Plan will be a vote approving all the material terms and conditions of the plan for purposes of the performance-based compensation exception under Section 162(m), including the performance criteria, eligibility requirements and limits on various stock awards.

Transferability

No awards may be transferred except upon the participant's death, by will or the laws of descent and distribution, or in certain instances to or for the benefit of designated family members of the participant.

Shareholder Rights

The restricted stock awarded pursuant to the 2014 Omnibus Plan will be treated as outstanding after it is granted, and the participant may exercise full voting rights with respect to each restricted share during the restricted period. The participant will also be entitled to receive dividends and distributions paid with respect to the shares. If any such dividends or distributions are made in the form of shares, those shares will be subject to the same restrictions as the underlying restricted stock. The board may in its discretion determine that all dividends or distributions made in the form of shares of Company common stock will be held in escrow by the Company until the respective restrictions have lapsed. Participants receiving awards of options or restricted stock units will not have any shareholder rights unless and until shares of stock are issued with respect to such awards.

Change in Control

Upon a change in control of the Company, the 2014 Omnibus Plan provides that all outstanding unvested awards will immediately vest. For any performance-based awards, the award will vest on the date of the change in control based on target performance, or if greater, actual performance through the end of the fiscal quarter immediately preceding the change in control. A "change in control" is generally defined as (i) the sale of substantially all of the assets of the Company to any group other than the Abu-Ghazaleh family, (ii) the liquidation or dissolution of the Company, (iii) the acquisition of 30% or more of our common stock by a single purchaser or group other than the Abu-Ghazaleh family if, after such acquisition, the Abu-Ghazaleh family owns a smaller percentage of voting shares of the Company, (iv) the incumbent members of the board (and certain new directors approved in a specified manner by those members) cease to constitute at least a majority of the board, or (v) a merger reorganization, consolidation or similar transaction resulting in at least a 50% change in ownership of the Company.

Awards Granted Under the 2014 Omnibus Plan

No specific awards have been granted or are contemplated under the 2014 Omnibus Plan. The exact types and amounts of any future awards to be made to any eligible participants pursuant to the 2014 Omnibus Plan are not presently determinable.

Table of Contents

As a result of the discretionary nature of the 2014 Omnibus Plan, it is not possible to state who the participants in the 2014 Omnibus Plan will be in the future or the number of options or other awards to be received by a person or group. The stock awards granted to the Company's named executive officers under the Company's existing stock plans and outstanding as of December 31, 2013 are set forth in the Outstanding Equity Awards at Fiscal Year-End Table found under "Executive Compensation." As of March 10, 2014, (i) the Company's executive officers as a group (13 officers) held outstanding stock option grants for 2,640,348 shares, (ii) the Company's non-employee directors as a group (7 directors) held outstanding stock option grants for 269,202 shares, and (iii) all of our employees other than our executive officers (80 employees) held outstanding stock option grants for 1,435,711 shares.

Shares Subject to the 2014 Omnibus Plan

An aggregate of 3,000,000 shares of the Company's common stock is reserved for issuance and available for awards under the 2014 Omnibus Plan, including for incentive stock options. In addition, shares underlying any outstanding award granted under any of the Predecessor Plans that is canceled, terminates, expires, or lapses for any reason without issuance of such shares will be available for the grant of new awards under the 2014 Omnibus Plan. No new awards will be granted under the Predecessor Plans following the effective date of the 2014 Omnibus Plan.

With respect to awards made under the 2014 Omnibus Plan, shares of common stock underlying awards that are forfeited or canceled (as a result, for example, of the lapse of an option or a forfeiture of restricted stock) will be available for additional grants under the 2014 Omnibus Plan. Awards that are settled in cash do not count against the shares available for new awards under the 2014 Omnibus Plan. Likewise, shares issued with respect to awards assumed by the Company in connection with acquisitions do not count against the total number of shares available for new awards under the 2014 Omnibus Plan.

The full number of shares with respect to which a stock option is granted will count against the shares available for grant under the 2014 Omnibus Plan. Accordingly, if a participant pays the exercise price for a stock option by either tendering previously owned shares or having the Company withhold shares, then those shares surrendered to pay the exercise price will continue to count against the aggregate number of shares available for grant. In addition, if a participant satisfies any tax withholding requirement in connection with an award by either tendering previously owned shares or having the Company withhold shares, then those shares surrendered to satisfy the tax withholding requirements will continue to count against the aggregate number of shares available for grant.

Shares to be issued or purchased under the 2014 Omnibus Plan will be authorized but unissued shares of common stock or issued shares of stock that shall have been reacquired by the Company.

Anti-Dilution Protection

In the event of any corporate event or transaction that results in a change in the capital structure of the Company, including a change resulting from a stock dividend or stock split, or combination or reclassification of shares, the board is empowered to make such equitable adjustments with respect to awards or any provisions of the 2014 Omnibus Plan as it deems necessary and appropriate, including, if necessary, any adjustments in the maximum number of shares of common stock subject to the 2014 Omnibus Plan, the number of shares of common stock subject to and the exercise price of an outstanding award, or the maximum number of shares that may be subject to one or more awards granted to any one recipient during a calendar year.

Amendment and Termination

The board may at any time amend or terminate the 2014 Omnibus Plan, provided that no such action may be taken that adversely affects any rights or obligations with respect to any outstanding awards under the 2014 Omnibus Plan without the consent of the recipient. No awards may be made under the 2014 Omnibus Plan after the tenth anniversary of its effective date. Certain provisions of the 2014 Omnibus Plan relating to performance-based awards under Section 162(m) of the Code will expire on the fifth anniversary of the effective date.

No Repricing

The 2014 Omnibus Plan specifically prohibits the repricing of stock options without shareholder approval. For this purpose, a "repricing" means any of the following (or any other action that has the same effect as any of the following): (i) changing the terms of a stock option to lower its exercise price; (ii) any other action that is treated as a "repricing" under generally accepted accounting principles; and (iii) repurchasing for cash or canceling a stock option at a time when its exercise price is greater than the fair market value of the underlying stock in exchange for another award,

unless the cancellation and exchange occurs in connection with a change in capitalization or similar change. Such cancellation and exchange would be considered a “repricing” regardless of whether it is treated as a “repricing” under generally accepted accounting principles and regardless of whether it is voluntary on the part of the participant.

Table of Contents

Federal Income Tax Consequences

The U.S. federal income tax consequences of the issuance and exercise of awards under the 2014 Omnibus Plan are summarized below. The following information is only a summary of the tax consequences of the awards, and participants should consult with their own tax advisors with respect to the tax consequences inherent in the ownership or exercise of the awards, and the ownership and disposition of any underlying securities.

Incentive Stock Options. A participant who is granted an incentive stock option will not recognize any taxable income for federal income tax purposes either on the grant or exercise of the incentive stock option. If the participant disposes of the shares purchased pursuant to the incentive stock option more than two years after the date of grant and more than one year after the exercise of the option (the required statutory "holding period"), (a) the participant will recognize long-term capital gain or loss, as the case may be, equal to the difference between the selling price and the option price; and (b) the Company will not be entitled to a deduction with respect to the shares of stock so issued. If the holding period requirements are not met, any gain realized upon disposition will be taxed as ordinary income to the extent of the excess of the lesser of (i) the excess of the fair market value of the shares at the time of exercise over the option price, and (ii) the gain on the sale. Also in that case, the Company will be entitled to a deduction in the year of disposition in an amount equal to the ordinary income recognized by the participant. Any additional gain will be taxed as short-term or long-term capital gain depending upon the holding period for the stock.A sale for less than the option price results in a capital loss.

The excess of the fair market value of the shares on the date of exercise over the option price is, however, includable in the option holder's income for alternative minimum tax purposes.

Nonqualified Stock Options. A participant who is granted a nonqualified stock option under the 2014 Omnibus Plan will not recognize any income for federal income tax purposes on the grant of the option. Generally, on the exercise of the option, the participant will recognize taxable ordinary income equal to the excess of the fair market value of the shares on the exercise date over the option price for the shares. The Company generally will be entitled to a deduction on the date of exercise in an amount equal to the ordinary income recognized by the participant. Upon disposition of the shares purchased pursuant to the stock option, the participant will recognize long-term or short-term capital gain or loss, as the case may be, equal to the difference between the amount realized on such disposition and the basis for such shares, which basis includes the amount previously recognized by the participant as ordinary income.

Restricted Shares. A participant will not be taxed at the date of an award of restricted shares, but will be taxed at ordinary income rates on the fair market value of any restricted shares as of the date that the restrictions lapse, unless the participant, within 30 days after transfer of such restricted shares to the participant, elects under Section 83(b) of the Code to include in income the fair market value of the restricted shares as of the date of such transfer. If the participant makes the election under Section 83(b) of the Code, the Company will be entitled to a corresponding deduction. Any disposition of shares after restrictions lapse will be subject to the regular rules governing long-term and short-term capital gains and losses, with the basis for this purpose equal to the fair market value of the shares at the end of the restricted period (or on the date of the transfer of the restricted shares, if the employee elects to be taxed on the fair market value upon such transfer). To the extent dividends are payable during the restricted period under the applicable award agreement, any such dividends will be taxable to the participant at ordinary income tax rates and will be deductible by the Company unless the participant has elected to be taxed on the fair market value of the restricted shares upon transfer, in which case they will thereafter be taxable to the employee as dividends and will not be deductible by the Company.

Restricted Stock Units. A participant will normally not recognize taxable income upon an award of restricted units, and the Company will not be entitled to a deduction until the lapse of the applicable restrictions. Upon the lapse of the restrictions and the issuance of the earned shares, the participant will recognize ordinary taxable income in an amount equal to the fair market value of the common stock received and the Company will be entitled to a deduction in the same amount.

Other Stock-Based Awards. Normally, a participant will not recognize taxable income upon the grant of other stock-based awards. Subsequently, when the conditions and requirements for the grants have been satisfied and the payment determined, any cash received and the fair market value of any common stock received will constitute ordinary income to the participant. The Company also will then be entitled to a deduction in the same amount.

Effective Date

The 2014 Omnibus Plan will be effective on April 30, 2014, if approved by the shareholders of the Company. If not approved by the shareholders, no awards will be made under the 2014 Omnibus Plan.

Table of Contents

Vote Required

Approval of the 2014 Omnibus Plan will require the affirmative vote of at least a majority in voting interest of the shareholders present in person or by proxy and voting at the Annual Meeting of Shareholders, assuming the presence of a quorum. If the shareholders do not approve the 2014 Omnibus Plan, it will not be implemented, but the Company reserves the right to adopt such other compensation plans and programs as it deems appropriate and in the best interests of the Company and its shareholders.

PROPOSAL 6—ADVISORY (NON-BINDING) VOTE APPROVING EXECUTIVE COMPENSATION FOR THE 2013 FISCAL YEAR

The Board of Directors unanimously recommends a vote FOR the approval of the Advisory (Non-Binding) Vote Approving Executive Compensation of our named Executive Officers as disclosed in this Proxy Statement

The Company is providing stockholders an advisory vote on executive compensation as required by Section 14A of the Exchange Act. Section 14A was added to the Exchange Act by Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). This vote is commonly referred to as a “say-on-pay” vote.

The advisory vote on executive compensation is a non-binding vote on the compensation of the Company’s Named Executive Officers, as described in the Compensation Discussion and Analysis section beginning on page 27, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure, set forth in this proxy statement. Based on the voting results for the proposal considered by the Company's shareholders at the 2011 Annual General Meeting of Shareholders regarding the frequency of shareholder votes on executive compensation, and the consideration of these results by the Company's board of directors, the Company's board of directors has adopted a policy to hold an annual advisory vote on executive compensation until the next required vote on the frequency of shareholder votes on executive compensation. The Company is required to hold such votes on frequency at least every six years.

The Company’s executive compensation program is designed to align the interests of our named executive officers with the interests of our shareholders. Our executive compensation programs are based on a pay-for-performance philosophy, which emphasizes executive performance measures that correlate closely with the achievement of both short-term performance objectives and long-term shareholder value. Accordingly, a substantial portion of our executives’ annual and long-term compensation is performance-based, with the payment contingent on the achievement of performance goals. We believe our program strikes the appropriate balance between utilizing responsible, measured pay practices and effectively incentivizing our executives to dedicate themselves fully to create shareholder value. This balance is evidenced by the following:

- A competitive, market-driven base salary;
- An annual cash bonus and incentive award that is dependent on individual and/or corporate performance;
- A long-term incentive plan with equity and/or cash awards that is dependent on the achievement of both individual and corporate pre-specified goals; and
- Equity awards, consisting of stock options and restricted stock units that vest over time.

Stockholders are being asked to vote on the following resolution:

“RESOLVED, that the Company’s shareholders approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the Company’s Proxy Statement for the 2014 Annual General Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables and any related material disclosed in this Proxy Statement.”

This advisory vote on executive compensation is not binding on the Company’s Board of Directors and neither the Board nor the Compensation Committee will be required to take any action as a result of the outcome of the vote on this proposal. However, the Board of Directors will take into account the result of the vote when determining future executive compensation arrangements.

Adoption of Proposal 6 will require the affirmative vote of the majority of the shares of common stock represented in person or by proxy at the meeting.

22

Table of Contents

BENEFICIAL OWNERSHIP OF ORDINARY SHARES

The following table sets forth information as of February 28, 2014 with respect to the beneficial ownership of Ordinary Shares by (a) each shareholder who, to the Company's knowledge, is the beneficial owner of more than 5% of the outstanding Ordinary Shares, (b) each current director of the Company, (c) each current and former executive officer included in the Summary Compensation Table below and (d) all current directors and executive officers of the Company as a group. The percentages in the third column are based on the 56,014,854 Ordinary Shares outstanding on February 28, 2014. The numbers of Ordinary Shares reflected in the second column include (i) directly owned Ordinary Shares; (ii) Ordinary Shares underlying stock options which are currently exercisable or which become exercisable within 60 days of February 28, 2014; (iii) vested restricted share awards; and (iv) vested restricted share unit awards and related vested dividend equivalent units. In each case, except as otherwise indicated in the footnotes to the table, the number of Ordinary Shares shown in the second column are owned directly by the individuals or members of the group named in the first column, with sole voting and dispositive power. For purposes of this table, beneficial ownership is determined in accordance with the federal securities laws and regulations; inclusion in the table of Ordinary Shares not owned directly by the named director or executive officer does not constitute an admission that such Ordinary Shares are beneficially owned by the director or executive officer for any other purpose. Unless indicated otherwise below, the address of each beneficial owner is c/o Fresh Del Monte Produce Inc., 241 Sevilla Avenue, Coral Gables, Florida 33134.

Name of Beneficial Owner	No. of Ordinary Shares	Percent of Ordinary Shares (%)
Mohammad Abu-Ghazaleh (1)(5)	20,097,290	35.5
Amir Abu-Ghazaleh (2)(3)(4)	3,392,593	6.1
Oussama Abu-Ghazaleh (3)(5)	2,966,489	5.3
Hani El-Naffy (2)	226,964	*
Salvatore H. Alfiero (2)	55,732	*
Michael J. Berthelot (2)	14,616	*
Edward L. Boykin (2)	13,100	*
Robert S. Bucklin (2)	—	-
Madeleine L. Champion (2)	36,962	*
John H. Dalton (2)	56,482	*
Dr. Elias K. Hebeka (2)	44,698	*
Richard Contreras (2)	150,320	*
José Antonio Yock (2)	83,320	*
Paul Rice (2)	31,320	*
All directors and executive officers as a group (20 persons)(6)	21,166,172	36.8
FMR LLC (7)	8,570,200	15.3
Dimensional Fund Advisors LP (8)	4,254,530	7.6
Letko, Brosseau & Associates Inc. (9)	3,350,286	6.0

* Less than 0.1%

(1) Includes (i) 4,710,455 Ordinary Shares pledged by him to a bank as security for a loan; (ii) 579,600 Ordinary Shares underlying stock options; (iii) 49,999 vested restricted share unit awards and 1,607 related vested dividend equivalent units; and (iv) 20,097,290 Ordinary Shares over which he has shared voting power pursuant to a voting agreement, dated February 20, 2009, as amended (the "Voting Agreement"), which has been filed as Exhibit 15 to the a Schedule 13D/A filed with the SEC on July 7, 2010, of which 2,232,143 Ordinary Shares have been pledged by Amir Abu-Ghazaleh to a bank as security for a loan and 1,100,000 Ordinary Shares have been pledged by another party to the Voting Agreement to a bank as security for a loan.

(2)

Includes (i) for Amir Abu-Ghazaleh, 2,232,143 Ordinary Shares pledged by him to a bank as security for a loan, 12,500 Ordinary Shares underlying stock options and 1,866 vested restricted share awards; (ii) for Hani El-Naffy, 196,000 Ordinary Shares underlying stock options, 30,000 vested restricted share unit awards and 964 related vested dividend equivalent units; (iii) for Salvatore H. Alfiero, 18,750 Ordinary Shares underlying stock options and 10,052 vested restricted share awards; (iv) for Michael J. Berthelot, 12,250 Ordinary Shares underlying stock options and 1,866 vested restricted share awards; (v) for Edward L. Boykin, 12,500 Ordinary Shares underlying stock options and 0 vested restricted share awards; (vi) for Robert S. Bucklin, 0 Ordinary Shares underlying stock options and 0 vested restricted share awards;

23

Table of Contents

(vii) for Madeleine L. Champion, 30,000 Ordinary Shares underlying stock options and 6,462 vested restricted share awards; (viii) for John H. Dalton, 31,250 Ordinary Shares underlying stock options and 10,052 vested restricted share awards; (ix) for Dr. Elias K. Hebeka, 36,500 Ordinary Shares underlying stock options and 7,698 vested restricted share awards; (x) for Richard Contreras, 140,000 Ordinary Shares underlying stock options, 9,999 vested restricted share unit awards and 321 related vested dividend equivalent units; (xi) for José Antonio Yock, 73,000 Ordinary Shares underlying stock options, 9,999 vested restricted share unit awards and 321 related vested dividend equivalent units; and (xii) for Paul Rice, 21,000 Ordinary Shares underlying stock options, 9,999 vested restricted share unit awards and 321 related vested dividend equivalent units.

(3) Pursuant to the Voting Agreement, Mohammad Abu-Ghazaleh has shared voting power over such Ordinary Shares.

(4) The business address of Amir Abu-Ghazaleh is c/o Ahmed Abu-Ghazaleh & Sons Co. Ltd., No. 18, Hamariya Fruit & Vegetable Market, Dubai, United Arab Emirates.

(5) The business address of Mohammad Abu-Ghazaleh and Oussama Abu-Ghazaleh is c/o Del Monte Fresh Produce (Chile) S.A., Avenida Santa Maria 6330, Vitacura, Santiago, Chile.

(6) Includes an aggregate of (i) 6,942,598 Ordinary Shares which are pledged to banks as security for loans; (ii) 1,472,350 Ordinary Shares underlying stock options; (iii) 37,996 vested restricted share awards; (iv) 154,990 vested restricted share unit awards and 4,908 related vested dividend equivalent units; and (v) 16,704,697 Ordinary Shares over which Mohammad Abu-Ghazaleh has shared voting power with persons who are not directors or executive officers of the Company, pursuant to the Voting Agreement.

(7) Reflects Ordinary Shares beneficially owned by FMR LLC (“FMR”) according to a Schedule 13G/A filed with the SEC on February 14, 2014, which indicates that Fidelity Management & Research Company (“Fidelity”) and Pyramis Global Advisors, LLC (“PGALLC”) are the beneficial owners of 7,930,200 Ordinary Shares and 640,000 Ordinary Shares, respectively, in their capacity as investment advisers. Each of Fidelity and PGALLC is wholly owned, directly or indirectly, by FMR. The business address of FMR is 245 Summer Street, Boston, Massachusetts 02210.

(8) Reflects Ordinary Shares beneficially owned by Dimensional Fund Advisors LP (“Dimensional”) according to a Schedule 13G/A filed with the SEC on February 10, 2014, which indicates that Dimensional and certain other commingled group trusts and separate accounts are the beneficial owners of 4,173,025 Ordinary Shares and 81,505 Ordinary Shares, respectively, in their capacity as investment advisers. The business address of Dimensional is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(9) Reflects Ordinary Shares beneficially owned by Letko, Brosseau & Associates Inc. (“Letko”) according to a Schedule 13G filed with the SEC on February 13, 2014, which indicates that Letko is the beneficial owner of 3,350,286 Ordinary Shares, in its capacity as investment advisers. The business address of Letko is 1800 McGill College Avenue, Suite 2510, Montreal, Quebec H3A 3J6 Canada.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act and the rules thereunder require the Company’s directors and executive officers to file reports of their ownership and changes in ownership of Ordinary Shares with the SEC. Company personnel generally prepare these reports on the basis of information obtained from each director and executive officer. Based on such information, we believe that all reports that were required by Section 16(a) of the Exchange Act to be filed by directors and executive officers of the Company during the fiscal year ended December 27, 2013 were filed on time, except for the following late filings that were attributable to administrative error on our part:

- one report by John H. Dalton relating to the purchase of Ordinary Shares on May 3, 2013; and
- one report by Paul Rice relating to the exercise of stock options on November 6, 2013.

Table of Contents

POLICIES AND PROCEDURES FOR RELATED PERSON TRANSACTIONS

The board is responsible for the oversight and approval (or ratification) of any transaction, relationship or arrangement in which the Company is a participant and that involves board members, Company executive officers, beneficial owners of more than 5% of the Ordinary Shares, their immediate family members, any individual (other than tenants and employees) who shares that person's home and companies they control or in which they have a substantial beneficial ownership interest. We refer to these as related person transactions and to the persons or entities involved as related persons.

The board has adopted a written policy that sets out procedures for the reporting, review and approval (or ratification) of related person transactions. The policy operates in conjunction with other aspects of the Company's compliance program, such as its code of conduct and business ethics policy, which requires directors and employees to report any circumstances that may create or appear to create a conflict between the interests of the related person and those of the Company, regardless of the amount involved. The Company's directors and executive officers must also periodically confirm information about related person transactions, and management reviews its books and records and makes other inquiries as appropriate to confirm the existence, scope and terms of related person transactions.

Under the board's policy, the audit committee evaluates related person transactions for purposes of recommending to the disinterested members of the board that the transactions are fair, reasonable and within Company policies and practices and should be approved or ratified. Related person transactions entered into, but not approved or ratified, are subject to termination if so directed by the audit committee or the board, as applicable.

The audit committee considers the appropriateness of any related person transaction in light of all relevant factors and the controls implemented to protect the interests of the Company and its shareholders, including:

- the benefits of the transaction to the Company;
- the terms of the transaction and whether they were made on an arm's-length basis and in the ordinary course of the Company's business;
- the direct or indirect nature of the related person's interest in the transaction;
- the size and expected term of the transaction; and
- other facts and circumstances that bear on the materiality of the related person transaction under applicable law and listing standards.

Related person transactions involving directors are also subject to board approval or ratification when so required under applicable law and subject to disclosure pursuant to the Company's Articles of Association.

Table of Contents

RELATED PERSON TRANSACTIONS

Marissa R. Tenazas is the Company's Senior Vice President, Human Resources and an executive officer. Her husband, Jimenez Tenazas, is the Company's Vice President, Sales and Product Management, Melon Program, North America and received a base salary of $265,302 during fiscal year 2013, and receives other benefits generally available to all of our employees based in the United States. He also has stock options with respect to 35,000 Ordinary Shares, of which 21,000 were vested as of February 28, 2014.

At December 27, 2013, the close of our most recent fiscal year, members of the Abu-Ghazaleh family, including Mohammad Abu-Ghazaleh, our Chairman and Chief Executive Officer and Amir Abu-Ghazaleh, a director of the Company, owned approximately 33.8% of the Company's outstanding Ordinary Shares. Mr. Mohammad Abu-Ghazaleh and Mr. Amir Abu-Ghazaleh are brothers. The Abu-Ghazaleh family members entered into an amended and restated Voting Agreement, pursuant to which (among other things) they granted Mohammad Abu-Ghazaleh an irrevocable proxy for as long as they hold the shares to vote all of the Ordinary Shares beneficially owned by them and agreed to grant additional such proxies on an annual basis until the termination of the Voting Agreement.

In April 2009, the board adopted the Company’s Aircraft Travel Policy to clarify and document the procedures and safety requirements with respect to the authorization to use private or charter aircraft in which the Chairman and Chief Executive Officer has an interest for business travel by the Chairman and Chief Executive Officer and such other persons as he may designate, in any case in which payment of or reimbursement for the cost thereof is sought from the Company. In fiscal year 2013, we incurred approximately $2.4 million of air charter expenses with respect to an aircraft that is indirectly owned by our Chairman and Chief Executive Officer. The rates charged for these services were comparable to market rates charged to unrelated companies for use of a similar aircraft.

EXECUTIVE OFFICERS

The following is information regarding our executive officers as of March 11, 2014.

Mohammad Abu-Ghazaleh—72, Chairman and Chief Executive Officer. Mr. Abu-Ghazaleh has served as the company's Chairman and Chief Executive Officer since 1996. He also serves as the Chairman of the Royal Jordanian Air Academy. From 1997 to November 2010 he served as Chairman and Chief Executive Officer of IAT. Mr. Abu-Ghazaleh was President and Chief Executive Officer of United Trading Company from 1986 to 1996. Prior to that time, he was Managing Director of Metico from 1967 to 1986. Mr. Abu-Ghazaleh serves as Chairman of the board of directors of International General Insurance Co. Ltd. He also serves on the boards of directors of Bank Misr Liban and United Cable Company, Inc. From 2004 to March 2011, Mr. Abu-Ghazaleh served on the board of directors of Jordan Kuwait Bank. Mr. Abu-Ghazaleh and Mr. Amir Abu-Ghazaleh are brothers.

Hani El-Naffy—63, President, Director and Chief Operating Officer. Mr. El-Naffy has served as the Company’s President, Director and Chief Operating Officer since 1996. Prior to that time, he served as Executive Director for United Trading Company from 1986 until 1996.

Richard Contreras—55, Senior Vice President and Chief Financial Officer. Mr. Contreras has served as our Senior Vice President and Chief Financial Officer since 2008. Prior to that time, he served as Senior Vice President, Finance. From 2005 to 2007, he was Vice President, North America Finance and Administration. Mr. Contreras was Vice President, Budgeting and Forecasting from 2003 to 2005. He also served as Controller, North America from 1999 to 2003.

Bruce A. Jordan—60, Senior Vice President, General Counsel and Secretary. Mr. Jordan joined us in 1990 as our Assistant General Counsel. In 1994, he was appointed Vice President, General Counsel and Secretary, a position he held until 1997 when he left us to pursue other interests. In 2002, Mr. Jordan re-joined us as Vice President, General Counsel and Secretary. He was appointed Senior Vice President, General Counsel and Secretary in 2006.

Jean-Pierre Bartoli—63, Senior Vice President, Europe and Africa. Mr. Bartoli assumed his current responsibilities in December 2008 when our Middle East and North African operations were realigned as a separate region. From 1997 to December 2008, Mr. Bartoli served as our Senior Vice President, Europe, Africa and Middle East. He also served as our Financial Controller for the European and African region from 1990 to 1997. Mr. Bartoli held various financial positions in our European operations from 1983 to 1990.

26

Table of Contents

Emanuel Lazopoulos—57, Senior Vice President, North America Sales, Marketing and Product Management. Mr. Lazopoulos has served as our Senior Vice President, North America Sales, Marketing and Product Management since 2005. Prior to that time, he served as our Vice President, Fresh-Cut Operations in North America from 2003 to 2005. Mr. Lazopoulos's career in the fresh foods industry includes experience as Managing Director of NewStar Fresh Foods, as Vice President of DNA Plant Technology and as Vice President of Dole Fresh Vegetables.

Paul Rice—54, Senior Vice President, North America Operations. Mr. Rice has served as our Senior Vice President, North America Operations since 2005. Prior to that time, he served as Vice President, Distribution Center/Repack & Fresh-Cut Operations from 2001 to 2005. Prior to that, he held various senior management positions within Fresh Del Monte from 1988 to 2001. Prior to joining the Company, Mr. Rice held various sales and procurement positions for Dole Food Company & Topco.

José Antonio Yock—61, Senior Vice President, Colombia, Ecuador, Central America and Brazil, (CECAB). Mr. Yock has served as our Senior Vice President, Central America since 1994. Prior to that time, he was our Vice President Finance for the Latin American region from 1992 to 1994. Mr. Yock joined us in 1982 and has served in various financial management positions.

Marissa R. Tenazas—59, Senior Vice President, Human Resources. Ms. Tenazas served as Vice President-Human Resources since 1999. From 1996 to 1999, she served as Senior Director-Human Resources. From 1989 to 1996, she worked for Suma Fruit International (USA), Inc. Prior to that, Ms. Tenazas worked in the Philippines in various human resource management and consulting positions with some of the major conglomerates and consulting firms in that country.

Sergio Mancilla—54, Vice President, South America. Mr. Mancilla has served as our Vice President, South America since March 12, 2012. From 2006 until March 2012, he served as Director, Shipping Operations for South America when he relocated back to his home country after serving as Senior Vice President, Shipping Operations from 1997 until 2006, which position was based in Coral Gables, Florida. From 1990 until 1996, Mr. Mancilla served as Manager of Maritima Altisol Ltda and before that time he worked as Deck Officer for several Chilean Shipping companies from 1981 until 1990.

Joseph Cole—64, Vice President, Asia Pacific. Mr. Cole joined us in 2008 and served as Vice President Tomato & Vegetables for our North American region. In February 2011, Mr. Cole was appointed Vice President, Asia Pacific. Prior to joining us, Mr. Cole's career in the fresh produce industry included various senior management positions for The Oppenheimer Group, Chiquita Brands, The Tengelman Group in Germany and Dole Fresh Vegetables.

Youssef Zakharia—52, Vice President, Middle East and North Africa, (MENA). Mr. Zakharia has served as our Vice President, Middle East and North Africa since 2006. Prior to that time, he served as our Vice President, Human Resources for Europe, Africa and Middle East region from 2005 to 2006. From 2000 to 2005, Mr. Zakharia was the Director of Operations for the Europe, Africa and Middle East region. Before joining the Company, Mr. Zakharia served as the Director of Sales Europe, Africa and Middle East for A.W. Chesterton from 1996 to 2000, and as Director of Operations for Nevada Power Company from 1990 to 1996.

EXECUTIVE COMPENSATION

Compensation Committee

The compensation committee is comprised of four directors: Michael J. Berthelot (Chairman), Salvatore H. Alfiero, Madeleine Champion and John H. Dalton. None of the compensation committee members has a business relationship with the Company or its subsidiaries. Each member of the compensation committee is an "outside director" as defined in Section 162(m) of the Internal Revenue Code, a "non-employee director" as defined in Rule 16b-3 of the Exchange Act and "independent," as that term is defined by NYSE Rule 303A.02.

The compensation committee acts on behalf of the board to review, adopt, and oversee the Company's compensation strategy, policies, plans, and programs, including:

- establishment of key executives' performance objectives relevant to the compensation of the Company's executive officers and evaluation of performance in light of these stated objectives;
- review and approval of compensation and other terms of employment or service, including severance and change-in-control arrangements for the Company's Chief Executive Officer and the other executive officers;
- advising the board regarding changes to board or committee compensation programs and perquisites;

Table of Contents

- administration of the Company’s equity compensation plans, deferred compensation plans and other similar plans and programs; and
- evaluation of the risks inherent in the Company’s incentive compensation programs.

The compensation committee oversees the compensation of all executive officers. The compensation committee participated in the preparation of the disclosure appearing under the heading “Compensation Discussion and Analysis” below and the related report of the compensation committee. The compensation committee has adopted a written charter that outlines its specific authority, duties and responsibilities. The charter is periodically reviewed and revised by the compensation committee and the board and is available to shareholders on the Company’s Web site at www.freshdelmonte.com under the “Investor Relations” tab.

Compensation Committee Processes and Procedures

Typically, the compensation committee meets at least once quarterly and with greater frequency if necessary. The compensation committee may also take action by written consent. During fiscal year 2013, the compensation committee held four meetings. The agenda for each meeting is usually developed by the chairman of the compensation committee in consultation with the Company’s Senior Vice President of Human Resources and the Company’s Senior Vice President, General Counsel and Secretary. The compensation committee meets regularly in executive session and invites independent directors who do not serve on the compensation committee to attend these executive sessions, as well as its regular compensation committee meetings. From time to time, various members of management and other employees, as well as outside advisors or consultants, may be invited by the compensation committee to make presentations, provide financial or other background information or advice or otherwise participate in compensation committee meetings. No executive officer may participate in or be present during any deliberations or determinations of the compensation committee regarding their compensation. The charter of the compensation committee grants the compensation committee full access to all books, records, facilities and personnel of the Company, as well as authority to obtain, at the expense of the Company, advice and assistance from internal and external legal, accounting or other advisors and consultants and other external resources that the compensation committee considers necessary or appropriate in the performance of its duties. In particular, the compensation committee has the sole authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant’s reasonable fees and other retention terms.

Since August 13, 2008, the compensation committee has engaged Towers Watson, and the Delves Group, which Towers Watson acquired in July 2013, as its independent executive compensation consultant. For purposes of this document, all work will be cited to Towers Watson although some of the work may have been previously completed by The Delves Group.

Over the course of their engagement, Towers Watson has assisted the Company in:

- reviewing the Company’s current compensation program compared to its peer group and other relevant compensation surveys to ensure market competitiveness;
- evaluating the effectiveness of the Company’s compensation strategy and practices in supporting and reinforcing the Company’s long-term strategic goals; and
- refining the Company’s compensation strategy and developing and implementing an executive compensation program to execute that strategy.

As part of its engagement, the compensation committee has directed Towers Watson to develop a comparative peer group of companies similar in size and complexity to the Company and conduct an annual review of competitive market data (including base salary, annual incentive targets and long-term incentive targets) for the Chief Executive Officer and other executive officers. Towers Watson then analyzed the competitive performance of the Company relative to the peer group. Towers Watson has also previously conducted individual interviews with members of senior management and the compensation committee to learn more about the Company’s business operations and strategy, key performance metrics and strategic goals, as well as the labor markets in which the Company competes. In addition, Towers Watson reviews and comments on broader aspects of the Company’s executive compensation programs, including program philosophy, design and implementation, as requested by the committee. Towers Watson

attends all committee meetings at the request of the committee and presents relevant data and analysis to the committee for its consideration. Towers Watson does not have any relationship or arrangement with the Company other than their engagement as consultant to the compensation committee.
Consultant Independence and Conflict of Interest. During 2013, the compensation committee once again engaged Towers Watson as its independent compensation consultant. Towers Watson is engaged by and reports to the compensation committee, and does not perform any work for and does not otherwise receive any fees from the Company. In accordance with the

28

Table of Contents

requirements of Item 407(e)(3)(iv) of Regulation S-K, the committee has determined that Towers Watson is an independent adviser to the compensation committee and no actual or potential conflicts of interest exist between the Company and Towers Watson.

The compensation committee applied the following six independence factors to determine whether a conflict of interest exists:

Factors to Consider	Result
Provision of other services to the company by the firm that employs the compensation consultant	Towers Watson provides no other services to Fresh Del Monte Produce, Inc.
Amount of fees (as a percentage of total revenue) paid or payable by the company to the firm that employs the compensation consultant	Towers Watson's total fee received from Fresh Del Monte Produce, Inc. is less than 1% of Towers Watson's total annual revenue for its most recent three fiscal years
Policies and procedures of the firm that employs the compensation consultant designed to prevent conflicts of interest	Towers Watson maintains policies and internal protocols to ensure its advice is fully objective and independent
Any business or personal relationship of the compensation consultant with a member of the committee	Towers Watson is not aware of any business or personal relationship between the compensation adviser and the Compensation Committee
Any stock of the company owned by the compensation consultant	No regular member of the Towers Watson executive compensation team serving Fresh Del Monte Produce, Inc. owns any stock, other than investment funds or other funds that are managed without the member's input
Any business or personal arrangement of the compensation consultant or the firm employing the compensation consultant with an executive officer of the company	Towers Watson is not aware of any business or personal relationship between an executive officer of Fresh Del Monte Produce, Inc. and a regular member of the Towers Watson executive compensation team
Final Determination	No conflict of interest exists

The compensation committee makes notable adjustments to annual compensation, determines bonus awards for executive officers of the Company, and establishes new performance objectives, at one or more meetings held during the first quarter of the year. Annual equity awards for the Chief Executive Officer have historically been determined at a meeting held in the first quarter of the year, and equity awards for other executive officers and employees are determined at a meeting held in the third quarter of the year. In addition, the committee retains discretion to grant additional equity awards to executive officers at other times during the year if it deems such grants to be appropriate or warranted. The compensation committee considers matters related to individual compensation, as well as high-level strategic issues, such as the effectiveness of the Company’s compensation strategy, potential modifications to that strategy and new trends, plans or approaches to compensation, at various meetings throughout the year. Generally, the compensation committee’s process comprises two related elements: (1) the determination of compensation levels of current executive officers and (2) the establishment of their performance objectives for the short- and long-term. For all executives and directors, as part of its deliberations, the compensation committee may review and consider, as appropriate, materials such as financial reports and projections, operational data, tax and accounting information, tally sheets that set forth the total compensation that may become payable in various hypothetical scenarios, Company share performance data, analysis of historical executive compensation levels and current Company-wide compensation levels, and the recommendations of Towers Watson, including analysis of executive and director compensation paid at other peer companies identified by the consultant. The specific determinations of the compensation committee with respect to executive compensation for fiscal year 2013 are described in greater detail below.

Compensation Committee Interlocks and Insider Participation

During fiscal year 2013, none of the persons who served on the compensation committee is, or has been, an employee or officer of the Company or had any relationship requiring disclosure under Item 404 of Regulation S-K under the

Securities Act of 1933, as amended. In addition, none of the Company's executive officers serves, or has served during the last completed fiscal year, as a member of the board or compensation committee of any other entity that has or has had one or more of its executive officers serving as a member of the board.

Table of Contents

Compensation Committee Report

The compensation committee has reviewed and discussed with management the disclosure appearing under the heading "Compensation Discussion and Analysis" below. Based on this review and discussion, the compensation committee has recommended to the board that the disclosure appearing under the heading "Compensation Discussion and Analysis" be included in this proxy statement and incorporated into the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2013.

Michael J. Berthelot, Chairman
Salvatore H. Alfiero
Madeleine L. Champion
John H. Dalton

Table of Contents

Compensation Discussion and Analysis

Executive Compensation Philosophy

Compensation for Fresh Del Monte's "named executive officers" (the "NEOs" as identified in the Summary Compensation Table below) is intended to be largely performance-based in order to align the NEOs' interests with those of the shareholders. In establishing the Company's compensation program for the NEOs, the compensation committee has four principal objectives:

- ensuring that the Company is able to attract and retain executives through the use of industry-competitive base salary compensation;
- providing a total compensation package that is competitive in the industry and that is tied to, and varies based upon, individual and corporate performance;
- incentivizing NEOs to make prudent business decisions and maximize shareholder value without exposing the Company to material levels of risk by providing a significant portion of total compensation opportunities in the form of stock options and restricted shares; and
- establishing and maintaining internal pay equity among employees.

In order to address these objectives, the compensation committee regularly assesses compensation components that it believes will most cost effectively attract and motivate executive officers and reward them for their individual achievements and those of the Company as a whole. The compensation committee has retained a compensation consultant, Towers Watson, to assist in its analysis of key elements of compensation programs. The Company does not maintain any other relationship with Towers Watson other than Tower Watson's role as a consultant to the compensation committee.

The compensation committee allocates total compensation between cash and equity compensation based on benchmarking to the Company's peer group, discussed below, while considering the balance between providing short-term incentives and long-term parallel investment with shareholders to align the interests of management with shareholders. The compensation committee evaluates the balance between equity and cash compensation among NEOs annually.

Based on its review of the above-mentioned objectives, the Company has established a compensation program that consists of the following five components:

- a competitive, market-driven base salary;
- an annual cash bonus and incentive award that is dependent on individual and/or corporate performance;
- a long-term incentive plan with equity and/or cash awards that is dependent on the achievement of both individual and corporate pre-specified goals;
- equity awards, consisting of stock options, restricted shares, or restricted share units that vest over time; and
- post-termination benefits that are triggered in limited circumstances.

Executive Summary of Compensation Programs

The Company has established a compensation program that is heavily weighted towards performance based compensation. The major components of the Company's compensation program include the following: (1) a base salary that is targeted to be at the median of the market; (2) an annual cash-based incentive program established to incentivize the executive to execute its business plans and objectives without exposing the Company to undue levels of risk; (3) a long term cash or equity based incentive plan; and, (4) periodic equity grants which encourage the executive to take a strategic view to support the long term interests of the Company. The Company's long and short-term incentive plans are based upon quantifiable and objective performance goals established at the beginning of each period and the achievement of which is subject to a rigorous review process. Each of the Company's incentive compensation plans contains claw back provisions in the event that an award is granted based upon incorrect data. The Company does not offer its executives pensions or supplemental retirement plans (except for one non U.S. based NEO who participates in a defined benefit plan which is offered to other employees within his region). The Company offers other benefits to its executives which are also offered to a broad group of employees, such as a 401(k) retirement plan for its U.S. resident NEOs, health and welfare benefits and mostly statutory or policy driven severance payments except for the Chief Executive Officer ("CEO") and the President and Chief Operating Officer ("COO") who each have individual Severance and Retention Agreements. Other than certain arrangements for the CEO and COO, the

Company does not provide any executive life insurance benefits to its NEOs other than what is provided to other salaried employees. The

Table of Contents

Company provides the use of Company cars to the CEO and COO and one other NEO residing in Central America. The Company does not provide special benefit programs for its NEOs except for one NEO residing in Central America who is provided security and participates in a retirement plan created for a broad group of executives in that region. The Company does not pay for country club memberships or financial counseling/tax advice nor does it pay for spouses of executives to travel on chartered aircraft or commercial airline when traveling with a NEO. Further, the Company does not provide employment agreements to any of our NEOs except for the COO.

Evaluation of Stockholder "Say on Pay" Vote Results

When establishing or modifying our compensation programs and arrangements for 2013 and our ongoing compensation philosophy and policies, the compensation committee took into account the results of the shareholder advisory vote on executive compensation, or "say on pay" vote that occurred at our annual meeting in 2013. In that vote, approximately 98.6% of the votes cast approved our compensation programs and policies. The Committee believes that the strong support from our stockholders reflected by the 2013 say on pay vote is evidence that the Company's pay-for-performance policies are working and are aligned with our stockholders' interests.

Determination of Compensation Program

The compensation committee has been delegated the authority to create a compensation program for the NEOs. In structuring the program, the compensation committee has relied on written reports provided by Towers Watson with respect to competitive practices and the amounts and nature of compensation paid to executive officers in a peer group of companies. Towers Watson has also provided advice to the compensation committee regarding, among other things, structuring the Company’s various compensation programs and determining the appropriate levels of salary, bonus and other awards payable to the Company’s executive officers. Based upon Towers Watson’s recommendations, the Company’s cash and equity-based incentive awards are weighted significantly towards variable components to ensure that total compensation reflects the overall success or failure of the Company, and to motivate executive officers to meet appropriate performance measures, thereby maximizing total return to shareholders.

The compensation committee determines the amount and nature of compensation for all NEOs. In making this determination, the recommendation and advice of certain executives is considered. The compensation committee solicits the Chief Executive Officer’s recommendation regarding the President and Chief Operating Officer’s compensation. Additionally, the President and Chief Operating Officer provides recommendations annually to the compensation committee regarding the compensation of all NEOs, excluding himself and the Chief Executive Officer. The President and Chief Operating Officer’s recommendations are based on the results of his annual performance review of each NEO, at which time each NEO’s individual goals are assessed in light of their achievement of specific strategic goals. Each NEO also provides input about his individual contributions to the Company’s success for the period being assessed. The compensation committee reviews each of these performance reviews as part of its compensation setting process.

The following chart illustrates the decision making process in determining the compensation of the Chief Executive Officer, the President and Chief Operating Officer and the other NEOs.

Table of Contents

Compensation Benchmarking and Peer Group

An important basis for structuring the Company’s compensation program and establishing target compensation levels for the Company’s NEOs is the analysis of the compensation packages offered to similarly situated executive officers of peer group companies. As part of its engagement, the compensation committee directed Towers Watson to review its comparative group of companies and to perform analyses of competitive performance and compensation levels for that group. The peer group of companies were selected based on the Company's industry or related industries that are similar in size and complexity of operations, span of control and global reach, vertical integration and business risks. One other secondary consideration of this peer group is that they may be competitors in the marketplace for our products, but also they may be likely competitors for key personnel and capital investment. The comparative information provided by Towers Watson was obtained from publicly filed reports of each company in the comparative peer group, as well as from nationally recognized compensation surveys. As part of their analysis, consultants from Towers Watson conducted individual interviews with members of senior management and the compensation committee to learn more about the Company’s business operations and strategy, key performance metrics and strategic goals, as well as the labor markets in which the Company competes. Towers Watson ultimately developed recommendations and metrics that were presented to the compensation committee for its consideration.

In October 2013, Towers Watson updated its executive compensation analysis report to the compensation committee. Towers Watson utilized nationally recognized compensation surveys and analyzed competitive practices and the amounts and nature of compensation paid to executive officers of a peer group of food and beverage, agricultural products and consumer products companies of similar size based on revenue, market capitalization, and number of employees as a measure of the complexity of the enterprise. The peer group identified in the 2013 Towers Watson report did not change from 2012 for the purpose of the executive compensation analysis even though Dole Food Company Inc. went private on November 1, 2013. As a result, the 2013 peer group consisted of the following companies:

- Beam, Inc.
- Campbell Soup Company
- Dole Food Company Inc.
- Hormel Foods Corporation
- Molson Coors Brewing Company
- McCormick & Company, Inc.
- The Hershey Company
- Chiquita Brands International, Inc.
- Flowers Foods, Inc.
- Brown-Forman Corporation

Based on the data presented to the compensation committee by Towers Watson and the analysis described above, the compensation committee has targeted base salary, annual and long-term cash incentive compensation, and equity incentive compensation for NEOs around the 50th percentile of market consensus based on nationally recognized compensation surveys and peer group comparison. The Company also targets the overall proportion of total variable compensation (i.e., compensation based on performance) and fixed compensation (i.e., base or guaranteed compensation) for each NEO to be consistent with the 50th percentile of the market consensus. In determining the level of compensation provided to its NEOs, the compensation committee not only considers the Company’s independent performance, but also evaluates the Company’s comparative performance against peer group companies, taking into account sales growth, growth in earnings per share (“EPS”), and share price performance, among other factors. In addition, the compensation committee considers the Company’s geographic locations, including the greater Miami area, where there is significant competition for employees in the global agricultural and consumer products industries. The compensation committee also evaluates individual NEO experience, seniority, and performance, based on both objective and subjective measures, on an annual basis and may award merit salary increases as a result of these assessments. This approach ensures that the Company’s compensation programs will enable it to remain competitive in its markets and reward individual NEO performance.

While the compensation committee targets cash compensation and equity awards in the 50th percentile of the peer group, the compensation committee recognizes the Company’s desire to keep the best talent in its executive management team. To retain and motivate these key individuals, the compensation committee may determine that it is in the best interests of the Company to negotiate or award total compensation that may deviate from the general

benchmark targets described above. Actual pay for each executive is determined based on this premise and is driven by the performance of the executive over time and the annual performance of the Company. Equity grant guidelines are then set by job level, using market survey data and current guidelines to determine the appropriate annual grant levels for the upcoming year.

The Company provides Messrs. Abu-Ghazaleh and El-Naffy with greater total compensation and benefits (including post-employment benefits) than those provided to other NEOs to reflect the increased level of responsibility and risk faced by Mr. Abu-Ghazaleh as the Company's Chairman and Chief Executive Officer and Mr. El-Naffy as its President and Chief Operating Officer. Mr. Abu-Ghazaleh's compensation also differs as a direct result of the compensation committee's review of peer group compensation data, and reflects the competitive nature of compensation paid to chief executive officers within the

Table of Contents

peer group. The compensation committee believes that Mr. Abu-Ghazaleh's and Mr. El-Naffy's competitive compensation packages are important to motivate and retain them as the highly valued top two executives of the Company.

The comparisons and percentile rankings in this section are based on the most current data available to the Company, generally calculated based on an analysis performed by Towers Watson in October 2013.

Base Salary

The base salary component of the Company's compensation program is designed to provide its NEOs with total base salary that is close to the median or 50th percentile among peer group companies. In establishing this target percentile, the compensation committee has relied on peer group data included in Towers Watson's written reports. The Company pays base salaries at the levels established by the compensation committee based upon the Company's compensation philosophy.

The compensation committee determined that our Chief Executive Officer, Mr. Abu-Ghazaleh, would receive no salary increase in fiscal year 2013. Although his base salary of $1,200,000 has remained unchanged since 2003, the Chief Executive Officer's base salary is currently 20% above the market median, and the compensation committee accordingly does not believe that an increase is warranted at this time.

Our President and Chief Operating Officer's employment agreement with the Company was established in 1997 and provided for a minimum base salary of $800,000. Effective May 1, 2005, his base salary was adjusted to $1,000,000, which while 33.3% above the market median, the compensation committee believes is warranted by the responsibilities and duties that he performs for the Company. The compensation committee does not believe that an increase is warranted at this time.

The Company's other NEOs do not have employment agreements. Each year, base salary increases for the NEOs are determined based upon Towers Watson review of market median compensation and a subjective evaluation of the performance of the NEOs as assessed by the compensation committee, the President and Chief Operating Officer and the Chief Executive Officer, as well the NEO's experience, commitment to corporate core values and potential for advancement. No formulaic base salary increases are provided to the NEOs.

The compensation committee, with the advice and recommendation of the President and Chief Operating Officer, determines salary increases for all NEOs in the first quarter of each year. During 2013, base salary increases effective January 1, 2013 were awarded to the NEOs as follows: Mr. Contreras' base salary was increased 2.5% from $400,000 to $410,000; Mr. Rice's base salary was increased 5% from $400,000 to $420,000; and Mr. Yock's base salary was increased by 5% from $452,455 to $469,955. Mr. Yock's base salary fluctuates due to currency exchange rates as he is based in Costa Rica. The salary stated here is based on the exchange rate that was used for purposes of our spring 2013 proxy statement. For fiscal year 2013, our NEOs' base salaries were in the following percentages of the market median base salary paid to executives in the same (or the most similar) position: Richard Contreras, Senior Vice President and Chief Financial Officer, 26% below market median; Paul Rice, Senior Vice President, North America, Operations, 12% below market median; and José Antonio Yock, Senior Vice President, Central America, 1% above market median.

On February 19, 2014, the compensation committee with the advice and recommendation of the President and Chief Operating Officer, approved base salary increases to the NEOs effective January 1, 2014 as follows: Mr. Contreras' base salary was increased by 1.95% from $410,000 to $418,000; Mr. Rice's base salary was increased by 2.38% from $420,000 to $430,000; and Mr. Yock's base salary was increased by 1.8% from $471,073 to $479,557. Mr. Yock's base salary fluctuates due to currency exchange rate as he is based in Costa Rica. The salary stated here is based on the exchange rate used for purposes of this proxy statement.

Table of Contents

Annual Cash Incentive Awards

Annual cash bonuses for NEOs are determined under the terms of the Company’s annual incentive plans or in accordance with such officer’s respective employment contract as illustrated in the chart below. The Company’s annual cash bonus and incentive award plans are designed to reward the NEO for his contribution to the Company’s achievement of its financial goals and to reflect, at least in part, the executive’s overall job performance. The compensation committee reviews the status and forecasted amounts of the annual incentive bonus plans for the Chief Executive Officer and the NEOs on a quarterly basis.

The Chief Executive Officer

In 2011, the Board approved the implementation of a 2011 Performance Incentive Plan (the “CEO PIP”), the sole participant of which is the Chief Executive Officer. The CEO PIP was designed to make the Chief Executive Officer’s annual performance objectives more relevant to the Company’s current economic and operational environment and its current business initiatives. The CEO PIP allows the compensation committee to establish annual performance goals targeting key performance objectives that it believes are relevant to the Company’s desired business results for the coming year. These performance goals may include such objectives as before or after tax net income, earnings per share, book value per share, stock price, return on stockholder’s equity, expense management, improvement in capital structure, profitability of an identifiable business unit or product, business growth, before or after tax profit margins, budget comparisons, total return to shareholders, market share, relative performance against peers, or any similar metric. In recognition of the nature of the Company's business, the CEO PIP also provides that the committee may, in its sole discretion, make adjustments in determining actual performance against specified objectives by considering the impact of unexpected or extraordinary events or occurrences, such as restructuring charges, facility closure costs, discontinued operations, asset impairment charges, the effect of foreign currency fluctuations outside of specified parameters, cumulative effects of accounting changes, certain weather related impacts, losses on debt extinguishment, the cost and impact of governmental investigations or proceedings, including fees and penalties to the extent such investigations result in no findings of illegal behavior on the part of the Company or the CEO, items reflected on the financial statements as “Other Income or Expense”, and the impact of new accounting standards or income tax regulations, as long as such adjusted items are objectively determinable by reference to the Company’s financial statements or notes thereto or management’s discussion and analysis of financial results in its annual report.

The CEO PIP provides for the amount of an award to be calculated based upon the "Corporate Achievement Factor" multiplied by a Target Award equal to 100% of the CEO's annual base salary, which is then multiplied by an "Individual Performance Factor." The Corporate Achievement Factor is the weighted average of the actual achievement against the financial performance objectives established by the Committee at the beginning of the year subject to a maximum achievement of 125%. The Individual Achievement Factor, determined based upon the committee’s evaluation of the CEO's performance measured against individual performance objectives may not exceed 200% and is established by the compensation committee at the beginning of the year at a fixed level. At the end of the year, the committee determines the percentage attributable to the Individual Achievement Factor to reflect the actual performance of the CEO during the period. The maximum award payable to our Chief Executive Officer for any one year under the CEO PIP is the lesser of (i) 250% of the CEO's annual base salary, and (ii) $3,000,000.

Table of Contents

The CEO PIP contains claw back provisions in the event that an award is granted based upon incorrect data in the Company's financial statements that are required to be restated due to material noncompliance with applicable accounting and disclosure standards.
For 2013, the committee established as equally weighted performance goals, specified levels of earnings per share, revenue, and return on equity. The committee established the Individual Performance Factor at 100% subject to adjustment based on evaluation of the CEO's individual performance for the year. The committee also established a minimum "threshold" level of profitability below which no award would be earned for 2013 of $80 million. The committee further established that no award would exceed 15% of the net income level as defined in the CEO PIP as the Threshold Amount.
For fiscal year 2013, the Company had total revenue of $3,683.7 million, adjusted EPS of $1.10, and adjusted return on equity of 3.5%, representing individual criteria achievements of approximately 102%, 65% and 67% respectively, compared to the pre-established objectives. Under the terms of the CEO PIP, the committee considers non-recurring items in calculating the achievement of each of the relevant factors. For fiscal year 2013, the committee considered one significant non-recurring , non-cash impairment charge related to the write down of the Prepared Goodwill and Trademark (Fiscal 2013 Adjustment). The minimum threshold of $80M profitability based on the adjusted results, however, was not met. As a result, the CEO received no incentive payment under this program for fiscal year 2013.
The President and Chief Operating Officer
The fiscal year 2013 bonus award for the President and Chief Operating Officer was established pursuant to his 1997 employment contract, which provides for an annual cash bonus equal to 2% of the first $20 million of the consolidated net after tax profits of the Company and 1.5% of any amounts of such profits in excess of $20 million. In determining the level of the Company's net after tax profits for purposes of calculating the Chief Operating Officer’s bonus award for 2013, the committee considered the Fiscal 2013 Adjustment. After taking into account this adjustment, for purposes of the Chief Operating Officer's employment contract, the Company had consolidated net after tax profits of $62.3 million, and as a result, the Chief Operating Officer was awarded a cash bonus of $1,035,275.

Other Named Executive Officers
The fiscal year 2013 incentive awards for NEOs (other than our Chief Executive Officer and President and Chief Operating Officer) were determined under the Fresh Del Monte 2010 Performance Incentive Plan for Senior Executives (the “Senior Executive PIP”) based on an assessment of individual performance.

Table of Contents

In the first quarter of 2013, each NEO participating in the Senior Executive PIP, with the review, input and approval of our President and Chief Operating Officer and the compensation committee, established individual performance goals that formed the basis upon which his respective incentive award value would be determined. These goals were designed to reflect each executive’s area of responsibility within the Company and, to the extent possible, were generally structured to include an objectively measurable component (i.e., numeric or other criteria capable of independent measurement or satisfaction). Each goal was then assigned a specific percentage of that executive’s overall achievement value, with all goals totaling 100%. In 2013, no individual performance goal accounted for greater than 25% of any NEO’s total achievement value. Each NEO had between six and eight performance criteria upon which his annual bonus was based. Some of these criteria would create a payout only if the specific goal is met, while other performance criteria would provide for partial payment to the NEO upon partial achievement of the goal. Performance factors, which must be based on strategic objectives of the Company, for participants in the Senior Executive PIP who are business unit leaders, may include profitability, business growth, market share, production volume, or production costs, to name a few. For those participants who are in functional roles, performance factors may include cost of deliverable services and cost reduction, strategic project completions, implementation of new systems or processes, or implementation of improvements in functional area. Under the Senior Executive PIP, the maximum bonus amount for each participating NEO is 50% of annual base salary. The payout for 2013 is based on the table below:

Basis of Performance	% Award
Performance Factors as described above	35% of annual base salary
Company's EPS and Total Revenue Targets	15% of annual base salary

The target bonus percentage for NEOs, which is composed of 35% of salary at target and an additional 15% component based upon revenue and earnings per share targets, was established in 2009 based upon the recommendation of Towers Watson to move the NEOs’ PIP targets closer to the peer group median. Further, these additions were made to bring the other NEOs’ PIP goals in line with those established for the Chief Executive Officer and to better incentivize the participating executive to work for the overall success of the Company while at the same time achieving their respective individual performance goals.

As part of the Company’s annual employee performance appraisal process, our President and Chief Operating Officer provided, and our compensation committee took into account, an assessment of the individual performance of each participating NEO against his respective 2013 goals. In determining the relative level of achievement of the applicable corporate and individual performance factors for each NEO's incentive award for 2013, the committee considered the Fiscal 2013 Adjustment. The compensation committee concluded that the 2013 achievement values for NEOs participating in the Senior Executive PIP were between 51.25% and 83.10% of their respective functional goals and 83% of the collective EPS and total revenue goals, resulting in awards of between 30.39% and 41.54% of the NEO’s base salary. Actual incentive awards paid to our NEOs for performance during fiscal year 2013 in accordance with the Senior Executive PIP are set forth below in the Summary Compensation Table.

The Senior Executive PIP contains claw back provisions in the event that an award is granted based upon incorrect data in the Company's financial statements that are required to be restated due to material noncompliance with applicable accounting and disclosure standards.

Long-Term Incentive Awards

The Company sponsors the Del Monte Fresh Produce, Inc. Long-Term Incentive Plan (the "LTIP") for senior corporate officers, including NEOs. Each of the NEOs other than the Chief Operating Officer currently participates in the LTIP. The compensation committee established the LTIP, with the advice of its independent compensation consultant, to provide an incentive for executives to focus on the long-term sustainable growth of the Company by rewarding business decisions and actions over a longer term than the single year plans then in place. The compensation committee considers that the efforts of senior executives may not be adequately rewarded if decisions

are made consistent with the Company’s business strategy that established a basis for significantly improved long-term performance of the Company, yet negatively affects operating results, and therefore annual cash incentive awards. Likewise, the compensation committee wishes to avoid plan designs that could incentivize executives to take actions that would result in short-term gain in order to bolster annual incentive compensation, without regard to the long-term best interests of the Company. At the time the LTIP was established, the compensation consultants also noted that the Company was the only company in the peer group not to have such a plan.

The LTIP allows for an award to be made to the participants by the compensation committee at the beginning of each fiscal year, with the final determination and payment of that award occurring at the end of the third year following the award’s grant and after such payment is approved by the compensation committee. The compensation committee reviews the status and

Table of Contents

forecasted amount of each outstanding LTIP of the Chief Executive Officer and the NEOs on a quarterly basis. The compensation committee may include or exclude the impact of certain items such as expenses related to restructuring or productivity initiatives, non-operating items, acquisition expenses and any other items of gain, loss or expense that may be determined to be extraordinary or unusual in nature or infrequent in occurrence. Unless otherwise provided in the award agreement, LTIP awards are paid in cash in the form of a single lump sum. LTIP awards may range from 50% to 150% of the target award depending upon the actual achievement level as measured against certain predetermined objectives.

The LTIP award for our Chief Executive Officer is calculated by measuring achievement in two categories. First, 50% of the LTIP award is calculated by measuring the total shareholder return (the "TSR") of the Company versus that of its peer group over the three-year period. TSR includes share price change, as well as reinvested dividends. In order to avoid significant swings in TSR caused by anomalous events that might occur at the beginning or end of the measurement period, TSR is measured using the average closing prices of the Company's shares and those of the peer group during the ninety day period which precedes the first and last days of the measurement period. The second half of the LTIP award is calculated by measuring the achievement of performance goals, which consist of one or more measurable strategic objectives established by the compensation committee and agreed to by the plan participants at the beginning of each award period. The LTIP performance goals established for the Chief Executive Officer are as follows:

- For 2012-2014, the LTIP performance goals consist of two equally weighted strategic objectives related to return on invested capital, and operating income improvements in a specific business segment and geographic area.
- For 2013-2015, the LTIP performance goals consist of two equally weighted strategic objectives related to revenue growth and production development in defined geographical areas.
- For 2014-2016, the LTIP performance goals consist of two equally weighted strategic objectives related to achieving return on equity target and achieving sales growth in a specific market.

At the conclusion of 2013, the Chief Executive Officer received an award in the amount of $921,000 under the provisions of his 2011-2013 LTIP agreement. Under that agreement, 50% of the target award of 100% of salary was based upon the Company's share price meeting specific percentile levels against TSR of a pre-selected peer group and 50% was based upon the achievement of two equally weighted strategic objectives related to revenue growth and the success of a marketing project in a defined geographical area. Based upon the actual performance of the Company's share price over the measurement period, the Chief Executive Officer received an award equivalent to $375,000 which is 31.25% of his salary. With regard to the portion of the LTIP related to the achievement of the two strategic objectives, the Company achieved 97% of its strategic objective relating to global revenue growth and achieved 85% of its strategic objective relating to the success of a marketing project in a defined geographical area. As a result, the LTIP award was determined to be 50% of salary times his 91% achievement attributed to two of his strategic goals. The LTIP award for this portion is equivalent to $546,000.

The strategic objectives for the 2012-2014, 2013-2015 and 2014-2016 LTIP awards for the Chief Executive Officer have specific numerical targets to measure accomplishments. Final determination of the amounts to be paid under these LTIP awards will occur following the end of 2014, 2015 and 2016 fiscal years, respectively.

Similarly, the 2011-2013 LTIP awards for Messrs. Yock, Rice and Contreras are calculated by measuring achievement in both TSR and specific measurable strategic objectives. The 2011-2013 LTIP strategic objectives for these NEOs consisted of two to three performance goals. The LTIP strategic objectives for Mr. Yock consist of two performance goals related to commercial production targets and a strategic cost management goal. Mr. Contreras' strategic objectives for the LTIP consist of three performance factors related to improvements in working capital, implementation of new technology and a completion of a transformational strategy. The LTIP strategic objectives for Mr. Rice consists of three performance factors related to net sales growth, a cost containment program and growth in net income in North America operations.

At the conclusion of 2013, based on review and evaluation of their respective performance achievements, the 2011-2013 LTIP awards for Messrs. Yock, Rice and Contreras for their strategic objectives resulted in awards of between 40% to 71.8% of the corresponding award related to their strategic goals. The TSR component resulted in an award of 10.94% for each of the NEOs. Combining the TSR and the strategic goal component, the NEOs were

awarded a range of 17.94% to 23.51% of base salary in accordance to their 2011-2013 LTIP. Actual LTIP incentive awards paid to our NEOs under the 2011-2013 LTIP award are set forth below in the Summary Compensation Table. The 2012-2014 LTIP award for Messrs. Yock, Rice and Contreras is calculated by measuring achievement in both TSR and specific measurable strategic objectives. The 2012-2014 LTIP strategic objectives for these NEOs consisted of two to five performance goals. The LTIP strategic objectives for Mr. Yock consist of two performance goals related to a major procurement and sourcing strategy. Mr. Contreras' strategic objectives for the LTIP consist of five performance factors related to return on

invested capital, two financial related strategic programs, improvement in financial processes and a strong fiscal control program. The LTIP strategic objectives for Mr. Rice consist of four performance factors related to three new product line programs and a strategic cost improvement in our North America operations. Final determination of the amounts to be paid under the 2012-2014 LTIP awards for Messrs. Yock, Rice and Contreras will occur following the end of 2014 fiscal year.

The 2013-2015 LTIP award for Messrs. Yock, Rice and Contreras is calculated by measuring achievement in both TSR and specific measurable strategic objectives. The 2013-2015 LTIP strategic objectives for these NEOs consisted of four to five performance goals. The LTIP strategic objectives for Mr. Yock consist of four performance goals related to a major growth and operational projects in specific geographic areas. Mr. Contreras' strategic objectives for the LTIP consist of five performance factors related to implementation of global accounting systems and specific global cash recoveries. The LTIP strategic objectives for Mr. Rice consist of four performance factors related to developing new markets and improvement of revenue and operating income in specific business segments of North America. Final determination of the amounts to be paid under the 2013-2015 LTIP awards for Messrs. Yock, Rice and Contreras will occur following the end of 2015 fiscal year.

The 2014-2016 LTIP award for Messrs. Yock, Rice and Contreras is calculated by measuring achievement in both TSR and specific measurable strategic objectives. The 2014-2016 LTIP strategic objectives for these NEOs consisted of three to four performance goals. The LTIP strategic objectives for Mr. Yock consist of three performance goals related to major growth and operational projects in specific geographic areas, and increase in production volume for a specific business segment. Mr. Contreras' strategic objectives for the LTIP consist of four performance factors related to implementation of enterprise resource planning system, implementing efficiencies in certain key processes, achieving efficiency in working capital and completion of a transformational strategy. The LTIP strategic objectives for Mr. Rice consist of three performance factors related to developing new commodity program, improvement of revenue and operating income in North America and achieving efficiencies in a key growth business area. Final determination of the amounts to be paid under the 2014-2016 LTIP awards for Messrs. Yock, Rice and Contreras will occur following the end of 2016 fiscal year.

The LTIP contains claw back provisions that permit the compensation committee to require the repayment of any LTIP award received by a participant in the event that the financial results that determined the award are subsequently determined to be in error or are required to be restated. Further, the maximum amount that can be paid to any individual participant with respect to any particular award period cannot exceed $6 million.

Equity Awards

In order to create a properly balanced compensation program, the compensation committee utilizes both compensation that provides incentive for short-term gain, such as the annual incentive program, and compensation that provides incentive for longer-term growth, such as participation in the LTIP and the grant of equity awards. Each NEO is eligible to receive an annual equity compensation award. The Company believes, based on its performance-based approach to compensation, that equity ownership in the Company is important to tie the level of compensation to the performance of the Ordinary Shares and shareholder gains; the Company believes this is particularly important for NEOs. Because equity compensation awards vest over a period of years, they also provide a retention component and create an incentive for executives to create sustained growth.

Guidelines for the number of stock option awards granted to each NEO are determined using a procedure approved by the compensation committee based upon the executive officer's position and responsibilities, job level, performance, and the value of the award at the time of grant. In addition, the compensation committee may consider peer group data presented in Towers Watson's reports in making such awards. As a result, additional grants other than the annual award may be made following a significant change in job responsibility or in recognition of a significant achievement. The compensation committee generally does not consider the number of options already held by NEOs when making grants, as it believes that awards should be given based on successful job performance and should not be discounted on account of accumulated equity value. Further, the compensation committee believes that competitors, who may try to hire the Company's NEOs would not give full credit for existing equity ownership in the Company and, to remain competitive, similarly do not take into account previous awards when approving new grants. Prior to 2011, it was the Company's practice to issue only stock options as equity awards to its NEOs.

Based on approval by the shareholders of the 2011 Omnibus Share Incentive Plan ("2011 Omnibus Plan") at the Company's 2011 annual meeting, the Company is able to grant restricted shares and other types of equity awards as well as continue to award share options to its officers and key employees. The proposed expansion of the types of equity awards is the result of a finding by Towers Watson in their 2010 study that a majority of our peer group companies have plans that allow the granting of restricted shares, restricted stock units and performance shares to key executives while the Company did not and, as a result, the Company may find itself at a disadvantage to its competitors in attracting and retaining the best people. The Compensation Committee also believes that the use of restricted share awards is less dilutive to existing shareholders than options and that the use of restricted shares also reduces the potential incentive to take excessive risk in order to maximize the

value of option awards. Because the 2011 Omnibus Plan has limited shares available for additional grants, the Company is recommending the approval of the 2014 Omnibus Incentive Plan in order to continue to have a platform for making equity compensation awards. See Exhibit A on page A-1.

In fiscal year 2013, the Company granted stock options to the Chief Executive Officer under the terms of the 2011 Omnibus Plan during a meeting held in the first quarter of the year. The Company's 2011 Omnibus Plan has a four-year vesting schedule in order to provide an incentive for continued employment and long-term growth of the Company. All stock options granted under this plan expire 10 years from the date of grant. The exercise price of options granted under the 2011 Omnibus Plan is equal to the closing price of the Ordinary Shares on the NYSE on the date of the grant.

During a meeting held in the third quarter of the year, the Company granted stock options to its NEOs (except the CEO) and other Company employees under the terms of the 2011 Omnibus Plan. These stock option grants have terms and provisions as described above for the CEO. These awards provide a reasonable time frame to align the NEO’s goals with the long-term price appreciation of the Company’s shares.

On February 20, 2013, the Company awarded restricted stock units ("RSUs") to its NEOs that are subject to the achievement of a specific performance objective and certain service requirements. The performance objective is based on a specific EBITDA goal for the 2013 fiscal year with a minimum threshold at 80% target achievement. The percentage of the award earned based on achievement of the fiscal 2013 performance goal will then vest equally over the three year period on each anniversary of the grant date, subject to the grantee's continued employment with the Company. Each NEO may earn between 80% to 100% of the restricted stock unit award corresponding to their aggregate EBITDA performance objective achievement. For fiscal year 2013, the EBITDA goal was $185 million. For this purpose, calculation of the level of achievement is based on adjusted EBITDA of the Company taking into consideration all impairment and other charges reported in the Form 10-K. On this basis, achievement exceeded 100% of target. The Committee also reviewed the level of achievement of EBITDA as adjusted for only the non-cash impairment charges considered for purposes of the cash incentive awards, which would have resulted in 95.6% achievement. Based on this review, the Compensation Committee certified, approved and recommended to the Board the achievement of the EBITDA target at 100%.

In addition, on February 19, 2014, the Company awarded restricted stock units ("RSUs") to its NEOs that are subject to the achievement of a specific performance objective and service requirements. The performance objective is based on a specific EBITDA goal for the 2014 fiscal year with a minimum threshold at 80% target achievement. The percentage of the award earned based on achievement of the fiscal 2014 performance goal will then vest equally over the three year period on each anniversary of the grant date, subject to the grantee's continued employment with the Company. Each NEO may earn between 80% to 100% of the restricted stock unit award corresponding to their aggregate EBITDA performance objective achievement.

Actual stock option awards to our NEO's for fiscal year 2013 are reflected below in the Grant of Plan-Based Awards Table.

Post-Termination Benefits

To promote stability and continuity of management direction, in 2003, the Company adopted the Executive Retention and Severance Agreements for the Chief Executive Officer and the President and Chief Operating Officer. The Company feels that the creation of these agreements is imperative to the retention of our Chief Executive Officer and our President and Chief Operating Officer because they reflect customary market practices. The Company does not generally enter into written severance agreements for any of its employees unless it is mandated to do so by local statutes and has not entered into such an agreement with any other NEOs; however, the Company decided to establish severance agreements for the two most senior executives of the Company, as retention of these two officers is of paramount importance to the continued stability of the Company.

As further described under the heading “Potential Payments Upon Termination or Change-in-Control,” the severance agreements of our Chief Executive Officer and our President and Chief Operating Officer provide that they are entitled to certain cash consideration, an enhanced payment to take into effect any taxes due on the consideration, and other benefits in the event their employment is terminated by the Company other than for “cause,” if they terminate their employment for “good reason,” or if they are terminated in connection with a change in control, in each case such

payments and benefits are conditioned upon the execution by them of a general release of all claims. These agreements also provide for consideration and benefits in the event of a termination of employment by reason of death or disability. Both executives also agreed to a two-year period following the termination of their employment during which they cannot solicit the Company's employees, distributors, vendors or customers.

The severance agreements each have a "double trigger" change in control policy; both a change in control and the termination of the executive's employment must occur before such payment is triggered. This policy may increase the

Table of Contents

consideration paid to the shareholders for the Company in the event of a change in control because no mandatory lump-sum payments are triggered solely by the change in control alone, thus providing the acquiring company with the flexibility to retain the executives at their discretion. The compensation committee also intends that this “double trigger” change in control policy will provide fair and equitable compensation in the event of a termination following a change in control. By providing reasonable severance in the event of a termination of employment upon a change in control, the compensation committee intends to provide each covered officer with compensation that is sufficient to mitigate the risk of employment loss and encourage him to assist in undertaking the transaction. The amount of the severance is balanced against the Company’s need to be responsible to its shareholders, and also takes into account the potential negative impact such severance payments may have on the acquiring party in a change in control transaction. The severance agreement for the Chief Operating Officer contains a provision requiring the company to reimburse for IRS Section 280G excise tax and applicable taxes thereon attributed to a change in control.

The specified levels of post-termination benefits for the Chief Executive Officer and President and Chief Operating Officer were determined by the compensation committee to be appropriate for each of the two individuals based on each person’s duties and responsibilities with the Company and were the result of arm’s-length negotiations. The Company determined the different levels to be appropriate and reasonable when generally compared to post-termination benefits provided by the Company’s peers to executives with the same title and similar levels of responsibility. The Company believes that these benefits take into account the expected length of time and difficulty the individual may experience in trying to secure new employment.

Both Mr. Contreras and Mr. Rice are covered by the Company’s general severance policy applicable to U.S. employees, which provides a maximum of six month’s severance based upon the years of service of each participant. Mr. Yock, pursuant to Costa Rican statutes, upon any termination of employment or retirement, other than a termination by the Company for cause, will be entitled to receive an amount equal to one month of base salary for every year of service with a maximum credit of eight years of service. In order to meet this obligation, the Company has established a Solidarity Program Account funded by both an individual and a Company contribution. Upon a termination of employment other than by the Company for cause, Mr. Yock will receive the greater of (i) the total contributions in his Solidarity Account and (ii) the severance due pursuant to local law. In addition, Mr. Yock participates in the Company’s Latin American Retirement Plan under which he will receive $120,000 per year for 10 years following his retirement directly from the Company. Should Mr. Yock not survive for that full period, his estate will be paid any remaining amounts in a lump sum.

Other Benefits

No significant pension or welfare benefits are available to NEOs other than the broad-based 401(k) plan, health and welfare benefits, and life insurance that are generally available to most of the Company’s full-time employees, or with respect to Mr. Yock, generally available to most of the Company’s regional full-time employees, except as provided below.

Life Insurance Benefits

The Company provides Mr. Abu-Ghazaleh a term life insurance policy with an annual premium of $42,866 providing for payment of $3 million to his designated beneficiaries upon his death. The Company provides Mr. El-Naffy with a term life insurance policy with an annual premium of $48,611 providing for payment of $2.5 million to his designated beneficiaries upon his death. Please see the information under the heading “Employment Agreements with NEOs” below for additional details regarding the benefits provided to Mr. El-Naffy pursuant to his employment agreement.

Other Benefits

Other than Mr. Contreras and Mr. Rice, the Company provides each NEO with a Company car. The amounts quantified in the Summary Compensation Table as car benefits are included in “All Other Compensation,” and include the amount that the Company recognized as an expense for fiscal year 2013 for each car (where leased, the annual cost of the lease; where owned by the Company, the depreciation of the car for that year), including the maintenance, insurance and gasoline for that car.

Policies with Respect to Equity Compensation Awards

The compensation committee evaluates the allocation of equity awards by reference to the Company's peer group and the performance of the individual and the Company, as discussed above. The 2011 Omnibus Plan provides that the Company must grant all equity incentive awards with an exercise price equal to the fair market value as determined by the closing sales price for the Ordinary Shares on the NYSE on the date of the grant.

The compensation committee has established a policy that annual option awards for its Chief Executive Officer will generally be granted on the date of the board meeting immediately following the release of its financial results for the fiscal

year, which usually occurs in February. For 2013, the grant date for the annual option award to its Chief Executive Officer was February 20, 2013. With regard to option award grants for all other NEOs, these are normally granted during the third quarter meeting usually held end of July or beginning of August. For 2013, the option grants for NEOs, other than the Chief Executive Officer were made on July 31, 2013. Beginning in 2013, the compensation committee established a policy that annual restricted share unit awards will be granted on the first board meeting of the year which is normally held in February. For fiscal year 2013, the grant date for the annual restricted share award to its Chief Executive Officer and the NEOs was February 20, 2013. Further details on this restricted share awards are described under the heading Equity Awards.

The 2011 Omnibus Share Incentive Plan includes a formal claw back policy permitting the board to require repayment of any award if it is later determined that such award was made based upon incorrect data in the Company's financial statements that are required to be restated due to material noncompliance with applicable accounting and disclosure standards.

Share Ownership Requirements for NEOs

The Company implemented a share ownership policy for NEOs on November 2, 2011. Under this share ownership policy, each NEO is required to own a specified multiple of his annual base salary corresponding to its value in Company shares. The Chief Executive Officer is required to own five times his base salary. The President and Chief Operating Officer is required to own three times his base salary. For the other NEOs, they are required to own two times their base salaries. Each NEO is required to meet this share ownership guideline within five years from November 2, 2011. For purposes of determining whether share ownership requirement has been met, the Company will use the grant price value of the share to calculate the percent of ownership as against the respective multiples of NEOs base salary requirement.

Risk Considerations in our Overall Compensation Program

The compensation committee annually considers the potential for the company’s incentive compensation programs to motivate employees to undertake unnecessary or excessive risk taking. The committee has reviewed management’s risk assessment of the Company’s compensation programs for its senior executives and its employees generally and has concluded that these programs do not create risks that are reasonably likely to have a material adverse effect on the Company. The committee believes that excessive risk taking is further mitigated by the use of multiple objectives which serve to limit the potential benefit of any single episode of excessive risk taking; that all incentive calculations are based upon validated financial data; that all computations and recommendations are subject to multiple levels of review including local, regional, corporate, and board level reviews; that the status and anticipated payouts for the NEOs are reviewed by the compensation committee quarterly; and that there are caps on the amount of payments to any single individual under most of the Company's compensation plans and arrangements; and that the programs include claw back provisions in the event that an award is granted based upon incorrect data.

Tax Considerations

For U.S. income tax purposes, Section 162(m) limits the Company’s tax deduction for annual compensation in excess of $1,000,000 paid to our Chief Executive Officer and any of our three other most highly compensated executive officers, other than our Chief Financial Officer. However, performance-based compensation that has been approved by our shareholders is excluded from the $1,000,000 limit if, among other requirements, the compensation is payable only upon the attainment of pre-established, objective performance goals and the committee of the board that establishes such goals consists only of “outside directors.” All members of the compensation committee qualify as outside directors for purposes of Section 162(m).

The compensation committee considers the anticipated tax treatment to the Company and our executive officers when reviewing executive compensation and our compensation programs. The deductibility of some types of compensation payments can depend upon the timing of an executive’s vesting or exercise of previously granted rights or termination of employment. Interpretations of and changes in applicable tax laws and regulations, as well as other factors beyond the compensation committee’s control, also can affect the deductibility of compensation.

While the tax impact of any compensation arrangement is one factor to be considered, this impact is evaluated in light of the compensation committee’s overall compensation philosophy and objectives. The compensation committee will consider ways to preserve the deductibility of executive compensation, while retaining the discretion it deems

necessary to compensate officers in a manner commensurate with performance and the competitive environment for executive talent. From time to time, the compensation committee may award compensation to our executive officers that is not fully deductible if it determines that the award is consistent with its philosophy and is in our shareholders' best interests, such as time vested grants of restricted shares or grants of incentive stock options.

Table of Contents

COMPENSATION TABLES

Summary Compensation Table

The following table shows, for the fiscal year ended December 27, 2013, compensation awarded to, paid to, or earned by, our NEOs, consisting of the Company's Chief Executive Officer, Chief Financial Officer, and our three other most highly compensated executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (4)	All Other Compensation ($) (5)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Mohammad Abu-Ghazaleh Chairman and CEO	2013	1,195,385	—	1,351,174					

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

ASU 2016-02, Leases (Topic 842) - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The main provision of ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous Generally Accepted Accounting Principles ("GAAP"). The effective date of ASU 2016-02 is for interim and annual reporting periods beginning after December 15, 2018. The ASU has not yet been adopted. The Company is currently evaluating the impact on our Company's consolidated financial position, cash flows and results of operations.

ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities - In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01 revises the accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The effective date of ASU 2016-01 is for interim and annual reporting periods beginning after December 15, 2017. The ASU has not yet been adopted; however, it is not expected to have a material impact on the Company's consolidated financial position, cash flows or results of operations.

ASU 2014-09, Revenue from Contracts with Customers - In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers. The main provisions of the update require the identification of performance obligations within a contract and require the recognition of revenue based on a stand-alone allocation of contract revenue to each performance obligation. Performance obligations may be satisfied and revenue recognized over a period of time if: (i) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, or (ii) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (iii) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. After a recent one-year deferral of the effective date, the amendments of the update are to be effective for public entities beginning

with interim and annual reporting periods beginning after December 15, 2017. Management does not expect the requirements of this update to have a material impact on the Company's financial position, results of operations or cash flows.

Other than the accounting pronouncement disclosed above, there are no other new accounting pronouncements issued during the first quarter of 2016 that could have a material impact on the Company's financial position, operating results or financials statement disclosures.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

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

	March 31, 2016		December 31, 2015	
	(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		1,369		1,369
	$	**3,349**	**$**	**3,349**

At March 31, 2016 and December 31, 2015, the Bank's international banking entities, Oriental International Bank Inc. ("OIB") and Oriental Overseas, a division of the Bank, each held unencumbered certificates of deposit in the amount of $300 thousand as the legal reserve required for international banking entities under Puerto Rico law. Each certificate of deposit cannot be withdrawn by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions of Puerto Rico.

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At March 31, 2016 and December 31, 2015, the Company had delivered $2.0 million of cash as collateral for such derivatives activities.

As part of the BBVA Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At March 31, 2016 and December 31, 2015, the Company delivered as collateral cash amounting to $1.4 million for both periods.

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 March 31, 2016 was $152.8 million (December 31, 2015 - $148.9 million). At March 31, 2016 and December 31, 2015, the Bank complied with such 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 3 – INVESTMENT SECURITIES

Money Market Investments

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At March 31, 2016 and December 31, 2015, money market instruments included as part of cash and cash equivalents amounted to $5.9 million and $4.7 million, respectively.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016				
	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	$ 431,411	$ 13,445	$ -	$ 444,856	2.63%
GNMA certificates	79,477	3,220	-	82,697	3.15%
CMOs issued by US government-sponsored agencies	128,957	353	728	128,583	1.86%
Total mortgage-backed securities	**639,845**	**17,018**	**728**	**656,136**	**2.54%**
Investment securities					
Obligations of US government-sponsored agencies	4,785	51	-	4,837	1.36%
Obligations of Puerto Rico government and public instrumentalities	6,720	-	873	5,847	5.55%
Other debt securities	2,323	142	-	2,465	2.99%
Total investment securities	**13,828**	**193**	**873**	**13,149**	**3.67%**
Total securities available for sale	**$ 653,673**	**$ 17,211**	**$ 1,601**	**$ 669,285**	**2.56%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 612,012	4,402	81	616,333	2.23%
Investment securities					
US Treasury securities	25,024	-	11	25,013	0.49%
Total securities held to maturity	**637,036**	**4,402**	**92**	**641,346**	**2.17%**
Total	**$ 1,290,709**	**$ 21,613**	**$ 1,693**	**$ 1,310,631**	**2.37%**

	December 31, 2015				
	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	$ 735,363	$ 25,791	$ 1,509	$ 759,645	2.97%
GNMA certificates	57,129	1,366	-	58,495	3.19%
CMOs issued by US government-sponsored agencies	137,787	27	2,741	135,073	1.85%
Total mortgage-backed securities	**930,279**	**27,184**	**4,250**	**953,213**	**2.82%**
Investment securities					

Obligations of US government-sponsored agencies	5,122	-	29	5,093	1.36%
Obligations of Puerto Rico government and public instrumentalities	17,801	-	4,070	13,731	6.24%
Other debt securities	2,444	128	-	2,572	2.98%
Total investment securities	**25,367**	**128**	**4,099**	**21,396**	**4.94%**
Total securities available-for-sale	**$ 955,646**	**$ 27,312**	**$ 8,349**	**$ 974,609**	**2.87%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	595,157	426	5,865	589,718	2.24%
Investment securities					
US Treasury securities	25,032	-	71	24,961	0.49%
Total securities held to maturity	**620,189**	**426**	**5,936**	**614,679**	**2.17%**
Total	**$ 1,575,835**	**$ 27,738**	**$ 14,285**	**$ 1,589,288**	**2.60%**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The amortized cost and fair value of the Company's investment securities at March 31, 2016, 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.

	March 31, 2016			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)		(In thousands)	
Mortgage-backed securities				
Due from 5 to 10 years				
FNMA and FHLMC certificates	$ 13,936	$ 14,250	$ -	$ -
Total due from 5 to 10 years	**13,936**	**14,250**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	417,475	430,606	612,012	616,333
GNMA certificates	79,477	82,697	-	-
CMOs issued by US government-sponsored agencies	128,957	128,583	-	-
Total due after 10 years	**625,909**	**641,886**	**612,012**	**616,333**
Total mortgage-backed securities	**639,845**	**656,136**	**612,012**	**616,333**
Investment securities				
Due from 1 to 5 years				
US Treasury securities	-	-	25,024	25,013
Obligations of Puerto Rico government and				
public instrumentalities	6,720	5,847	-	-
Total due from 1 to 5 years	**6,720**	**5,847**	**25,024**	**25,013**
Due from 5 to 10 years				
Obligations of US government and sponsored agencies	4,785	4,837	-	-
Other debt securities	2,323	2,465	-	-
Total due from 5 to 10 years	**7,108**	**7,302**	**-**	**-**
Total investment securities	**13,828**	**13,149**	**25,024**	**25,013**
Total securities available-for-sale and held-to-maturity	**$ 653,673**	**$ 669,285**	**$ 637,036**	**$ 641,346**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the first quarter ended March 31, 2016, the Company retained securitized Government National Mortgage Association ("GNMA") pools totaling $23.0 million amortized cost, at a yield of 3.06% from its own originations. Previously, the Company was selling all securitized GNMA pools. The GNMA pools were sold until June 2015. During the first quarter of 2015, the Company sold $26.8 million of available-for-sale GNMA certificates as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period.

During the first quarter of 2016, the Company sold $272.1 million of mortgage-backed securities and $11.1 million of Puerto Rico government bonds, and recorded a net gain on sale of securities of $12.0 million. Among the 2016 sales, the Company sold all but one of the Puerto Rico government bonds it held. The Company had book other-than-temporary impairment charges on such securities sold totaling $1.5 million during the previous two quarters. During the first quarter of 2015, the Company sold $37.7 million of mortgage-backed securities and recorded a net gain on sale of securities of $2.6 million. The table below presents the gross realized gains and gross realized losses by category for such periods.

	Quarter Ended March 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	$ 288,194	$ 272,081	$ 16,113	$ -
Investment securities				
Obligations of Puerto Rico government and public instrumentalities	6,978	11,095	-	4,117
Total	**$ 295,172**	**$ 283,176**	**$ 16,113**	**$ 4,117**

	Quarter Ended March 31, 2015			
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	$ 40,307	$ 37,735	$ 2,572	$ -
GNMA certificates	26,768	26,768	-	-

Total	**$**	**67,075**	**$**	**64,503**	**$**	**2,572**	**$**	**-**

12

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables show the Company'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 March 31, 2016 and December 31, 2015:

	March 31, 2016 12 months or more		
	Amortized Cost	**Unrealized Loss**	**Fair Value**
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 83,400	$ 728	$ 82,672
Obligations of Puerto Rico government and public instrumentalities	6,720	873	5,847
	90,120	1,601	88,519
Securities held to maturity			
FNMA and FHLMC certificates	30,309	$ 46	$ 30,263
	$ **120,429**	$ **1,647**	$ **118,782**

	Less than 12 months		
	Amortized Cost	**Unrealized Loss**	**Fair Value**
		(In thousands)	
Securities held-to-maturity			
FNMA and FHLMC certificates	58,589	35	58,554
US Treausury Securities	25,024	11	25,013
	$ 83,613	**$ 46**	**$ 83,567**

	Total		
	Amortized Cost	**Unrealized Loss**	**Fair Value**
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 83,400	$ 728	$ 82,672
Obligations of Puerto Rico government and public instrumentalities	6,720	873	5,847
	90,120	**1,601**	**88,519**
Securities held-to-maturity			
FNMA and FHLMC certificates	88,898	81	**88,817**
US Treasury Securities	25,024	11	**25,013**
	$ 204,042	**$ 1,693**	**$ 202,349**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015 12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
Obligations of Puerto Rico Government and public instrumentalities	$ 17,801	$ 4,070	$ 13,731
CMOs issued by US government-sponsored agencies	103,340	2,410	100,930
	$ 121,141	**$ 6,480**	**$ 114,661**

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	25,736	331	25,405
FNMA and FHLMC certificates	149,480	1,509	147,971
Obligations of US government and sponsored agencies	5,122	29	5,093
Securities held to maturity			
FNMA and FHLMC certificates	468,487	5,865	462,622
US Treausury Securities	25,032	71	24,961
	$ 673,857	**$ 7,805**	**$ 666,052**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	129,076	2,741	126,335
FNMA and FHLMC certificates	149,480	1,509	147,971
Obligations of Puerto Rico Government and public instrumentalities	17,801	4,070	13,731
Obligations of US government and sponsored agencies	5,122	29	5,093
	$ 301,479	**$ 8,349**	**$ 293,130**
Securities held to maturity			
FNMA and FHLMC certificates	468,487	5,865	462,622
US Treasury Securities	25,032	71	24,961
	$ 794,998	**$ 14,285**	**$ 780,713**

The Company performs valuations of the investment securities on a monthly basis. Moreover, the Company conducts quarterly reviews to identify and evaluate each investment in an unrealized loss position for other-than-temporary impairment. Any portion of a decline in value associated with credit loss is recognized in 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 the Company believes that the methodology used to value these exposures is reasonable, the methodology is subject to continuing refinement, including those made as a result of market developments. Consequently, it is reasonably possible that changes in estimates or conditions could result in the need to recognize additional other-than-temporary impairment charges in the future.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Most of the investments ($197.3 million, amortized cost, or 97%) with an unrealized loss position at March 31, 2016 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 remaining investments ($6.7 million, amortized cost, or 3%) with an unrealized loss position at March 31, 2016 consist of obligations issued or guaranteed by the government of Puerto Rico and its instrumentalities. The decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including the government's credit default, a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population.

As of March 31, 2016, the Company applied a discounted cash flow analysis to the Puerto Rico government bonds to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of these investments was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investments, and included the following components:

- The contractual future cash flows of the bonds are projected based on the key terms as set forth in the official statements for each investment. Such key terms include among others the interest rate, amortization schedule, if any, and maturity date.
- The risk-adjusted cash flows are calculated based on a monthly default probability and recovery rate assumptions based on the credit rating of each investment. Constant monthly default rates are assumed throughout the life of the bonds which are based on the respective security’s credit rating as of the date of the analysis.
- The adjusted future cash flows are then discounted at the original effective yield of each investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of each investment.

The only obligation issued or guaranteed by the government of Puerto Rico and its instrumentalities held at the end of the first quarter of 2016 by the Company was the Puerto Rico Highways and Transportation Authority (“PRHTA”) – Teodoro Moscoso Bridge revenue bond. The pledge income sources of this bond comes from gross revenues from Teodoro Moscoso Bridge operations. Although PRHTA is included in the Puerto Rico Governor's executive order of November 30, 2015 ordering the '"clawback" of certain government revenues the toll bridge revenues for the repayment of such bonds were not subject to the “clawback”. All other securities were sold during the first quarter of 2016. The PRHTA bond in the principal amount of $6.7 million had an aggregate fair value of $5.8 million at March 31, 2016 (0.45% of the portfolio's total fair value). The discounted cash flow analysis for the investments showed a cumulative default probability at maturity of 8.81%, thus reflecting that it is more likely than not that the bond will not

default during its remaining term. Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in this Puerto Rico government bond and is, therefore, not required to recognize a credit loss as of March 31, 2016. Also, the Company's conclusion is based on the assessment of the specific source of repayment of the outstanding bond, which continues to perform. PRHTA started principal repayments on July 1, 2014. All scheduled principal and interest payments to date have been collected. As a result of the aforementioned analysis, no other-than-temporary losses were recorded during the quarter ended March 31, 2016 and 2015.

The following table presents a rollforward of credit-related impairment losses recognized in earnings for the quarters ended March 31, 2016 and 2015 on available-for-sale securities:.

	Quarter Ended March 31,			
		2016		**2015**
Balance at beginning of period	$	1,490	$	-
Reductions for securities sold during the period (realized)		(1,490)		-
Balance at end of period	$	**-**	$	**-**

15

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

The Company’s loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred to as "originated and other" loans) and loans acquired (referred to as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans. Acquired Eurobank loans were purchased subject to loss-sharing agreements with the FDIC. The FDIC loss-share coverage related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. Notwithstanding the expiration of loss share coverage of commercial loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a potential sale of a pool of loss-share assets covered under the commercial loss-sharing agreement. Pursuant to such agreement, and as further discussed below, the FDIC agreed to and paid $20 million in loss share coverage with respect to the aggregate loss resulting from any portfolio sale within 120 days of the agreement. This sale was completed on September 28, 2015. Covered loans are no longer a material amount. Therefore, the Company changed its loan disclosures during 2015.

The coverage for the single family residential loans will expire on June 30, 2020. At March 31, 2016, the remaining covered loans amounting to $69.7 million, net carrying amount ($91.1 million gross amount), are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties". At December 31, 2015, covered loans amounted to $67.2 million, net carrying amount ($92.3 million gross amount). Interest income recognized for covered loans during March 31, 2016 and 2015 was $2.2 million and $15.5 million, respectively. The decrease in interest income recognized for covered loans is due to the expiration of the FDIC loss-share coverage related to commercial and other-non single family acquired Eurobank on June 30, 2015.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The composition of the Company's loan portfolio at March 31, 2016 and December 31, 2015 was as follows:

	March 31, 2016	Dece 3 201
	(In thousands	
Originated and other loans and leases held for investment:		
Mortgage	$ 751,819	$ 75
Commercial	1,425,385	1,44
Consumer	252,327	24
Auto and leasing	687,159	66
	3,116,690	**3,11**
Allowance for loan and lease losses on originated and other loans and leases	(113,238)	(112
	3,003,452	**2,99**
Deferred loan costs, net	4,350	
Total originated and other loans loans held for investment, net	**3,007,802**	**3,00**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	6,558	
Consumer	36,346	3
Auto	91,406	10
	134,310	**15**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(4,993)	(5
	129,317	**14**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	600,901	60
Commercial	267,931	28
Construction	77,858	8
Consumer	9,345	1
Auto	134,669	15
	1,090,704	**1,14**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(27,747)	(25
	1,062,957	**1,12**
Total acquired BBVAPR loans, net	**1,192,274**	**1,27**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	91,113	9
Commercial and construction	142,298	14
Consumer	1,770	
Total acquired Eurobank loans	**235,181**	**23**
Allowance for loan and lease losses on Eurobank loans	(92,293)	(90
Total acquired Eurobank loans, net	**142,888**	**14**
Total acquired loans, net	**1,335,162**	**1,41**

Total held for investment, net	**4,342,964**	**4,42**
Mortgage loans held-for-sale	17,165	1
Total loans, net	**$ 4,360,129**	**$ 4,43**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Originated and Other Loans and Leases Held for Investment

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

The following tables present the aging of the recorded investment in gross originated and other loans held for investment as of March 31, 2016 and December 31, 2015 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.

	March 31, 2016							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
				(In thousands)				
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 82	$ 1,218	$ 3,208	$ 4,508	$ 40	$ 51,085	$ 55,633	$ 268
Years 2003 and 2004	388	3,579	5,844	9,811	20	87,458	97,289	-
Year 2005	313	1,893	3,864	6,070	-	47,421	53,491	-
Year 2006	634	1,238	7,212	9,084	233	66,753	76,070	-
Years 2007, 2008 and 2009	282	1,417	14,128	15,827	-	72,650	88,477	705
Years 2010, 2011, 2012, 2013	511	2,015	9,017	11,543	-	136,702	148,245	271
Years 2014, 2015 and 2016	-	444	1,099	1,543	63	91,213	92,819	-
	2,210	11,804	44,372	58,386	356	553,282	612,024	1,244
Non-traditional	-	395	5,014	5,409	12	22,286	27,707	-
Loss mitigation program	10,679	6,537	16,411	33,627	4,580	65,804	104,011	3,422
	12,889	18,736	65,797	97,422	4,948	641,372	743,742	4,666
Home equity secured personal loans	-	-	-	-	-	393	393	-
GNMA's buy-back option program	-	-	7,684	7,684	-	-	7,684	-
Total mortgage	**12,889**	**18,736**	**73,481**	**105,106**	**4,948**	**641,765**	**751,819**	**4,666**

Commercial								
Commercial secured by real estate:								
Corporate	-	-	-	-	-	228,782	228,782	-
Institutional	-	-	-	-	-	27,584	27,584	-
Middle market	-	-	9,498	9,498	2,515	196,890	208,903	-
Retail	644	455	7,088	8,187	2,659	233,174	244,020	-
Floor plan	-	-	-	-	-	2,859	2,859	-
Real estate	-	-	-	-	-	16,372	16,372	-
	644	455	16,586	17,685	5,174	705,661	728,520	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	120,881	120,881	-
Institutional	-	-	-	-	186,675	176,580	363,255	-
Middle market	-	-	-	-	1,493	102,295	103,788	-
Retail	260	948	706	1,914	21	72,689	74,624	-
Floor plan	28	18	41	87	-	34,230	34,317	-
	288	966	747	2,001	188,189	506,675	696,865	-
Total commercial	**932**	**1,421**	**17,333**	**19,686**	**193,363**	**1,212,336**	**1,425,385**	**-**

18

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	March 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Consumer								
Credit cards	387	159	422	968	-	22,397	23,365	-
Overdrafts	17	-	-	17	-	203	220	-
Personal lines of credit	51	49	53	153	3	2,194	2,350	-
Personal loans	2,518	927	1,104	4,549	434	205,240	210,223	-
Cash collateral personal loans	214	19	14	247	-	15,922	16,169	-
Total consumer	**3,187**	**1,154**	**1,593**	**5,934**	**437**	**245,956**	**252,327**	**-**
Auto and leasing	**53,801**	**17,203**	**7,742**	**78,746**	**57**	**608,356**	**687,159**	**-**
Total	**$ 70,809**	**$ 38,514**	**$ 100,149**	**$ 209,472**	**$ 198,805**	**$ 2,708,413**	**$ 3,116,690**	**$ 4,666**

19

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
	(In thousands)							
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 80	$ 2,217	$ 3,889	$ 6,186	$ 41	$ 51,562	$ 57,789	$ 144
Years 2003 and 2004	251	5,036	5,536	10,823	-	88,623	99,446	-
Year 2005	79	2,553	3,549	6,181	-	48,040	54,221	-
Year 2006	551	2,878	7,934	11,363	176	66,864	78,403	-
Years 2007, 2008 and 2009	170	2,053	14,733	16,956	-	74,590	91,546	526
Years 2010, 2011, 2012, 2013	662	1,673	10,519	12,854	141	137,749	150,744	72
Years 2014 and 2015	-	65	663	728	-	85,128	85,856	-
	1,793	16,475	46,823	65,091	358	552,556	618,005	742
Non-traditional	-	977	5,079	6,056	13	23,483	29,552	-
Loss mitigation program	9,958	6,887	14,930	31,775	5,593	64,548	101,916	3,083
	11,751	24,339	66,832	102,922	5,964	640,587	749,473	3,825
Home equity secured personal loans	-	-	64	64	-	346	410	-
GNMA's buy-back option program	-	-	7,945	7,945	-	-	7,945	-
Total mortgage	**11,751**	**24,339**	**74,841**	**110,931**	**5,964**	**640,933**	**757,828**	**3,825**
Commercial								
Commercial secured by real estate:								
Corporate	-	-	-	-	-	227,557	227,557	-
Institutional	213	-	-	213	-	33,594	33,807	-
Middle market	1,174	712	9,113	10,999	1,730	194,219	206,948	-
Retail	686	466	6,921	8,073	1,177	231,840	241,090	-
Floor plan	-	-	-	-	-	2,892	2,892	-
Real estate	-	-	-	-	-	16,662	16,662	-
	2,073	1,178	16,034	19,285	2,907	706,764	728,956	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	108,582	108,582	-
Institutional	-	-	-	-	190,290	190,695	380,985	-
Middle market	-	-	-	-	1,565	105,748	107,313	-
Retail	282	639	604	1,525	783	75,489	77,797	-
Floor plan	238	51	39	328	-	37,688	38,016	-
	520	690	643	1,853	192,638	518,202	712,693	-

Total commercial	**2,593**	**1,868**	**16,677**	**21,138**	**195,545**	**1,224,966**	**1,441,649**	**-**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Consumer								
Credit cards	449	182	369	1,000	-	21,766	22,766	-
Overdrafts	24	-	-	24	-	166	190	-
Personal lines of credit	74	-	45	119	19	2,106	2,244	-
Personal loans	2,078	1,179	627	3,884	414	196,858	201,156	-
Cash collateral personal loans	125	17	2	144	-	16,450	16,594	-
Total consumer	**2,750**	**1,378**	**1,043**	**5,171**	**433**	**237,346**	**242,950**	**-**
Auto and leasing	**53,566**	**16,898**	**8,293**	**78,757**	**49**	**590,357**	**669,163**	**-**
Total	**$ 70,660**	**$ 44,483**	**$ 100,854**	**$ 215,997**	**$ 201,991**	**$ 2,693,602**	**$ 3,111,590**	**$ 3,825**

During 2015, the Company changed its early delinquency reporting on mortgage loans from one scheduled payment due to two scheduled payments due in order to comply with regulatory reporting instructions and be comparable with local peers, except for troubled-debt restructured loans which continue using one scheduled payment due for delinquency reporting.

At March 31, 2016 and December 31, 2015, the Company had a carrying balances of $330.8 million and $334.6 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All loans granted to the Puerto Rico government were current at March 31, 2016 and December 31, 2015. We, as part of a bank syndicate, have granted various extensions to the Puerto Rico Electric Power Authority ("PREPA") and on November 5, 2015 entered into a Restructuring Support Agreement with a view towards restructuring the debt on terms that provide for full repayment of the debt to the Bank. After the first extension in the third quarter of 2014, the Company classified the credit as substandard and a troubled-debt restructuring. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual and recorded a $24 million provision during the first quarter of 2015. During the fourth quarter of 2015, the Company recorded an additional $29.3 million provision for loan and lease losses on PREPA. Since it was placed in non-accrual, interest payments have been applied to principal. At March 31, 2016, and December 31, 2015, the allowance for loan and lease losses to PREPA was $53.3 million.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Loans

Acquired loans were initially measured at fair value and subsequently accounted for under either ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality) or ASC 310-20 (Non-refundable fees and Other Costs). We have acquired loans in two bank acquisitions, 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, excluding the acquired Eurobank loan portfolio, are accounted for under the guidance of ASC 310-20, which requires that any contractually required loan payment receivable in excess of the Company's initial investment in the loans be accreted into interest income on a level-yield basis over the life of the loan. Loans accounted for under ASC 310-20 are placed on non-accrual status when past due in accordance with the Company's non-accrual policy, and any accretion of discount or amortization of premium is discontinued. 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 March 31, 2016 and December 31, 2015, by class of loans:

	March 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							
Commercial								

Commercial secured by real estate								
Retail	$ -	$ -	$ 214	$ 214	$ -	$ -	$ 214	$ -
Floor plan	-	-	457	457	-	2,363	2,820	-
	-	-	671	671	-	2,363	3,034	-
Other commercial and industrial								
Retail	68	8	177	253	-	3,264	3,517	-
Floor plan	-	-	7	7	-	-	7	-
	68	8	184	260	-	3,264	3,524	-
	68	**8**	**855**	**931**	**-**	**5,627**	**6,558**	**-**
Consumer								
Credit cards	650	328	779	1,757	-	31,631	33,388	-
Personal loans	37	9	9	55	-	2,903	2,958	-
	687	**337**	**788**	**1,812**	**-**	**34,534**	**36,346**	**-**
Auto	**6,895**	**2,108**	**553**	**9,556**	**-**	**81,850**	**91,406**	**-**
Total	**$ 7,650**	**$ 2,453**	**$ 2,196**	**$ 12,299**	**$ -**	**$ 122,011**	**$ 134,310**	**$ -**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
	(In thousands)							
Commercial								
Commercial secured by real estate								
Retail	$ -	$ -	$ 228	$ 228	$ -	$ -	$ 228	$ -
Floor plan	-	-	467	467	-	2,422	2,889	-
	-	-	695	695	-	2,422	3,117	-
Other commercial and industrial								
Retail	186	29	178	393	-	3,331	3,724	-
Floor plan	-	-	7	7	-	609	616	-
	186	29	185	400	-	3,940	4,340	-
	186	**29**	**880**	**1,095**	**-**	**6,362**	**7,457**	**-**
Consumer								
Credit cards	930	384	489	1,803	-	33,414	35,217	-
Personal loans	14	29	46	89	-	3,079	3,168	-
	944	**413**	**535**	**1,892**	**-**	**36,493**	**38,385**	**-**
Auto	**7,553**	**2,279**	**831**	**10,663**	**-**	**96,248**	**106,911**	**-**
Total	**$ 8,683**	**$ 2,721**	**$ 2,246**	**$ 13,650**	**$ -**	**$ 139,103**	**$ 152,753**	**$ -**

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 the Company 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 March 31, 2016 and December 31, 2015 is as follows:

	March 31, 2016	December 31, 2015
	(In thousands)	
Contractual required payments receivable	$1,860,343	$1,945,098
Less: Non-accretable discount	$428,976	$434,190
Cash expected to be collected	1,431,367	1,510,908
Less: Accretable yield	340,663	361,688
Carrying amount, gross	1,090,704	1,149,220
Less: allowance for loan and lease losses	27,747	25,785
Carrying amount, net	**$1,062,957**	**$1,123,435**

At March 31, 2016 and December 31, 2015, the Company had $71.0 million and $80.9 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its acquired BBVAPR loans accounted for under ASC 310-30. This entire amount was current at March 31, 2016 and December 31, 2015.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables describe the accretable yield and non-accretable discount activity of acquired BBVAPR loans accounted for under ASC 310-30 for the quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31, 2016					
	Mortgage	**Commercial**	**Construction**	**Auto**	**Consumer**	**Total**
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 268,794	$ 45,411	$ 19,615	$ 21,578	$ 6,290	$ 361,688
Accretion	(8,307)	(5,839)	(1,869)	(4,211)	(938)	(21,164)
Change in expected cash flows	-	128	200	1	-	329
Transfer from (to) non-accretable discount	70	402	(790)	219	(91)	(190)
Balance at end of period	**$ 260,557**	**$ 40,102**	**$ 17,156**	**$ 17,587**	**$ 5,261**	**$ 340,663**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 374,772	$ 11,781	$ 6,764	$ 22,039	$ 18,834	$ 434,190
Change in actual and expected cash flows	(4,547)	(663)	(122)	118	(190)	(5,404)
Transfer (to) from accretable yield	(70)	(402)	790	(219)	91	190
Balance at end of period	**$ 370,155**	**$ 10,716**	**$ 7,432**	**$ 21,938**	**$ 18,735**	**$ 428,976**

	Quarter Ended March 31, 2015					
	Mortgage	**Commercial**	**Construction**	**Auto**	**Consumer**	**Total**
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 298,364	$ 61,196	$ 25,829	$ 53,998	$ 6,559	$ 445,946
Accretion	(8,987)	(10,759)	(3,810)	(6,988)	(926)	(31,470)
Transfer (to) from non-accretable discount	(4,765)	6,893	(2,629)	87	(32)	(446)
Balance at end of period	**$ 284,612**	**$ 57,330**	**$ 19,390**	**$ 47,097**	**$ 5,601**	**$ 414,030**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 389,839	$ 23,069	$ 3,486	$ 16,215	$ 24,018	$ 456,627
Change in actual and expected cash flows	(1,995)	(350)	(2,158)	(1,585)	(474)	(6,562)
Transfer from (to) accretable yield	4,765	(6,893)	2,629	(87)	32	446
Balance at end of period	**$ 392,609**	**$ 15,826**	**$ 3,957**	**$ 14,543**	**$ 23,576**	**$ 450,511**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Eurobank Loans

The carrying amount of acquired Eurobank loans at March 31, 2016 and December 31, 2015 is as follows:

		March 31 2016		December 31 2015
		(In thousands)		
Contractual required payments receivable	$	334,111	$	342,511
Less: Non-accretable discount		12,703		21,156
Cash expected to be collected		321,408		321,355
Less: Accretable yield		86,227		84,391
Carrying amount, gross		235,181		236,964
Less: Allowance for loan and lease losses		92,293		90,178
Carrying amount, net	**$**	**142,888**	**$**	**146,786**

The following tables describe the accretable yield and non-accretable discount activity of acquired Eurobank loans for the quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31, 2016									
		Loans Secured by 1-4 Family Residential Properties		Commercial and Other Construction		Construction & Development Secured by 1-4 Family Residential Properties		Consumer		Total
	(In thousands)									
Accretable Yield Activity:										
Balance at beginning of period	$	51,954	$	26,970	$	2,255	$	3,213	$	84,392
Accretion		(2,266)		(4,095)		(14)		(1,185)		(7,560)
Change in expected cash flows		984		11,093		(23)		(2,028)		10,026
Transfer from (to) non-accretable discount		115		(765)		19		-		(631)
Balance at end of period	**$**	**50,787**	**$**	**33,203**	**$**	**2,237**	**$**	**-**	**$**	**86,227**
Non-Accretable Discount Activity:										
Balance at beginning of period	$	12,869	$	-	$	-	$	8,287	$	21,156
Change in actual and expected cash flows		(51)		(765)		19		(8,287)		(9,084)
Transfer (to) from accretable yield		(115)		765		(19)		-		631

Balance at end of period	**$**	**12,703**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**12,703**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended March 31, 2015					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 47,636	$ 37,919	$ 20,753	$ 2,479	$ 1,072	$ 109,859
Accretion	(3,518)	(9,855)	(619)	(1,392)	(120)	(15,504)
Transfer from non-accretable discount	14,214	5,417	672	578	1,052	21,933
Balance at end of period	**$ 58,332**	**$ 33,481**	**$ 20,806**	**$ 1,665**	**$ 2,004**	**$ 116,288**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 27,348	$ 24,464	$ -	$ -	$ 10,598	$ 62,410
Change in actual and expected cash flows	(577)	(8,554)	672	578	116	(7,765)
Transfer to accretable yield	(14,214)	(5,417)	(672)	(578)	(1,052)	(21,933)
Balance at end of period	**$ 12,557**	**$ 10,493**	**$ -**	**$ -**	**$ 9,662**	**$ 32,712**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

The following table presents the recorded investment in loans in non-accrual status by class of loans as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
	(In thousands)	
Originated and other loans and leases held for investment		
Mortgage		
Traditional (by origination year):		
Up to the year 2002	$ 3,051	$ 3,786
Years 2003 and 2004	5,958	5,737
Year 2005	3,941	3,627
Year 2006	7,532	8,189
Years 2007, 2008 and 2009	13,742	14,625
Years 2010, 2011, 2012, 2013	9,056	10,588
Years 2014, 2015 and 2016	1,162	663
	44,442	47,215
Non-traditional	5,055	5,092
Loss mitigation program	19,630	20,172
	69,127	**72,479**
Home equity loans, secured personal loans	-	64
	69,127	**72,543**
Commercial		
Commercial secured by real estate		
Middle market	12,012	12,729
Retail	10,597	8,726
	22,609	21,455
Other commercial and industrial		
Institutional	186,675	190,290
Middle market	1,493	1,565
Retail	1,527	1,932
Floor plan	41	39
	189,736	193,826
	212,345	**215,281**
Consumer		
Credit cards	422	369
Personal lines of credit	64	100
Personal loans	1,539	1,146
Cash collateral personal loans	14	16
	2,039	**1,631**
Auto and leasing	**7,873**	**8,418**

Total non-accrual originated loans	$	**291,384**	$	**297,873**

27

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	March 31, 2016	December 31, 2015
	(In thousands)	
Acquired BBVAPR loans accounted for under ASC 310-20		
Commercial		
Commercial secured by real estate		
Retail	$ 214	$ 228
Floor plan	456	467
	670	695
Other commercial and industrial		
Retail	177	178
Floor plan	7	7
	184	185
	854	**880**
Consumer		
Credit cards	779	489
Personal loans	9	46
	788	**535**
Auto	**572**	**831**
Total non-accrual acquired BBVAPR loans accounted for under ASC 310-20	**2,214**	**2,246**
Total non-accrual loans	**$ 293,598**	**$ 300,119**

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 18 months or more past due, since they are insured loans. Therefore, these loans are included as non-performing loans but excluded from non-accrual loans.

During the first quarter of 2015, the revolving line of credit to PREPA was classified as non-accrual. At March 31, 2016, this line of credit had an unpaid principal balance of $186.7 million. Since the second quarter of 2015, interest payments are applied to principal. As of March 31, 2016, the specific reserve for the PREPA line of credit is $53.3 million.

At March 31, 2016 and December 31, 2015, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $96.5 million and $93.6 million,

respectively, as they are performing under their new terms.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

The Company evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans was $227.1 million and $235.8 million at March 31, 2016 and December 31, 2015, respectively. Impaired commercial loans at March 31, 2016 and December 31, 2015 included the PREPA line of credit with an unpaid principal balance of $186.7 million and $190.3 million, respectively. The impaired 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 valuation allowance for impaired commercial loans amounted to $56.6 million at March 31, 2016 and $55.9 million at December 31, 2015. The valuation allowance for impaired commercial loans at March 31, 2016 and December 31, 2015 included $53.3 million of specific allowance for PREPA. The total investment in impaired mortgage loans was $90.8 million and $90.0 million at March 31, 2016 and December 15, 2015, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to $9.1 million at March 31, 2016 and $9.2 million at December 31, 2015.

<u>*Originated and Other Loans and Leases Held for Investment*</u>

The Company'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 March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance:				
Commercial	$ 211,543	$ 196,997	$ 56,580	29%
Residential impaired and troubled-debt restructuring	98,610	90,772	9,135	10%
Impaired loans with no specific allowance:				
Commercial	37,034	29,656	-	0%
Total investment in impaired loans	**$ 347,187**	**$ 317,425**	**$ 65,715**	**21%**

	December 31, 2015			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			

Impaired loans with specific allowance:							
Commercial	$	210,718	$	199,366	$	55,947	29%
Residential impaired and troubled-debt restructuring		97,424		89,973		9,233	10%
Impaired loans with no specific allowance							
Commercial		42,110		35,928		-	0%
Total investment in impaired loans	**$**	**350,252**	**$**	**325,267**	**$**	**65,180**	**21%**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired BBVAPR Loans

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

The Company'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 March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
		(In thousands)		
Impaired loans with no specific allowance				
Commercial	$ 478	$ 464	$ -	0%
Total investment in impaired loans	**$ 478**	**$ 464**	**$ -**	**0%**

	December 31, 2015			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage
		(In thousands)		
Impaired loans with no specific allowance				
Commercial	$ 486	$ 474	$ -	0%
Total investment in impaired loans	**$ 486**	**$ 474**	**$ -**	**0%**

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

The Company'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 March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance:				
Mortgage	$ 600,901	$ 600,901	$ 1,762	0%
Commercial	267,931	164,913	15,668	10%

Construction		77,619		77,619		4,762	6%
Auto		134,669		134,669		5,555	4%
Total investment in impaired loan pools	**$**	**1,081,120**	**$**	**978,102**	**$**	**27,747**	**3%**

30

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31 , 2015			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools with specific allowance:				
Mortgage	$ 608,294	$ 608,294	$ 1,762	0%
Commercial	287,311	168,107	15,454	9%
Construction	88,180	87,983	5,707	6%
Auto	153,592	153,592	2,862	2%
Total investment in impaired loan pools	**$ 1,137,377**	**$ 1,017,976**	**$ 25,785**	**3%**

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

Acquired Eurobank Loans

The Company's recorded investment in acquired Eurobank loan pools that have recorded impairments and their related allowance for loan and lease losses as of March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016			
	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	$ 96,028	$ 91,113	$ 23,961	26%
Commercial and construction	130,042	142,298	68,089	48%
Consumer	1,708	1,770	243	14%
Total investment in impaired loan pools	**$ 227,778**	**$ 235,181**	**$ 92,293**	39%

	December 31, 2015			
	Unpaid	Recorded	Specific	Coverage

	Principal	Investment	Allowance	to Recorded Investment
		(In thousands)		
Impaired loan pools with specific allowance				
Loans secured by 1-4 family residential properties	$ 101,444	$ 92,273	$ 22,570	24%
Commercial and construction	133,148	142,377	67,365	47%
Consumer	6,713	2,314	243	11%
Total investment in impaired loan pools	**$ 241,305**	**$ 236,964**	**$ 90,178**	38%

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

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the interest recognized in commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30 for the quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31,			
	2016		2015	
	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	$ 71	$ 196,795	$ 3,695	$ 79,873
Residential troubled-debt restructuring	798	90,292	733	93,391
Impaired loans with no specific allowance				
Commercial	270	33,626	241	161,568
	1,139	**320,713**	**4,669**	**334,832**
Acquired loans accounted for under ASC 310-20:				
Impaired loans with no specific allowance				
Commercial	-	467	12	2,401
Total interest income from impaired loans	**$ 1,139**	**$ 321,180**	**$ 4,681**	**$ 337,233**

Modifications

The following tables present the troubled-debt restructurings during the quarters ended March 31, 2016 and 2015.

	Quarter Ended March 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	33	$ 3,957	6.03%	361	$ 4,854	4.83%	493
Commercial	2	655	6.81%	41	656	6.71%	36
Consumer	21	192	14.28%	75	231	11.15%	72

	Quarter Ended March 31, 2015						
	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	51	$ 6,182	4.00%	356	$ 6,054	4.02%	357
Commercial	3	4,505	6.83%	80	4,505	7.00%	141
Consumer	11	146	14.67%	75	182	14.80%	66

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents troubled-debt restructurings for which there was a payment default during the twelve-month periods ended March 31, 2016 and 2015:

	Twelve Month Period Ended March 31,			
	2016		2015	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Mortgage	31	$ 3,732	60	$ 6,963
Consumer	3	$ 77	6	$ 81
Auto	1	$ 17	-	$ -

Credit Quality Indicators

The Company 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.

The Company 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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of March 31, 2016 and December 31, 2015, 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:

	March 31, 2016 Risk Ratings					
	Balance Outstanding	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Individually Measured for Impairment**
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 228,782	$ 213,714	$ 15,068	$ -	$ -	$ -
Institutional	27,584	25,779	-	-	-	1,805
Middle market	208,903	180,248	14,078	189	-	14,388
Retail	244,020	219,150	7,592	5,069	-	12,209
Floor plan	2,859	2,859	-	-	-	-
Real estate	16,372	16,372	-	-	-	-
	728,520	658,122	36,738	5,258	-	28,402
Other commercial and industrial:						
Corporate	120,881	113,235	-	-	-	7,646
Institutional	363,255	176,580	-	-	-	186,675
Middle market	103,788	92,896	8,787	218	-	1,887
Retail	74,624	69,644	1,749	1,227	-	2,004
Floor plan	34,317	34,195	-	83	-	39
	696,865	486,550	10,536	1,528	-	198,251
Total	1,425,385	1,144,672	47,274	6,786	-	226,653
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	214	-	-	214	-	-
Floor plan	2,820	574	1,789	-	-	457
	3,034	574	1,789	214	-	457
Other commercial and industrial:						
Retail	3,517	3,444	-	73	-	-
Floor plan	7	-	-	-	-	7
	3,524	3,444	-	73	-	7
Total	6,558	4,018	1,789	287	-	464
Total	**$ 1,431,943**	**$ 1,148,690**	**$ 49,063**	**$ 7,073**	**$ -**	**$ 227,117**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015 Risk Ratings					
	Balance Outstanding	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Individually Measured for Impairment**
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 227,557	$ 212,410	$ 15,147	$ -	$ -	$ -
Institutional	33,807	25,907	-	-	-	7,900
Middle market	206,948	181,916	9,697	-	-	15,335
Retail	241,090	217,836	7,936	5,097	-	10,221
Floor plan	2,892	2,892	-	-	-	-
Real estate	16,662	16,662	-	-	-	-
	728,956	657,623	32,780	5,097	-	33,456
Other commercial and industrial:						
Corporate	108,582	100,826	-	-	-	7,756
Institutional	380,985	190,695	-	-	-	190,290
Middle market	107,313	97,288	8,052	-	-	1,973
Retail	77,797	73,757	1,076	1,184	-	1,780
Floor plan	38,016	35,862	2,115	-	-	39
	712,693	498,428	11,243	1,184	-	201,838
Total	1,441,649	1,156,051	44,023	6,281	-	235,294
Commercial - acquired loans						
(under ASC 310-20)						
Commercial secured by real estate:						
Retail	228	-	-	228	-	-
Floor plan	2,889	602	1,820	-	-	467
	3,117	602	1,820	228	-	467
Other commercial and industrial:						
Retail	3,724	3,637	-	87	-	-
Floor plan	616	609	-	-	-	7
	4,340	4,246	-	87	-	7
Total	7,457	4,848	1,820	315	-	474
Total	**$ 1,449,106**	**$ 1,160,899**	**$ 45,843**	**$ 6,596**	**$ -**	**$ 235,768**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At March 31, 2016 and 2015, the Company had outstanding credit facilities of approximately $401.8 million and $415.4 million, respectively, granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, included within portfolio of originated and other loans and acquired BBVAPR loans accounted for under ASC 310-30. A substantial portion of the Company's credit exposure to Puerto Rico's government consists of collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Approximately $204 million of these loans 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.

At March 31, 2016, we had approximately $198.2 million of credit facilities to central government and public corporations of the Commonwealth, including:

- PREPA with an outstanding balance of $186.7 million; and
- The PRHFA with an outstanding balance of $11.0 million to be repaid from abandoned or unclaimed funds at financial institutions that revert to the government under a Puerto Rico escheat law.

The outstanding balance of credit facilities to public corporations decreased to $10.0 during the first quarter of 2016 as a result of partial repayment by PRHFA.

Oriental Bank is part of a four bank syndicate providing a $550 million revolving line of credit to finance the purchase of fuel for PREPA's day-to-day power generation activities. Our participation in the line of credit has an unpaid principal balance of $186.7 million as of March 31, 2016. As part of the bank syndicate, the Bank entered into a forbearance agreement with PREPA, which was extended several times during 2015 until the execution of a Restructuring Support Agreement on November 5, 2015 with PREPA and certain other creditors. The Restructuring Support Agreement provides for the restructuring of the fuel line of credit subject to the accomplishment of several milestones, including some milestones that depend on the actions of third parties to the agreement, such as the negotiation of agreements with other creditors and legislative action. The Company has classified the credit facility to PREPA as doubtful and on non-accrual status. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual and recorded a $24 million provision during the first quarter of 2015. During the fourth quarter of 2015, the Company recorded an additional $29.3 million provision for loan and lease losses for PREPA as a result of the increased level of uncertainty as to the closing of the restructuring agreement, which is expected by the second half of 2016. Since April 1, 2015, interest payments have been applied to principal.

The PREPA Revitalization Act was recently signed into law by the Governor of Puerto Rico. It provides for a major debt restructuring of PREPA's outstanding debt and sets forth a legal framework for PREPA to execute on the agreements reached with its creditors. Among other things, it (i) enhances PREPA's governance processes; (ii) adjusts PREPA's practices for hiring and managing personnel; (iii) changes PREPA's processes for collecting outstanding bills from public and private entities; (iv) improves transparency of PREPA's billing practices; (v) implements a competitive bidding process for soliciting third party investment in PREPA's infrastructure; (vi) allows for the refinancing of existing PREPA bonds through a securitization that would reduce PREPA's indebtedness and cost of borrowing; and (vii) sets forth a process for the Energy Commission to address PREPA's proposal for a new rate structure that consistent with its recovery plan.

PREPA's enabling act provides for local receivership upon request to any Puerto Rico court of competent jurisdiction in the event of a default in debt-service payments or other obligations in connection with PREPA's bonds. The receiver so appointed would be empowered, directly or through its agents and attorneys, to take possession of the undertakings, income and revenues pledged to the payment of the bonds in default; to have, hold, use, operate, manage and control the same; and to exercise all of PREPA's rights and powers with respect to such undertakings. However, any such receiver would not have the power to sell, assign, mortgage or otherwise dispose of PREPA's assets, and its powers would be limited to the operation and maintenance of such undertakings and the collection and application of the income and revenues therefrom. Although the Puerto Rico government is actively seeking the right to bankruptcy relief for some of its public instrumentalities, including PREPA, both through an amendment to the federal bankruptcy code and the enactment of a local debt restructuring law, such efforts have thus far been unsuccessful.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of March 31, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of gross originated and other loans and acquired BBVAPR loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

	March 31, 2016							
		Delinquency						
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 55,633	$ 50,439	$ 82	$ 1,219	$ 629	$ 1,352	$ 1,229	$ 683
Years 2003 and 2004	97,289	85,896	388	3,580	1,681	1,552	2,444	1,748
Year 2005	53,491	46,578	314	1,893	315	1,412	2,140	839
Year 2006	76,070	63,614	402	1,238	816	1,620	4,775	3,605
Years 2007, 2008 and 2009	88,477	69,491	282	1,420	997	2,909	9,617	3,761
Years 2010, 2011, 2012 2013	148,245	134,179	452	1,819	69	1,777	5,866	4,083
Years 2014, 2015 and 2016	92,819	91,277	-	444	639	225	234	-
	612,024	541,474	1,920	11,613	5,146	10,847	26,305	14,719
Non-traditional	27,707	22,299	-	395	128	2,337	2,548	-
Loss mitigation program	104,011	17,800	2,890	1,953	669	1,498	3,148	76,053
	743,742	581,573	4,810	13,961	5,943	14,682	32,001	90,772
Home equity secured personal loans	393	393	-	-	-	-	-	-
GNMA's buy-back option program	7,684	-	-	-	805	3,730	3,149	-
	751,819	**581,966**	**4,810**	**13,961**	**6,748**	**18,412**	**35,150**	**90,772**
Consumer								
Credit cards	23,365	22,403	387	153	192	230	-	-
Overdrafts	220	203	17	-	-	-	-	-
	2,350	2,197	51	49	22	31	-	-

Unsecured personal lines of credit								
Unsecured personal loans	210,223	205,756	2,458	920	1,082	7	-	-
Cash collateral personal loans	16,169	15,922	214	19	14	-	-	-
	252,327	**246,481**	**3,127**	**1,141**	**1,310**	**268**	**-**	**-**
Auto and Leasing	**687,159**	**608,442**	**53,801**	**17,203**	**5,572**	**2,141**	**-**	**-**
	1,691,305	**1,436,889**	**61,738**	**32,305**	**13,630**	**20,821**	**35,150**	**90,772**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	33,388	31,631	650	328	287	492	-	-
Personal loans	2,959	2,903	37	9	-	10	-	-
	36,346	**34,534**	**687**	**337**	**287**	**502**	**-**	**-**
Auto	**91,406**	**81,849**	**6,895**	**2,108**	**342**	**212**	**-**	**-**
	127,752	**116,383**	**7,582**	**2,445**	**629**	**714**	**-**	**-**
Total	**$ 1,819,057**	**$ 1,553,272**	**$ 69,320**	**$ 34,750**	**$ 14,259**	**$ 21,535**	**$ 35,150**	**$ 90,772**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2015							
		Delinquency						
	Balance Outstanding	**0-29 days**	**30-59 days**	**60-89 days**	**90-119 days**	**120-364 days**	**365+ days**	**Individually Measured for Impairment**
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 57,789	$ 50,912	$ 82	$ 2,218	$ 530	$ 1,504	$ 1,858	$ 685
Years 2003 and 2004	99,446	87,060	251	4,867	1,261	1,353	2,921	1,733
Year 2005	54,221	47,197	79	2,553	292	1,068	2,189	843
Year 2006	78,403	63,659	318	2,878	1,168	1,895	4,871	3,614
Years 2007, 2008 and 2009	91,546	71,439	170	1,665	685	2,972	10,725	3,890
Years 2010, 2011, 2012 2013	150,744	134,945	569	1,611	434	1,982	6,737	4,466
Year 2014 and 2015	85,856	85,128	-	65	148	281	234	-
	618,005	540,340	1,469	15,857	4,518	11,055	29,535	15,231
Non-traditional	29,552	23,497	-	977	552	2,621	1,905	-
Loss mitigation program	101,916	16,031	4,173	1,977	727	1,728	2,538	74,742
	749,473	579,868	5,642	18,811	5,797	15,404	33,978	89,973
Home equity secured personal loans	410	346	-	-	-	64	-	-
GNMA's buy-back option program	7,945	-	-	-	1,593	3,578	2,774	-
	757,828	**580,214**	**5,642**	**18,811**	**7,390**	**19,046**	**36,752**	**89,973**
Consumer								
Credit cards	22,766	21,766	449	182	179	190	-	-
Overdrafts	190	166	24	-	-	-	-	-
Unsecured personal lines of credit	2,244	2,125	74	-	17	28	-	-
Unsecured personal loans	201,156	197,339	2,083	1,107	621	6	-	-
Cash collateral personal loans	16,594	16,450	125	17	2	-	-	-
	242,950	**237,846**	**2,755**	**1,306**	**819**	**224**	**-**	**-**
Auto and Leasing	**669,163**	**590,482**	**53,549**	**16,839**	**5,708**	**2,585**	**-**	**-**

	1,669,941	**1,408,542**	**61,946**	**36,956**	**13,917**	**21,855**	**36,752**	**89,973**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	35,217	33,414	930	384	186	303	-	-
Personal loans	3,168	3,079	14	29	1	45	-	-
	38,385	**36,493**	**944**	**413**	**187**	**348**	**-**	**-**
Auto	**106,911**	**96,247**	**7,553**	**2,279**	**623**	**209**	**-**	**-**
	145,296	**132,740**	**8,497**	**2,692**	**810**	**557**	**-**	**-**
Total	**$ 1,815,237**	**$ 1,541,282**	**$ 70,443**	**$ 39,648**	**$ 14,727**	**$ 22,412**	**$ 36,752**	**$ 89,973**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the Company's allowance for loan and lease losses at March 31, 2016 and December 31, 2015 was as follows:

	March 31, 2016	December 31, 2015
	(In thousands)	
Allowance for loans and lease losses on non-acquired loans:		
Originated and other loans and leases held for investment:		
Mortgage	$ 18,784	$ 18,352
Commercial	64,206	64,791
Consumer	11,414	11,197
Auto and leasing	18,716	18,261
Unallocated	118	25
Total allowance for originated and other loans and lease losses	**113,238**	**112,626**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	23	26
Consumer	3,243	3,429
Auto	1,727	2,087
	4,993	**5,542**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	1,762	1,762
Commercial	20,430	21,161
Auto	5,555	2,862
	27,747	**25,785**
Total allowance for acquired BBVAPR loans and lease losses	**145,978**	**143,953**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	23,961	22,570
Commercial and other construction	68,089	67,365
Consumer	243	243
Total allowance for acquired Eurobank loan and lease losses	**92,293**	**90,178**
Total allowance for loan and lease losses	**$ 238,271**	**$ 234,131**

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company’s allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. 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 the Company’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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Quarter Ended March 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 period	$ 18,352	$ 64,791	$ 11,197	$ 18,261	$ 25	$ 112,6
Charge-offs	(1,662)	(1,011)	(2,327)	(8,362)	-	(13,36
Recoveries	145	88	102	2,979	-	3,3
Provision for originated and other loans and lease losses	1,949	338	2,442	5,838	93	10,6
Balance at end of period	**$ 18,784**	**$ 64,206**	**$ 11,414**	**$ 18,716**	**$ 118**	**$ 113,2**

	March 31, 2016					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	T
	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 9,135	$ 56,580	$ -	$ -	$ -	$
Collectively evaluated for impairment	9,649	7,626	11,414	18,716	118	
Total ending allowance balance	**$ 18,784**	**$ 64,206**	**$ 11,414**	**$ 18,716**	**$ 118**	**$**
Loans:						
Individually evaluated for impairment	$ 90,772	$ 226,653	$ -	$ -	$ -	$
Collectively evaluated for impairment	661,047	1,198,732	252,327	687,159	-	2,
Total ending loan balance	**$ 751,819**	**$ 1,425,385**	**$ 252,327**	**$ 687,159**	**$ -**	**$ 3,**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended March 31, 2015					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 19,679	$ 8,432	$ 9,072	$ 14,255	$ 1	$ 51,43
Charge-offs	(1,414)	(992)	(1,676)	(8,136)	-	(12,21
Recoveries	-	89	153	3,384	-	3,62
Provision (recapture) for originated and other loans and lease losses	(179)	25,594	1,856	6,259	382	33,91
Balance at end of period	**$ 18,086**	**$ 33,123**	**$ 9,405**	**$ 15,762**	**$ 383**	**$ 76,75**

	December 31, 2015					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	T
	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 9,233	$ 55,947	$ -	$ -	$ -	$
Collectively evaluated for impairment	9,119	8,844	11,197	18,261	25	
Total ending allowance balance	**$ 18,352**	**$ 64,791**	**$ 11,197**	**$ 18,261**	**$ 25**	**$ 1**
Loans:						
Individually evaluated for impairment	$ 89,973	$ 235,294	$ -	$ -	$ -	$ 3
Collectively evaluated for impairment	667,855	1,206,355	242,950	669,163	-	2,7
Total ending loan balance	**$ 757,828**	**$ 1,441,649**	**$ 242,950**	**$ 669,163**	**$ -**	**$ 3,1**

41

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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, excluding loans accounted for under ASC 310-30, for the periods indicated:

	Quarter Ended March 31, 2016				
	Commercial	**Consumer**	**Auto**	**Unallocated**	**Total**
	(In thousands)				
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:					
Balance at beginning of period	$ 26	$ 3,429	$ 2,087	$ -	$ 5,542
Charge-offs	(7)	(812)	(737)	-	(1,556)
Recoveries	32	81	598	-	711
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	(28)	545	(221)	-	296
Balance at end of period	**$ 23**	**$ 3,243**	**$ 1,727**	**$ -**	**$ 4,993**

	March 31, 2016				
	Commercial	**Consumer**	**Auto**	**Unallocated**	**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:					
Collectively evaluated for impairment	$ 23	$ 3,243	$ 1,727	$ -	$ 4,993

Total ending allowance balance	**$**	**23**	**$**	**3,243**	**$**	**1,727**	**$**	**-**	**$**	**4,993**
Loans:										
Individually evaluated for impairment	$	464	$	-	$	-	$	-	$	464
Collectively evaluated for impairment		6,094		36,346		91,406		-		133,846
Total ending loan balance	**$**	**6,558**	**$**	**36,346**	**$**	**91,406**	**$**	**-**	**$**	**134,310**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended March 31, 2015				
	Commercial	**Consumer**	**Auto** (In thousands)	**Unallocated**	**Total**
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:					
Balance at beginning of period	$ 65	$ 1,211	$ 3,321	$ -	$ 4,597
Charge-offs	-	(1,380)	(1,267)	-	(2,647)
Recoveries	9	134	570	-	713
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	(25)	1,920	892	-	2,787
Balance at end of period	**$ 49**	**$ 1,885**	**$ 3,516**	**$ -**	**$ 5,450**

	December 31, 2015				
	Commercial	**Consumer**	**Auto** (In thousands)	**Unallocated**	**Total**
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:					
Ending allowance balance attributable to loans:					
Collectively evaluated for impairment	$ 26	$ 3,429	$ 2,087	$ -	$ 5,542
Total ending allowance balance	**$ 26**	**$ 3,429**	**$ 2,087**	**$ -**	**$ 5,542**
Loans:					
Individually evaluated for impairment	$ 474	$ -	$ -	$ -	$ 474
Collectively evaluated for impairment	6,983	38,385	106,911	-	152,279
Total ending loan balance	**$ 7,457**	**$ 38,385**	**$ 106,911**	**$ -**	**$ 152,753**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Quarter Ended March 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 period	$ 1,678	$ 21,245	$ -	$ 2,862	$ 25,785
Provision (recapture) for BBVAPR loans and lease losses accounted for under ASC 310-30	84	(749)	-	2,693	2,028
Loan pools fully charged-off	-	(66)	-	-	(66)
Balance at end of period	**$ 1,762**	**$ 20,430**	**$ -**	**$ 5,555**	**$ 27,747**

	Quarter Ended March 31, 2015				
	Mortgage	**Commercial**	**Consumer**	**Auto**	**Total**
			(In thousands)		
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:					
Balance at beginning of period	$ -	$ 13,476	$ -	$ 5	$ 13,481
Provision for BBVAPR loans and lease losses accounted for under ASC 310-30	-	211	-	474	685
Balance at end of period	**$ -**	**$ 13,687**	**$ -**	**$ 479**	**$ 14,166**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Allowance for Acquired Eurobank Loan Losses

For loans accounted for under ASC 310-30, as part of the evaluation of actual versus expected cash flows, the Company 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 changes in the allowance for loan and lease losses on acquired Eurobank loans for the quarters ended March 31, 2016 and 2015 were as follows:

	Quarter Ended March 31, 2016				
	Loans Secured by 1-4 Family Residential Properties	Commercial and Construction	Consumer	Leasing	Total
	(In thousands)				
Allowance for loan and lease losses for acquired Eurobank loans:					
Balance at beginning of period	$ 22,570	$ 67,365	$ 243	$ -	$ 90,178
Provision (recapture) for acquired Eurobank loans and lease losses, net	(53)	858	-	-	805
Loan pools fully charged-off	-	(134)	-	-	(134)
FDIC shared-loss portion of provision for covered loan and lease losses, net	1,444	-	-	-	1,444
Balance at end of period	**$ 23,961**	**$ 68,089**	**$ 243**	**$ -**	**$ 92,293**

	Quarter Ended March 31, 2015				
	Mortgage	Commercial and Construction	Consumer	Leasing	Total
	(In thousands)				
Allowance for loan and lease losses for acquired Eurobank loans:					
Balance at beginning of period	$ 15,522	$ 48,334	$ 389	$ -	$ 64,245

Provision for covered loan and lease losses, net	1,818	2,991	-	-	4,809
FDIC shared-loss portion of provision for covered loan and lease losses, net	-	1,597	-	-	1,597
Balance at end of period	**$ 17,340**	**$ 52,922**	**$ 389**	**$ -**	**$ 70,651**

The FDIC shared-loss portion of provision for acquired Eurobank loans and lease losses, net, represents the credit impairment losses to be covered under the FDIC loss-share agreement which is increasing the FDIC loss-share indemnification asset.

The FDIC loss sharing obligation, related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. The coverage for the single family residential loans will expire on June 30, 2020. The remaining covered loans are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties." At March 31, 2016 and December 31, 2015, allowance for loan losses on loans covered by the FDIC shared-loss agreement amounted to $24.0 million and $22.6 million, respectively. The provision for covered loan and lease losses for the quarters ended March 31, 2016 and 2015 was $54 thousand and $4.8 million, respectively.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6- FDIC INDEMNIFICATION ASSET, TRUE-UP PAYMENT OBLIGATION, AND FDIC SHARED-LOSS EXPENSE

In connection with the FDIC-assisted acquisition, the Bank and the FDIC entered into shared-loss agreements pursuant to which the FDIC covers a substantial portion of any losses on loans (and related unfunded loan commitments), foreclosed real estate and other repossessed properties covered by the agreements.

The acquired loans, foreclosed real estate, and other repossessed properties subject to the shared-loss agreements are collectively referred to as “covered assets.” Under the terms of the shared-loss agreements, the FDIC absorbs 80% of losses and shares in 80% of loss recoveries on covered assets. The term of the shared-loss agreement covering single family residential mortgage loans is ten years with respect to losses and loss recoveries, while the term of the shared-loss agreement covering commercial loans is five years with respect to losses and eight years with respect to loss recoveries, from the April 30, 2010 acquisition date. The coverage under the commercial shared-loss agreement expired on June 30, 2015. The shared-loss agreements also provide for certain costs directly related to the collection and preservation of covered assets to be reimbursed at an 80% level. The FDIC indemnification asset represents the portion of estimated losses covered by the shared-loss agreements between the Bank and the FDIC.

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31,			
		2016		2015
	(In thousands)			
FDIC indemnification asset:				
Balance at beginning of period	$	22,599	$	97,378
Shared-loss agreements reimbursements from the FDIC		(406)		(17,172)
Increase in expected credit losses to be covered under shared-loss agreements, net		1,444		1,597
FDIC indemnification asset expense		(2,865)		(12,221)
Incurred expenses to be reimbursed under shared-loss agreements		151		5,639
Balance at end of period	**$**	**20,923**	**$**	**75,221**
True-up payment obligation:				
Balance at beginning of period	$	24,658	$	21,981
Change in true-up payment obligation		577		863
Balance at end of period	**$**	**25,235**	**$**	**22,844**

The FDIC shared-loss expense bears an inverse relationship with a change in the yield of covered loan pools in accordance with ASC 310-30. ASC 310-30 dictates that such pools should be subject to increases in their yield when the present value of the expected cash flows is higher than the pool's carrying balance. When the increases in cash flow expectations are driven by reductions in the expected credit losses, the Bank recognizes that such losses are no longer expected to be collected from the FDIC. Accordingly, the Bank reduces the FDIC indemnification asset by amortizing the reduction in expected collections throughout the remaining life of the underlying pools. This amortization is recognized in the FDIC shared-loss expense account.

The underlying factors that caused an increase in the expected cash flows and resulting reduction in projected losses are derived from the pool-level cash flow forecasts. Credit loss assumptions used to develop each pool-level cash flow forecast are based on the behavior of defaults, recoveries and losses of the corresponding pool of covered loans.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The FDIC loss-share coverage for the commercial loans was in effect until June 30, 2015. Accordingly, the Company amortized the remaining portion of the FDIC indemnification asset attributable to non-single family loans at the close of the second quarter of 2015. At March 31, 2016 and December 31, 2015, the FDIC indemnification asset reflects only the balance for single family residential mortgage loans.

The Company has owed payments to the FDIC for the recovery of prior claims for commercial loans. At March 31, 2016, the liability for these payments amounted to $587 thousand and is recorded in other liabilities in the consolidated statements of financial condition until cash is paid to the FDIC. There was no liability at March 31, 2015.

The FDIC indemnification asset expense decreased to $2.9 million for the quarter ended March 31, 2016 when compared to $12.2 million for the same period in 2015. The decrease during the period was principally driven by the expiration of the FDIC loss-share coverage for commercial loans and other non-single family loans.

Also in connection with the FDIC-assisted acquisition, the Bank agreed to make a true-up payment, also known as clawback liability or clawback provision, to the FDIC on the date that is 45 days following the last day (such day, the "True-Up Measurement Date") of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of $906.0 million (or $181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or $227.5 million); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The estimated liability is included within accrued expenses and other liabilities in the unaudited consolidated statements of financial condition.

This true-up payment obligation may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value. The changes in fair value are included as a change in true-up payment obligation within the FDIC shared-loss expense, net, in the unaudited consolidated statements of operations.

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at March 31, 2016 and December 31, 2015:

		March 31, 2016		December 31, 2015
		(In thousands)		
Carrying amount (fair value)	$	25,235	$	24,658
Undiscounted amount	$	34,966	$	34,956

In connection with the FDIC-assisted acquisition, the Company recognized an FDIC shared-loss expense, net, in the unaudited consolidated statements of operations, which consists of the following for the quarters ended March 31, 2016 and December 31, 2015:

	Quarter Ended March 31,			
		2016		2015
		(In thousands)		
FDIC indemnification asset expense	$	2,865	$	12,221
Change in true-up payment obligation		577		863
Reimbursement to FDIC for recoveries		587		-
Total FDIC shared-loss expense, net	**$**	**4,029**	**$**	**13,084**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7 - SERVICING ASSETS

The Company periodically sells or securitizes mortgage loans while retaining the obligation to perform the servicing of such loans. In addition, the Company may purchase or assume the right to service mortgage loans originated by others. Whenever the Company 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 the Company 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 the Company 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, the Company 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 March 31, 2016, the servicing asset amounted to $7.8 million ($7.5 million — December 31, 2015) related to mortgage servicing rights.

The following table presents the changes in servicing rights measured using the fair value method for the quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31,			
	2016		2015	
	(In thousands)			
Fair value at beginning of period	$	7,455	$	13,992
Servicing from mortgage securitizations or asset transfers		557		531
Changes due to payments on loans		(104)		(418)
Changes in fair value due to changes in valuation model		(89)		(59)

inputs or assumptions				
Changes in fair value due to changes sales price of mortgage servicing rights held-for-sale inputs or assumptions		-		(1,882)
Fair value at end of period	**$**	**7,819**	**$**	**12,164**

The following table presents key economic assumption ranges used in measuring the mortgage-related servicing asset fair value for the quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31,	
	2016	**2015**
Constant prepayment rate	4.43% - 12.17%	4.51% - 11.39%
Discount rate	10.00% - 12.00%	10.00% - 12.00%

48

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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:

		March 31, 2016 (In thousands)
Mortgage-related servicing asset		
Carrying value of mortgage servicing asset	$	7,819
Constant prepayment rate		
Decrease in fair value due to 10% adverse change	$	(197)
Decrease in fair value due to 20% adverse change	$	(385)
Discount rate		
Decrease in fair value due to 10% adverse change	$	(22)
Decrease in fair value due to 20% adverse change	$	(43)

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 quarters ended March 31, 2016 and 2015, totaled $876 thousand and $1.8 million, respectively.

NOTE 8 — DERIVATIVES

The following table presents the Company's derivative assets and liabilities at March 31, 2016 and December 31, 2015:

		March 31, 2016		December 31, 2015
		(In thousands)		
Derivative assets:				
Options tied to S&P 500 Index	$	772	$	1,170
Interest rate swaps not designated as hedges		1,829		1,819
Interest rate caps		61		32
Other		-		4
	$	**2,662**	**$**	**3,025**
Derivative liabilities:				
Interest rate swaps designated as cash flow hedges		4,318		4,307
Interest rate swaps not designated as hedges		1,829		1,819
Interest rate caps		61		32
Other		12		4
	$	**6,220**	**$**	**6,162**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Interest Rate Swaps

The Company 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 the Company'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, are properly documented as such, and 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 income (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, the Company does not expect to reclassify any amount included in other comprehensive income (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 March 31, 2016:

Type		Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
Interest Rate Swaps	$	25,000	2.4365%	1-Month LIBOR	05/05/11	05/04/12	05/04/16
		25,000	2.6200%	1-Month LIBOR	05/05/11	07/24/12	07/24/16
		25,000	2.6350%	1-Month LIBOR	05/05/11	07/30/12	07/30/16
		50,000	2.6590%	1-Month LIBOR	05/05/11	08/10/12	08/10/16
		100,000	2.6750%	1-Month LIBOR	05/05/11	08/16/12	08/16/16
		37,638	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$	**262,638**					

An accumulated unrealized loss of $4.3 million was recognized in accumulated other comprehensive income (loss) related to the valuation of these swaps at March 31, 2016 and at December 31, 2015, and the related liability is being reflected in the accompanying unaudited consolidated statements of financial condition.

For both March 31, 2016 and at December 31, 2015, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $1.8 million, and were included as part of derivative assets in the unaudited consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At both, March 31, 2016 and December 31, 2015, interest rate swaps not

designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $1.8 million, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these interest rate swaps not designated as hedging instruments and their terms at March 31, 2016:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
Interest Rate Swaps - Derivatives Offered to Clients	$ 3,728	5.1300%	1-Month LIBOR	07/03/06	07/03/16
	12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$ 16,228				
Interest Rate Swaps - Mirror Image Derivatives	$ 3,728	5.1300%	1-Month LIBOR	07/03/06	07/03/16
	12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$ 16,228				

Options Tied to Standard & Poor's 500 Stock Market Index

The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. The Company uses option agreements with major broker-dealers to manage its exposure to changes in this index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the index in exchange for a fixed premium. The changes in fair value of the option agreements used to manage the exposure in the stock market in the certificates of deposit are recorded in earnings. At March 31, 2016 and December 31, 2015, the purchased options used to manage exposure to the S&P 500 Index on stock indexed deposits represented an asset of $772 thousand (notional amount of $2.2 million) and $1.2 million (notional amount of $3.4 million), respectively, and the options sold to customers embedded in the certificates of deposit and recorded as deposits in the unaudited consolidated statements of financial condition, represented a liability of $746 thousand (notional amount of $2.1 million) and $1.1 million (notional amount of $3.2 million), respectively.

Interest Rate Caps

The Company 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, the Company 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 March 31, 2016 and December 31, 2015, the outstanding total notional amount of interest rate caps was $124.6 million and $109.8 million, respectively. At March 31, 2016 and December 31, 2015, the interest rate caps sold to clients represented a liability of $61 thousand and $32 thousand, respectively, and were included as part of derivative liabilities in the unaudited

consolidated statements of financial condition. At March 31, 2016 and December 31, 2015, the interest rate caps purchased as mirror-images represented an asset of $61 thousand and $32 thousand, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial condition.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 9 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at March 31, 2016 and December 31, 2015 consists of the following:

	March 31, 2016	December 31, 2015
	(In thousands)	
Loans, excluding acquired loans	$ 14,829	$ 16,020
Investments	3,563	4,617
	$ 18,392	**$ 20,637**

Other assets at March 31, 2016 and December 31, 2015 consist of the following:

	March 31, 2016	December 31, 2015
	(In thousands)	
Prepaid expenses	10,363	11,762
Other repossessed assets	4,408	6,226
Core deposit and customer relationship intangibles	7,418	7,838
Mortgage tax credits	6,277	6,277
Investment in Statutory Trust	1,083	1,083
Accounts receivable and other assets	44,781	42,786
	$ 74,330	**$ 75,972**

Prepaid expenses amounting to $10.4 million and $11.8 million at March 31, 2016 and December 31, 2015, respectively, include prepaid municipal, property and income taxes aggregating to $5.7 million and $7.0 million, respectively.

In connection with the FDIC-assisted acquisition and the BBVAPR Acquisition, the Company recorded a core deposit intangible representing the value of checking and savings deposits acquired. At March 31, 2016 and December 31, 2015 this core deposit intangible amounted to $5.0 million and $5.3 million, respectively. In addition, the Company 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 March 31, 2016 and December 31, 2015 this customer relationship intangible amounted to $2.4 million and $2.5 million, respectively.

Other repossessed assets totaled $4.4 million at March 31, 2016 and $6.2 million at December 31, 2015, include repossessed automobiles amounting to $4.2 million and $5.5 million, respectively, which are recorded at their net realizable value.

At March 31, 2016 and December 31, 2015, mortgage tax credits for the Company totaled $6.3 million for both periods. These tax credits do not have an expiration date.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 10— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of March 31, 2016 and December 31, 2015 consist of the following:

		March 31, 2016		December 31, 2015
		(In thousands)		
Non-interest bearing demand deposits	$	816,887	$	762,009
Interest-bearing savings and demand deposits		2,311,926		2,208,180
Individual retirement accounts		266,161		268,799
Retail certificates of deposit		491,072		441,998
Institutional certificates of deposit		205,541		253,791
Total core deposits		**4,091,587**		**3,934,777**
Brokered deposits		688,106		782,974
Total deposits	$	**4,779,693**	$	**4,717,751**

Brokered deposits include $617.6 million in certificates of deposits and $70.5 million in money market accounts at March 31, 2016, and $711.4 million in certificates of deposits and $71.6 million in money market accounts at December 31, 2015.

The weighted average interest rate of the Company's deposits was 0.60% and 0.56% at March 31, 2016 and December 31, 2015, respectively. Interest expense for the quarters ended March 31, 2016 and 2015 was as follows:

	Quarter Ended March 31,			
	2016		2015	
	(In thousands)			
Demand and savings deposits	$	2,842	$	3,382
Certificates of deposit		4,282		3,722
	$	**7,124**	**$**	**7,104**

At March 31, 2016 and December 31, 2015, demand and interest-bearing deposits and certificates of deposit included deposits of the Puerto Rico Cash & Money Market Fund, Inc., which amounted to $103.0 million and $103.7 million, respectively, with a weighted average rate of 0.77% for both periods, and were collateralized with investment securities with a fair value of $78.8 million and $81.6 million, respectively.

At March 31, 2016 and December 31, 2015, time deposits in denominations of $100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $591.0 million and $597.6 million, respectively. Such amounts include public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of $5.4 million and $7.7 million at a weighted average rate of 0.47% and 0.49% at March 31, 2016 and December 31, 2015, respectively.

At March 31, 2016 and December 31, 2015, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $220.5 million and $99.0 million, respectively. These public funds were collateralized with commercial loans amounting to $410.9 million at March 31, 2016 and at December 31, 2015.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Excluding equity indexed options in the amount of $746 thousand, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interest of $1.7 million and unamortized deposit discount in the amount of $234 thousand, the scheduled maturities of certificates of deposit at March 31, 2016 and December 31, 2015 are as follows:

		March 31, 2016		December 31, 205
		(In thousands)		
Within one year:				
Three (3) months or less	$	342,072	$	474,051
Over 3 months through 1 year		451,919		501,551
		793,991		**975,602**
Over 1 through 2 years		489,143		454,906
Over 2 through 3 years		222,568		176,406
Over 3 through 4 years		36,253		32,396
Over 4 through 5 years		35,824		33,715
	$	**1,577,779**	**$**	**1,673,025**

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 $565 thousand as of March 31, 2016 and $1.5 million as of December 31, 2015.

NOTE 11 — BORROWINGS AND RELATED INTEREST

Securities Sold under Agreements to Repurchase

At March 31, 2016, 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 the Company the same or similar securities at the maturity of these agreements.

At March 31, 2016 and December 31, 2015, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $1.7 million and $2.2 million, respectively, were as

follows:

	March 31, 2016		December 31, 2015	
	Borrowing Balance	**Fair Value of Underlying Collateral**	**Borrowing Balance**	**Fair Value of Underlying Collateral**
		(In thousands)		
JP Morgan Chase Bank NA	232,500	252,402	262,500	283,483
Credit Suisse Securities (USA) LLC	402,000	439,538	670,000	737,887
Total	**$ 634,500**	**$ 691,940**	**$ 932,500**	**$ 1,021,370**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of the Company’s repurchase agreements and their terms, excluding accrued interest in the amount of $1.7 million, at March 31, 2016:

Year of Maturity		Borrowing Balance (In thousands)	Weighted-Average Coupon	Settlement Date	Maturity Date
2016		170,000	1.500%	12/6/2012	12/8/2016
2017		232,000	4.780%	3/2/2007	3/2/2017
2018		232,500	1.420%	12/10/2012	4/29/2018
	$	**634,500**	**2.670%**		

The Company's repurchase agreement in the original amount of $500 million with an original term of ten years, maturing on March 2, 2017, was modified in February 2016 to terminate before maturity $268.0 million of this repurchase agreement at a cost of $12.0 million, included as a loss on early extinguishment of debt in the unaudited statements of operations. The remaining balance of this repurchase agreement was $232.0 million at March 31, 2016.

The following table presents the repurchase liability associated with the repurchase agreement transactions (excluding accrued interest) by maturity. Also, it includes the carrying value and approximate market value of collateral (excluding accrued interest) at March 31, 2016 and December 31, 2015. There was no cash collateral at March 31, 2016 and at December 31, 2015.

	March 31, 2016										
				Market Value of Underlying Collateral							
		Repurchase Liability	Weighted Average Rate		FNMA and FHLMC Certificates		GNMA Certificates		US Treasury Treasury Notes		Total
		(Dollars in thousands)									
Over 90 days		634,500	2.67%		665,206		1,721		25,013		691,940
Total	**$**	**634,500**	**2.67%**	**$**	**665,206**	**$**	**1,721**	**$**	**25,013**	**$**	**691,940**

December 31, 2015

Market Value of Underlying Collateral

Weighted	FNMA and	US Treasury

	Repurchase Liability	Average Rate	FHLMC Certificates	GNMA Certificates	Treasury Notes	Total
			(Dollars in thousands)			
Less than 90 days	30,000	0.70%	31,961	-	-	31,961
Over 90 days	902,500	3.18%	974,698	2,131	12,580	989,409
Total	**$ 932,500**	**3.10%**	**$ 1,006,659**	**$ 2,131**	**$ 12,580**	**$ 1,021,370**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Advances from the Federal Home Loan Bank of New York

Advances are received from the Federal Home Loan Bank of New York (the “FHLB-NY”) under an agreement whereby the Company is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At March 31, 2016 and December 31, 2015, these advances were secured by mortgage and commercial loans amounting to $1.5 billion and $1.3 billion, respectively. Also, at March 31, 2016 and December 31, 2015, the Company had an additional borrowing capacity with the FHLB-NY of $875.3 million and $770.6 million, respectively. At March 31, 2016 and December 31, 2015, the weighted average remaining maturity of FHLB’s advances was 5.6 months and 6.3 months, respectively. The original terms of these advances ranges between one month and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of March 31, 2016.

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $348 thousand, at March 31, 2016:

Year of Maturity		Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)			
2016	$	25,000	0.59%	3/4/2016	4/4/2016
		50,000	0.60%	3/10/2016	4/11/2016
		100,000	0.58%	3/16/2016	4/18/2016
		25,000	0.58%	3/24/2016	4/25/2016
		25,000	0.52%	3/30/2016	4/29/2016
		37,638	0.60%	3/1/2016	4/1/2016
		262,638			
2017		4,209	1.24%	4/3/2012	4/3/2017
2018		30,000	2.19%	1/16/2013	1/16/2018
		25,000	2.18%	1/16/2013	1/16/2018
		55,000			
2020		9,785	2.59%	7/19/2013	7/20/2020
	$	**331,632**	**0.92%**		

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 $102.8 million and $102.6 million at March 31, 2016 and December 31, 2015, respectively.

Under the requirements of Puerto Rico Banking Act, the Bank must establish a redemption fund for the subordinated capital notes, which will mature in September 29, 2016, by transferring from undivided profits pre-established amounts as follows:

		Redemption fund (In thousands)
Redemption fund at March 31, 2016	$	64,488
2016		2,512
	$	**67,000**

56

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other borrowings

Other borrowings, presented in the unaudited consolidated statements of financial condition amounted to $1.8 million at March 31, 2016 and $1.7 million at December 31, 2015 which mainly consists of unsecured fixed-rate borrowings.

NOTE 12 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The Company's derivatives are subject to agreements which allow a right of set-off with each respective counterparty. In addition, the Company'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 a an account control agreement.

The following table presents the potential effect of rights of set-off associated with the Company's recognized financial assets and liabilities at March 31, 2016 and December 31, 2015:

March 31, 2016

				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	$ 2,662	$ -	$ 2,662	$ 2,007	$ -	$ 655

December 31, 2015

	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net amount of Assets Presented in Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	**$ 3,025**	**$ -**	**$ 3,025**	**$ 2,000**	**$ -**	**$ 1,025**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

March 31, 2016

	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	$ 6,966	$ -	$ 6,966	$ -	$ 1,980	$ 4,986
Securities sold under agreements to repurchase	634,500	-	634,500	691,940	-	(57,440)
Total	**$ 641,466**	**$ -**	**$ 641,466**	**$ 691,940**	**$ 1,980**	**$ (52,454)**

December 31, 2015

	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	$ 7,257	$ -	$ 7,257	$ -	$ 1,980	$ 5,277
Securities sold under agreements to repurchase	932,500	-	932,500	1,021,370	-	(88,870)
Total	**$ 939,757**	**$ -**	**$ 939,757**	**$ 1,021,370**	**$ 1,980**	**$ (83,593)**

NOTE 13 — RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, executive officers and 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 quarters ended March 31, 2016 and 2015 was as follows:

	Quarter Ended March 31,			
	2016		2015	
	(In thousands)			
Balance at the beginning of year	$	31,475	$	27,011
New loans and disbursements		233		3,855
Repayments		(574)		(3,358)
Balance at the end of period	**$**	**31,134**	**$**	**27,508**

NOTE 14 — INCOME TAXES

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

Other relevant provisions under Act 72 of 2015 are the enacted Value Added Tax (VAT) of 10.5%, which is expected to go into effect on June 1, 2016, along with a Municipal SUT of 1% on certain taxable items.

At March 31, 2016 and December 31, 2015, the Company's net deferred tax asset amounted to $145.5 million and $145.9 million, respectively. 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 taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon 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 the Company will realize the deferred tax asset, net of the existing valuation allowances recorded at March 31, 2016 and December 31, 2015. The amount of the deferred tax asset that is considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

The Company classifies unrecognized tax benefits in income taxes payable. These gross unrecognized tax benefits would affect the effective tax rate if realized. The balance of unrecognized tax benefits was $2.2 million at March 31, 2016 and at December 31, 2015. The Company had accrued $40 thousand at March 31, 2016 and $175 thousand at December 31, 2015 for the payment of interest and penalties relating to unrecognized tax benefits.

For the quarter ended March 31, 2016, income tax expense was $5.7 million compared to $979 thousand for the same period in 2015.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 — REGULATORY CAPITAL REQUIREMENTS

Regulatory Capital Requirements

The Company (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 the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company 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 have adopted new capital rules that became effective January 1, 2015 for the Company 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 new 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 new capital rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current 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 new capital rules, the minimum capital ratios requirements as of January 1, 2015 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 March 31, 2016 and December 31, 2015, the Company and the Bank met all capital adequacy requirements to which they are subject. As of March 31, 2016 and December 31, 2015, 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.

The New Capital Rules also introduce a new 2.5% “capital conservation buffer”, composed entirely of CET1, on top of the three minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, the Company and the Bank will be required to maintain such an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. At March 31, 2016 the Company and the Bank met the capital buffer requirement.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's and the Bank's actual capital amounts and ratios as of March 31, 2016 and December 31, 2015 are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Company Ratios						
As of March 31, 2016						
Total capital to risk-weighted assets	$ 838,284	**17.67%**	$ 379,570	**8.00%**	$ 474,463	**10.00%**
Tier 1 capital to risk-weighted assets	$ 776,181	**16.36%**	$ 284,678	**6.00%**	$ 379,570	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 585,144	**12.33%**	$ 213,508	**4.50%**	$ 308,401	**6.50%**
Tier 1 capital to average total assets	$ 776,181	**11.38%**	$ 272,797	**4.00%**	$ 340,996	**5.00%**
As of December 31, 2015						
Total capital to risk-weighted assets	$ 846,748	**17.29%**	$ 391,723	**8.00%**	$ 489,654	**10.00%**
Tier 1 capital to risk-weighted assets	$ 782,912	**15.99%**	$ 293,792	**6.00%**	$ 391,723	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 594,482	**12.14%**	$ 220,344	**4.50%**	$ 318,275	**6.50%**
Tier 1 capital to average total assets	$ 782,912	**11.18%**	$ 280,009	**4.00%**	$ 350,011	**5.00%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Bank Ratios						
As of March 31, 2016						
Total capital to risk-weighted assets	$ 819,731	**17.29%**	$ 379,242	**8.00%**	$ 474,502	**10.00%**
Tier 1 capital to risk-weighted assets	$ 757,828	**15.99%**	$ 284,431	**6.00%**	$ 379,242	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 757,828	**15.99%**	$ 213,323	**4.50%**	$ 3,308,134	**6.50%**
Tier 1 capital to average total assets	$ 757,828	**11.16%**	$ 271,538	**4.00%**	$ 339,423	**5.00%**
As of December 31, 2015						
Total capital to risk-weighted assets	$ 815,458	**16.70%**	$ 390,688	**8.00%**	$ 488,360	**10.00%**
Tier 1 capital to risk-weighted assets	$ 751,886	**15.40%**	$ 293,016	**6.00%**	$ 390,688	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 751,886	**15.40%**	$ 219,762	**4.50%**	$ 317,434	**6.50%**
Tier 1 capital to average total assets	$ 751,886	**10.80%**	$ 278,399	**4.00%**	$ 347,999	**5.00%**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 – STOCKHOLDERS' EQUITY

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 March 31, 2016 and December 31, 2015 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 March 31, 2016 and December 31, 2015, the Bank's legal surplus amounted to $71.9 million and $70.4 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

Treasury Stock

Under the Company's current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock, of which approximately $7.7 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. There were no repurchases during the quarters ended March 31, 2016 or 2015.

The number of shares that may yet be purchased under the $70 million program is estimated at 1,105,988 and was calculated by dividing the remaining balance of $7.7 million by $6.99 (closing price of the Company common stock at March 31, 2016). The Company did not purchase any shares of its common stock during the quarter ended March 31, 2016 or 2015.

The activity in connection with common shares held in treasury by the Company for the quarters ended March 31, 2016 and 2015 is set forth below:

	Quarter Ended March 31,			
	2016		2015	
	Shares	Dollar Amount	Shares	Dollar Amount
	(In thousands, except shares data)			
Beginning of period	8,757,960	$ 105,379	8,012,254	$ 97,070
Common shares used upon lapse of restricted stock units	(45,810)	(505)	(51,078)	(575)
End of period	**8,712,150**	**$ 104,874**	**7,961,176**	**$ 96,495**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income tax, as of March 31, 2016 and December 31, 2015 consisted of:

		March 31, 2016		December 31, 2015
		(In thousands)		
Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	$	15,496	$	22,044
Unrealized loss on securities available-for-sale which are other-than-temporarily impaired		-		(3,196)
Income tax effect of unrealized gain on securities available-for-sale		(407)		(1,924)
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired		15,089		16,924
Unrealized loss on cash flow hedges		(4,318)		(4,307)
Income tax effect of unrealized loss on cash flow hedges		1,513		1,380
Net unrealized loss on cash flow hedges		(2,805)		(2,927)
Accumulated other comprehensive income, net of taxes	$	**12,284**	**$**	**13,997**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31, 2016		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive income
	(In thousands)		
Beginning balance	$ 16,924	$ (2,927)	$ 13,997
Other comprehensive income (loss) before reclassifications	(4,326)	(1,457)	(5,783)
Amounts reclassified out of accumulated other comprehensive income (loss)	2,491	1,579	4,070
Other comprehensive income (loss)	(1,835)	122	(1,713)
Ending balance	**$ 15,089**	**$ (2,805)**	**$ 12,284**

	Quarter Ended March 31, 2015		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive income
	(In thousands)		
Beginning balance	$ 25,764	$ (6,053)	$ 19,711
Other comprehensive income (loss) before reclassifications	4,311	(1,369)	2,942
Amounts reclassified out of accumulated other comprehensive income (loss)	139	1,532	1,671
Other comprehensive income	4,450	163	4,613
Ending balance	**$ 30,214**	**$ (5,890)**	**$ 24,324**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents reclassifications out of accumulated other comprehensive income for the quarters ended March 31, 2016 and 2015:

	Amount reclassified out of accumulated other comprehensive income Quarter Ended March 31,		Affected Line Item in Consolidated Statement of Operations
	2016	2015	
	(In thousands)		
Cash flow hedges:			
Interest-rate contracts	$ 1,450	$ 1,606	Net interest expense
Tax effect from increase in capital gains tax rate	129	(74)	Income tax expense
Available-for-sale securities:			
Residual tax effect from OIB's change in applicable tax rate	8	10	Income tax expense
Other-than-temporary impairment losses on available for sale securities realized during the period	2,557	-	
Tax effect from increase in capital gains tax rate	(74)	129	Income tax expense
	$ 4,070	**$ 1,671**	

NOTE 18 – EARNINGS (LOSS) PER COMMON SHARE

The calculation of earnings (loss) per common share for the quarters ended March 31, 2016 and 2015 is as follows:

	Quarter Ended March 31,	
	2016	2015
	(In thousands, except per share data)	
Net income (loss)	$ 14,171	$ (2,988)
Less: Dividends on preferred stock		
Non-convertible preferred stock (Series A, B, and D)	(1,627)	(1,628)
Convertible preferred stock (Series C)	(1,838)	(1,837)
Income (loss) available to common shareholders	**$ 10,706**	**$ (6,453)**
Effect of assumed conversion of the convertible preferred stock	1,838	1,837
Income (loss) available to common shareholders assuming conversion	$ **12,544**	$ **(4,616)**
Weighted average common shares and share equivalents:		
Average common shares outstanding	43,898	44,634

Effect of dilutive securities:				
Average potential common shares-options		28		188
Average potential common shares-assuming conversion of convertible preferred stock		7,138		7,155
Total weighted average common shares outstanding and equivalents		**51,064**		**51,977**
Earnings (loss) per common share - basic	**$**	**0.24**	**$**	**(0.14)**
Earnings (loss) per common share - diluted	**$**	**0.24**	**$**	**(0.14)**

In computing diluted earnings (loss) per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at March 31, 2016, 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 (loss) per common share, the dividends declared during the quarters ended March 31, 2016 and 2015 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended March 31, 2016 and 2015, weighted-average stock options with an anti-dilutive effect on (loss) earnings per share not included in the calculation amounted to 977,823 and 390,078, respectively

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 19 – GUARANTEES

At March 31, 2016, the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $4.7 million (December 31, 2015 - $14.7 million).

As a result of the BBVAPR Acquisition, the Company assumed a liability for residential mortgage loans sold subject to credit recourse pursuant to FNMA's residential mortgage loan sales and securitization programs. At March 31, 2016 and December 31, 2015, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $22.0 million and $22.4 million, respectively.

The following table shows the changes in the Company's liability for estimated losses from these credit recourse agreements, included in the unaudited consolidated statements of financial condition during the quarters ended March 31, 2016 and 2015.

	Quarter Ended March 31,			
	2016		2015	
	(In thousands)			
Balance at beginning of period	$	439	$	927
Net (charge-offs/terminations) recoveries		(258)		(440)
Balance at end of period	**$**	**181**	**$**	**487**

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 the Company is obligated to repurchase the loan. The recourse obligation will be fully extinguished before the end of 2017.

If a borrower defaults, pursuant to the credit recourse provided, the Company is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Company 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 the quarters ended March 31, 2016 and 2015, the Company repurchased approximately $209 thousand and $2.1 million, respectively of unpaid principal balance in mortgage loans subject to the credit recourse provisions. If a borrower defaults, the Company has rights to the underlying collateral securing the mortgage loan. The Company 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 March 31, 2016, the Company's liability for estimated credit losses related to loans sold with credit recourse amounted to $181 thousand (December 31, 2015– $439 thousand).

When the Company sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Company's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities that 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 the Company to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Company may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. During the quarter ended March 31, 2016, the Company’s representation and warranty arrangements, excluding mortgage loans subject to credit recourse provisions referred to above, approximated $1.5 million in unpaid principal balance (March 31, 2015 – $9.0 million).

During the quarter ended March 31, 2016, the Company recognized $19 thousand in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $501 thousand in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties. During the quarter ended March 31, 2015, the Company recognized $39 thousand in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $832 thousand in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 Federal Home Loan Mortgage Corporation (“FHLMC”), require the Company to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At March 31, 2016, the Company serviced $690.0 million in mortgage loans for third-parties. The Company 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, the Company must absorb the cost of the funds it advances during the time the advance is outstanding. The Company 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 the Company would not receive any future servicing income with respect to that loan. At March 31, 2016, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately $333 thousand (December 31, 2015 - $301 thousand). To the extent the mortgage loans underlying the Company's servicing portfolio experience increased delinquencies, the Company 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 20— COMMITMENTS AND CONTINGENCIES

Loan Commitments

In the normal course of business, the Company 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 the Company’s involvement in particular types of financial instruments.

The Company’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. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Credit-related financial instruments at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016	December 31, 2015

		(In thousands)		
Commitments to extend credit	$	498,249	$	456,720
Commercial letters of credit		2,619		1,508

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. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon the extension of credit, is based on management's credit evaluation of the counterparty.

At March 31, 2016 and December 31, 2015, 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 $667 thousand at both periods, March 31, 2016 and December 31, 2015.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 March 31, 2016 and December 31, 2015, is as follows:

		March 31, 2016		December 31, 2015
		(In thousands)		
Standby letters of credit and financial guarantees	$	4,656	$	14,656
Loans sold with recourse		21,957		22,374
Commitments to sell or securitize mortgage loans		11,886		34,888

Standby letters of credit and financial guarantees are written conditional commitments issued by the Company 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 the Company upon extension of credit, is based on management's credit evaluation of the customer.

Lease Commitments

The Company has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the quarters ended March 31, 2016 and 2015, amounted to $2.1 million and $2.4 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 March 31, 2016 exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

Year Ending December 31,		Minimum Rent (In thousands)
2016	$	6,519

2017		7,308
2018		6,278
2019		6,182
2020		5,455
Thereafter		12,397
	$	**44,139**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Contingencies

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their business. In the ordinary course of business, the Company and its subsidiaries are also subject to governmental and regulatory examinations. Certain subsidiaries of the Company, 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.

The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interests of the Company 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 the Company’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 the Company. 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 the Company’s consolidated results of operations or cash flows in particular quarterly or annual periods. The Company has evaluated all litigation and regulatory matters where the likelihood of a potential loss is deemed reasonably possible. The Company has determined that the estimate of the reasonably possible loss is not significant.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value measurement framework under 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 unaudited 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 March 31, 2016 and December 31, 2015, the Company did not have investment securities classified as Level 3.

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 the Company.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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. The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P Index and uses equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value is obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which are uncertain and require a degree of judgment, include primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage.

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 Accounting Standards Codification ("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 automobile loans and leases. 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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	March 31, 2016			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 669,285	$ -	$ 669,285
Trading securities	-	314	-	314
Money market investments	5,897	-	-	5,897
Derivative assets	-	1,890	772	2,662
Servicing assets	-	-	7,819	7,819
Derivative liabilities	-	(6,220)	(746)	(6,966)
	$ 5,897	**$ 665,269**	**$ 7,845**	**$ 679,011**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 227,117	$ 227,117
Foreclosed real estate	-	-	56,777	56,777
Other repossessed assets	-	-	4,408	4,408
	$ -	**$ -**	**$ 288,302**	**$ 288,302**

	December 31, 2015			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 974,609	$ -	$ 974,609
Trading securities	-	288	-	288
Money market investments	4,699	-	-	4,699
Derivative assets	-	1,854	1,171	3,025
Servicing assets	-	-	7,455	7,455
Derivative liabilities	-	(6,162)	(1,095)	(7,257)
	$ 4,699	**$ 970,589**	**$ 7,531**	**$ 982,819**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 235,767	$ 235,767
Foreclosed real estate	-	-	58,176	58,176
Other repossessed assets	-	-	6,226	6,226
	$ -	**$ -**	**$ 300,169**	**$ 300,169**

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31, 2016			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
Balance at beginning of period	$ 1,171	$ 7,455	$ (1,095)	$ 7,531
Gains (losses) included in earnings	(399)	-	330	(69)
New instruments acquired	-	557	-	557
Principal repayments	-	(104)	-	(104)
Amortization	-	-	19	19
Changes in fair value of servicing assets	-	(89)	-	(89)
Balance at end of period	**$ 772**	**$ 7,819**	**$ (746)**	**$ 7,845**

	Quarter Ended March 31, 2015			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
Balance at beginning of period	$ 5,555	$ 13,992	$ (5,477)	$ 14,070
(Losses) gains included in earnings	(1,821)	-	1,782	(39)
New instruments acquired	-	531	-	531
Principal repayments	-	(418)	-	(418)
Amortization	-	-	78	78
Changes in fair value of servicing assets		(59)	-	(59)
Changes in fair value due to sales price of mortgage servicing rights held-for-sale	-	(1,882)	-	(1,882)
Balance at end of period	**$ 3,734**	**$ 12,164**	**$ (3,617)**	**$ 12,281**

During the quarters ended March 31, 2016 and 2015, there were purchases and sales of assets and liabilities measured at fair value on a recurring basis. There were no transfers into or out of Level 1 and Level 2 fair value measurements during such periods.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 March 31, 2016:

	March 31, 2016			
	Fair Value (In thousands)	**Valuation Technique**	**Unobservable Input**	**Range**
Derivative assets (S&P Purchased Options)	$ 772	Option pricing model	Implied option volatility	35.32% -38.69%
			Counterparty credit risk (based on 5-year credit default swap ("CDS") spread)	79.96%-89.03%
Servicing assets	$ 7,819	Cash flow valuation	Constant prepayment rate	4.43%-12.17%
			Discount rate	10.00% - 12.00%
Derivative liability (S&P Embedded Options)	$ (746)	Option pricing model	Implied option volatility	35.32% -38.69%
			Counterparty credit risk (based on 5-year CDS spread)	79.96%-89.03
Collateral dependant impaired loans	$ 25,252	Fair value of property or collateral	Appraised value less disposition costs	30.20%-42.40%
Puerto Rico Electric Power Authority line of credit, net	$ 186,675	Cash flow valuation	Discount rate	7.25%
Other non-collateral	$ 15,190	Cash flow valuation	Discount rate	4.25%-16.95%

dependant impaired loans				
Foreclosed real estate	$ 56,777	Fair value of property or collateral	Appraised value less disposition costs	30.20%-42.20%
Other repossessed assets	$ 4,408	Fair value of property or collateral	Appraised value less disposition costs	30.20%-42.20%

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Information about Sensitivity to Changes in Significant Unobservable Inputs

Other debt securities – The significant unobservable inputs used in the fair value measurement of one of the Company's other debt securities are indicative comparable pricing, option adjusted spread ("OAS"), yield to maturity, and spread to maturity. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for indicative comparable pricing is accompanied by a directionally opposite change in the assumption used for OAS and a directionally, although not equally proportional, opposite change in the assumptions used for yield to maturity and spread to maturity.

Derivative asset (S&P Purchased Options) – The significant unobservable inputs used in the fair value measurement of the Company's derivative assets related to S&P purchased options are implied option volatility and counterparty credit risk. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for implied option volatility is not necessarily accompanied by directionally similar or opposite changes in the assumption used for counterparty credit risk.

Servicing assets – The significant unobservable inputs used in the fair value measurement of the Company'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.

Derivative liability (S&P Embedded Options) – The significant unobservable inputs used in the fair value measurement of the Company's derivative liability related to S&P purchased options are implied option volatility and counterparty credit risk. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for implied option volatility is not necessarily accompanied by directionally similar or opposite changes in the assumption used for counterparty credit risk.

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 the Company.

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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The estimated fair value and carrying value of the Company's financial instruments at March 31, 2016 and December 31, 2015 is as follows:

	March 31, 2016		December 31, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Level 1				
Financial Assets:				
Cash and cash equivalents	$ 677,849	$ 677,849	$ 536,710	$ 536,710
Restricted cash	3,349	$ 3,349	$ 3,349	$ 3,349
Level 2				
Financial Assets:				
Trading securities	314	$ 314	$ 288	$ 288
Investment securities available-for-sale	669,285	$ 669,285	$ 974,609	$ 974,609
Investment securities held-to-maturity	641,346	$ 637,036	$ 614,679	$ 620,189
Federal Home Loan Bank (FHLB) stock	20,761	$ 20,761	$ 20,783	$ 20,783
Other investments	3	$ 3	$ 3	$ 3
Derivative assets	1,890	$ 1,890	$ 1,855	$ 1,855
Financial Liabilities:				
Derivative liabilities	6,220	$ 6,220	$ 6,162	$ 6,162
Level 3				
Financial Assets:				
Total loans (including loans held-for-sale)	4,088,158	4,360,129	4,101,219	4,434,213
Derivative assets	772	772	1,170	1,170
FDIC indemnification asset	10,897	20,923	17,786	22,599
Accrued interest receivable	18,392	18,392	20,637	20,637
Servicing assets	7,819	7,819	7,455	7,455
Accounts receivable and other assets	44,781	44,781	42,786	42,786
Financial Liabilities:				
Deposits	4,772,507	4,778,947	4,705,878	4,715,764
Securities sold under agreements to repurchase	645,098	636,172	955,859	934,691
Advances from FHLB	334,782	331,980	335,812	332,476
Other borrowings	2,661	1,756	2,593	1,734
Subordinated capital notes	97,330	102,808	94,940	102,633
Accrued expenses and other liabilities	92,761	92,761	92,935	92,935
Derivative liabilities embedded in deposits	746	746	1,095	1,095

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following methods and assumptions were used to estimate the fair values of significant financial instruments at March 31, 2016 and December 31, 2015:

- 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 the FDIC indemnification asset represents the present value of the net estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit assumptions on estimated cash flows for each covered asset and the loss sharing percentages. The ultimate collectability of the FDIC indemnification asset is dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC which are impacted by the Bank’s adherence to certain guidelines established by the FDIC.

- 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. The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P Index, and uses equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value is obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The

assumptions, which are uncertain and require a degree of judgment, include primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage.

- 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) 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 and by performing and non-performing categories. The fair value of performing loans 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. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate. Non-performing loans have been valued at the carrying amounts.

- 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-NY, other borrowings, 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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 22 – BUSINESS SEGMENTS

The Company 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 the Company's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated. The Company's methodology for allocating non-interest expenses among segments is based on several factors such as revenue, employee headcount, occupied space, dedicated services or time, among others. 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 the Company's own portfolio. As part of its mortgage banking activities, the Company 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 the Company'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.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Following are the results of operations and the selected financial information by operating segment for the quarters ended March 31, 2016 and 2015:

	Quarter Ended March 31, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 81,152	$ 18	$ 10,136	$ 91,306	$ -	$ **91,306**
Interest expense	(6,807)	-	(9,524)	(16,331)	-	**(16,331)**
Net interest income	74,345	18	612	74,975	**-**	**74,975**
Provision for loan and lease losses	(13,789)	-	-	(13,789)	-	**(13,789)**
Non-interest income (loss)	7,795	6,020	(312)	13,503	-	**13,503**
Non-interest expenses	(48,249)	(4,484)	(2,124)	(54,857)	-	**(54,857)**
Intersegment revenue	399	-	100	499	(499)	-
Intersegment expenses	(101)	(291)	(107)	(499)	499	-
Income (loss) before income taxes	**$ 20,400**	**$ 1,263**	**$ (1,831)**	**$ 19,832**	**$ -**	**$ 19,832**
Total assets	**$ 5,814,279**	**$ 23,369**	**$ 1,970,264**	**$ 7,807,912**	**$ (933,340)**	**$ 6,874,572**

	Quarter Ended March 31, 2015					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 97,482	$ 23	$ 9,496	$ 107,001	$ -	$ **107,001**
Interest expense	(7,454)	-	(9,912)	(17,366)	-	**(17,366)**
Net interest income	90,028	23	(416)	89,635	**-**	**89,635**
Provision for loan and lease losses	(42,193)	-	-	(42,193)	-	**(42,193)**
Non-interest (loss) income	(2,249)	7,010	2,120	6,881	-	**6,881**
Non-interest expenses	(49,313)	(4,790)	(2,229)	(56,332)	-	**(56,332)**
Intersegment revenue	544	-	98	642	(642)	-
Intersegment expenses	(98)	(432)	(112)	(642)	642	-
(Loss) income before income taxes	**$ (3,281)**	**$ 1,811**	**$ (539)**	**$ (2,009)**	**$ -**	**$ (2,009)**
Total assets	**$ 6,302,044**	**$ 21,995**	**$ 1,965,342**	**$ 8,289,381**	**$ (925,225)**	**$ 7,364,156**

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the Company's unaudited consolidated financial statements and related notes. This discussion and analysis contains forward-looking statements. Please see "Forward-Looking Statements" and the risk factors set forth in our Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K"), for discussion of the uncertainties, risks and assumptions associated with these statements.

The Company is a publicly-owned financial holding company that provides a full range of banking and financial services through its subsidiaries, including commercial, consumer, auto and mortgage lending; checking and savings accounts; financial planning, insurance and securities brokerage services; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Wealth Management, and Treasury, and distinguishes itself based on quality service. The Company has 48 branches in Puerto Rico and a subsidiary in Boca Raton, Florida. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

The Company's diversified mix of businesses and products generates both the interest income traditionally associated with a banking institution and non-interest income traditionally associated with a financial services institution (generated by such businesses as securities brokerage, fiduciary services, investment banking, insurance agency, and retirement plan administration). Although all of these businesses, to varying degrees, are affected by interest rate and financial market fluctuations and other external factors, the Company's commitment is to continue producing a balanced and growing revenue stream.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in "Note 1—Summary of Significant Accounting Policies" of our 2015 Form 10-K.

In the "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" section of our 2015 Form 10-K, we identified the following accounting policies as critical

because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition:

- Loans and lease receivables
- Allowance for loan and lease losses
- Financial instruments

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed its judgments and assumptions with the Audit Committee of our Board of Directors. There have been no material changes in the methods used to formulate these critical accounting estimates from those discussed in our 2015 Form 10-K.

OVERVIEW OF FINANCIAL PERFORMANCE

SELECTED FINANCIAL DATA

	Quarter Ended March 31,		
	2016	**2015**	**Variance %**
EARNINGS DATA:	(In thousands, except per share data)		
Interest income	$ 91,306	$ 107,001	-14.7%
Interest expense	16,331	17,366	-6.0%
Net interest income	**74,975**	**89,635**	**-16.4%**
Provision for loan and lease losses	13,789	42,193	-67.3%
Net interest income after provision for loan and lease losses	**61,186**	**47,442**	**29.0%**
Non-interest income	13,503	6,881	96.2%
Non-interest expenses	54,857	56,332	-2.6%
Income (loss) before taxes	**19,832**	**(2,009)**	**1087.2%**
Income tax expense	5,661	979	478.2%
Net income (loss)	**14,171**	**(2,988)**	**574.3%**
Less: dividends on preferred stock	(3,465)	(3,465)	153.0%
Income (loss) available to common shareholders	**$ 10,706**	**$ (6,453)**	**265.9%**
PER SHARE DATA:			
Basic	**$ 0.24**	**$ (0.14)**	**268.7%**
Diluted	**$ 0.24**	**$ (0.14)**	**268.7%**
Average common shares outstanding	**43,898**	**44,634**	**-1.6%**
Average common shares outstanding and equivalents	**51,064**	**51,977**	**-1.8%**
Cash dividends declared per common share	**$ 0.06**	**$ 0.10**	**-40.0%**
Cash dividends declared on common shares	**$ 2,633**	**$ 4,464**	**-41.0%**
PERFORMANCE RATIOS:			
Return on average assets (ROA)	**0.81%**	**-0.16%**	**600.5%**
Return on average tangible common equity	**6.69%**	**-3.76%**	**278.0%**
Return on average common equity (ROE)	**5.83%**	**-3.30%**	**276.9%**
Equity-to-assets ratio	**13.09%**	**12.72%**	**2.9%**
Efficiency ratio	**59.56%**	**51.75%**	**15.1%**
Interest rate spread	**4.59%**	**5.20%**	**-11.7%**
Interest rate margin	**4.67%**	**5.42%**	**-13.8%**

SELECTED FINANCIAL DATA - (Continued)

		March 31, 2016		December 31, 2015	Variance %
PERIOD END BALANCES AND CAPITAL RATIOS:		(In thousands, except per share data)			
Investments and loans					
Investment securities	$	1,327,399	$	1,615,872	-17.9%
Loans and leases , net		4,360,129		4,434,213	-1.7%
Total investments and loans	**$**	**5,687,528**	**$**	**6,050,085**	**-6.0%**
Deposits and borrowings					
Deposits	$	4,779,693	$	4,717,751	1.3%
Securities sold under agreements to repurchase		636,172		934,691	-31.9%
Other borrowings		436,544		436,843	-0.1%
Total deposits and borrowings	**$**	**5,852,409**	**$**	**6,089,285**	**-3.9%**
Stockholders' equity					
Preferred stock	$	176,000	$	176,000	0.0%
Common stock		52,626		52,626	0.0%
Additional paid-in capital		540,371		540,512	0.0%
Legal surplus		71,865		70,435	2.0%
Retained earnings		155,529		148,886	4.5%
Treasury stock, at cost		(104,874)		(105,379)	0.5%
Accumulated other comprehensive income		12,284		13,997	-12.2%
Total stockholders' equity	**$**	**903,801**	**$**	**897,077**	**0.7%**
Per share data					
Book value per common share	**$**	**16.80**	**$**	**16.67**	**0.8%**
Tangible book value per common share	**$**	**14.68**	**$**	**14.53**	**1.0%**
Market price at end of period	**$**	**6.99**	**$**	**7.32**	**-4.5%**
Capital ratios					
Leverage capital		**11.38%**		**11.18%**	**1.8%**
Common equity Tier 1 capital		**12.33%**		**12.14%**	**1.6%**
Tier 1 risk-based capital		**16.36%**		**15.99%**	**2.3%**
Total risk-based capital		**17.67%**		**17.29%**	**2.2%**
Financial assets managed					
Trust assets managed	$	2,757,631	$	2,691,433	2.5%
Broker-dealer assets gathered	$	2,351,746	$	2,374,709	-1.0%

FINANCIAL HIGHLIGHTS OF THE FIRST QUARTER OF 2016

- Net income available to shareholders amounted to $10.7 million, or $0.24 per share fully diluted. This compares to a loss of $4.4 million, or ($0.10) per share, in the preceding quarter, and a loss of $6.5 million, or ($0.14) per share, in the same quarter a year ago.

- The Bank's retail franchise continued to grow. The Bank originated $226 million in new loans, while maintaining the Bank's credit and pricing standards. Total customers increased in excess of a 4.0% annualized rate from December 31, 2015.

- Credit quality continued to improve. Net charge-offs of loans (excluding acquired loans) declined to 1.30% from 1.67% in the fourth quarter of 2015. The provision for loan losses fell 18.6% from 4Q15's adjusted. Early and total delinquency rates declined below both the previous and year-ago quarters.

- Puerto Rico investment securities balance fell 62.2% to $6.7 million, reflecting the sale of $12.8 million (average yield of 6.60%) in securities of the Puerto Rico Industrial Development Company (PRIDCO) and the Puerto Rico Public Buildings Authority (PBA). The Bank capitalized on market conditions to partially unwind a high-rate repurchase agreement, and to sell our PRIDCO and PBA securities and certain of our mortgage-backed securities. The aggregate gains and losses had no impact on the 1Q16 income statement, but will help to improve Net Interest Margin (NIM) going forward.

- NIM expanded to 4.67%, reflecting better yields on interest earning assets.

- Tangible book value per common share increased to $14.68 from $14.53, and tangible common equity (TCE) ratio increased to 9.50% from 9.10%.

Comparison of quarters ended March 31, 2016 and 2015

Interest Income

Total interest income decreased $15.7 million to $91.3 million, compared to $107.0 million in the first quarter of 2015, reflecting the transition in our loan portfolio as originated loans with normal yields grow at a slower pace than higher-yielding acquired loans fall, due to repayments and maturities. In addition, during the first quarter of 2015, the revolving line of credit to PREPA was classified as non-accrual. Starting with the second quarter of 2015, quarterly interest payments received of $3.6 million per quarter, have been applied to principal, reducing the yield on originated loans.The yield on interest-earning assets decreased to 5.69% from 6.47%.

Interest Expense

Total interest expense decreased by 6.0%, or $1.0 million, as compared to the same period in 2015. Such decrease reflects the lower cost of borrowings (2.98% vs. 3.02%). Such lower cost reflects a partial unwinding of a $268.0 million in repurchase agreement funding, which carried a cost of 4.78%, and other reductions in its cost of funds during the first quarter of 2016.

Net Interest Income

Net interest income decreased $14.7 million for the first quarter of 2016, mostly due to lower balances in our acquired loan portfolios and lower yields in our originated loan portfolio, partially offset by the decrease in interest expenses as a result of lower costs of borrowings. Such decrease reflects a decrease in net interest margin of 75 basis points to 4.67% when compared to the first quarter of 2015.

Provision for Loan and Lease Losses

Provision for loan and lease losses decreased $28.4 million to $13.8 million when compared to $42.2 million for the first quarter of 2015, which reflects the $24.0 million provision related to the PREPA line of credit during the first quarter of 2015. Such decrease also reflects a reduction of $4.0 million in the provision for Eurobank-acquired loan and lease losses, which reflects an additional provision of $3.5 million during the first quarter of 2015 related to the expiration of the commercial loans shared-loss coverage on June 30, 2015.

Non-Interest Income, net

Core banking and wealth management revenues decreased to $17.1 million from $19.2 million as compared to the same period in 2015, primarily reflecting a decrease of $1.0 million for wealth management revenues due to lower client trading volumes as a result of general investor uncertainty in the Puerto Rico market, and a decrease of $1.0 million in mortgage banking activities mainly due to

foregone gains on sale as a result of the Company retaining securitized GNMA pools. Banking service revenue slightly decreased $87 thousand to $10.1 million from $10.2 million when compared to the same period in 2015.

The decrease in the FDIC shared-loss expense of $9.1 million to $4.0 million, compared to $13.1 million for the same period in 2015, resulted from the expiration of the FDIC loss-share coverage for commercial loans and other non-single family loans on June 30, 2015.

A net gain on sale of securities available-for-sale of $12.0 million was recorded for the first quarter of 2016, including a gross gain of $16.1 million related to $272.1 million mortgage-backed securities sold, partially offset by a gross loss of $4.1 million related to the sale of $11.1 million in Puerto Rico government bonds, as all but one of the municipal securities held were sold.

A loss on extinguishment of debt was recorded for the first quarter of 2016, due to the unwinding of $268.0 in repurchase agreements at a cost of $12.0 million.

Non-Interest Expense

Non-interest expense of $54.9 million decreased $1.5 million or 2.6% compared to the same period in 2015, reflecting lower general and administrative expenses mostly related to a decrease of 48.5% in foreclosure, repossession and other real estate expenses, partially offset by higher insurance expenses from the first quarter of 2015. The Company’s efficiency ratio for the first quarter of 2016 was 59.56%, compared to 51.75% for the same period in 2015.

Income Tax Expense

Income tax expense was $5.7 million, compared to $979 thousand for the same period in 2015. Income tax expense reflects the net income before income taxes of $19.8 million for the first quarter of 2016, compared to a net loss before income taxes of $2.0 million for the year ago quarter.

Income (Loss) Available to Common Shareholders

The Company's net income available to common shareholders amounted to $10.7 million, compared to a net loss to common shareholders of $6.5 million for the same period in 2015. Income per basic common share and fully diluted common share was $0.24, compared to a loss per basic common share and fully diluted common share of $0.14 for the first quarter of 2015.

Interest Earning Assets

The loan portfolio declined to $4.360 billion at March 31, 2016, compared to $4.434 billion at December 31, 2015, primarily due to repayments and maturities. The investment portfolio of $1.327 billion at March 31, 2016 decreased 17.9% compared to $1.616 billion at December 31, 2015 due to the sale of $272.1 million in mortgage-backed securities and $11.1 million in Puerto Rico government bonds, and the prepayments of mortgage-backed securities during the first quarter of 2016.

Interest Bearing Liabilities

Total deposits amounted to $4.780 billion at March 31, 2016, an increase of 1.3% compared to $4.718 billion at December 31, 2015. Demand and savings deposits increased 5.3% to $3.129 billion. Time deposits, including brokered deposits, declined 5.7% as part of our efforts to reduce the cost of deposits, which averaged 0.60% at March 31, 2016 and 0.59% at December 31, 2015.

Stockholders' Equity

Stockholders' equity at March 31, 2016 was $903.8 million compared to $897.1 million at December 31, 2015, an increase of 0.8%. This increase reflects the net income for the first quarter of 2016. Book value per share was $16.80 at March 31, 2016, compared to $16.67 at December 31, 2015.

The Company maintains capital ratios in excess of regulatory requirements. At March 31, 2016, Tier 1 Leverage capital ratio was 11.38% (December 31, 2015– 11.18%), Common Equity Tier 1 capital ratio was 12.33% (December 31, 2015 – 12.14%), Tier 1 Risk-Based capital ratio was 16.36% (December 31, 2015– 15.99%), and Total Risk-Based capital ratio was 17.67% (December 31, 2015– 17.29%).

Return on Average Assets and Common Equity

Return on average common equity (“ROE”) was 5.83% compared to (3.30%) for the quarter ended March 31, 2015. Return on average assets (“ROA”) was 0.81% compared to (0.16%) for the same period in 2015. Both increases reflect the net income for the first quarter of 2016.

Assets under Management

At March 31, 2016, total assets managed by the Company’s trust division and OPC increased to $2.758 billion compared to $2.691 billion at December 31, 2015. At March 31, 2016, total assets gathered by the securities broker-dealer subsidiary from its customer investment accounts decreased to $2.352 billion, compared to $2.375 billion at December 31, 2015. Changes in trust and broker-dealer related assets primarily reflect a slight increase in portfolio balances and differences in market values.

Lending

Total loan production of $226.2 million decreased 5.6% compared to the same period in 2015. Total commercial loan production of $79.3 million decreased 7.5% from $85.7 million for the same period in 2015. Mortgage loan production of $48.3 million decreased 21.7% from $61.7 million for the same period in 2015. In the aggregate, consumer loan and auto and leasing production totaled $98.6 million, an increase of 7.1% from the same period in 2015.

Credit Quality on Non-Acquired Loans

Net credit losses, excluding acquired loans, increased $1.5 million to $10.0 million, representing 1.30% of average non-acquired loans outstanding versus 1.21% in the same period in 2015. The allowances for loan and lease losses, excluding acquired loans, increased to $113.2 million (3.63% of total non-acquired loans) at March 31, 2016, compared to $112.6 million (3.62% of total non-acquired loans) at December 31, 2015.

Non-GAAP Measures

The Company uses certain non-GAAP measures of financial performance to supplement the unaudited consolidated financial statements presented in accordance with GAAP. The Company presents non-GAAP measures that management believes are useful and meaningful to investors. Non-GAAP measures do not have any standardized meaning, are not required to be uniformly applied, and are not audited. Therefore, they are unlikely to be comparable to similar measures presented by other companies. The presentation of non-GAAP measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP.

The Company's management has reported and discussed the results of operations herein both on a GAAP basis and on a pre-tax pre-provision operating income basis (defined as net interest income, plus banking and financial services revenue, less non-interest expenses, as calculated on the table below). The Company's management believes that, given the nature of the items excluded from the definition of pre-tax pre-provision operating income, it is useful to state what the results of operations would have been without them so that investors can see the financial trends from the Company's continuing business.

During the quarter ended March 31, 2016, the Company's pre-tax pre-provision operating income decreased 29.1% to $37.2 million as compared to $52.5 million for the same period in 2015. Pre-tax pre-provision operating income is calculated as follows:

	Quarter Ended March 31,			
	2016		2015	
	(In thousands)			
PRE-TAX PRE-PROVISION OPERATING INCOME				
Net interest income	$	74,975	$	89,635
Core non-interest income:				
Banking service revenue		10,118		10,205
Wealth management revenue		6,152		7,155
Mortgage banking activities		855		1,863
Total core non-interest income		**17,125**		**19,223**
Non-interest expenses		54,857		56,331
Total pre-tax pre-provision operating income	**$**	**37,243**	**$**	**52,527**

At March 31, 2016, tangible common equity to total assets increased to 9.37% from 8.98% and tangible common equity to risk-weighted assets increased to13.58% from 13.02% at December 31, 2015. Total equity to risk-weighted assets increased to 19.05% from 18.32% at December 31, 2015.

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 the Company 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, the Company 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.

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 quarters ended March 31, 2016 and 2015:

TABLE 1 - QUARTERLY ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE
FOR THE QUARTERS ENDED MARCH 31, 2016 AND 2015

	Interest		Average rate		Average balance	
	March 2016	March 2015	March 2016	March 2015	March 2016	March 2015
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	$ 91,306	$ 107,001	5.69%	6.47%	$ 6,437,255	$ 6,703,286
Tax equivalent adjustment	1,166	4,167	0.07%	0.25%	-	-
Interest-earning assets - tax equivalent	92,472	111,168	5.76%	6.72%	6,437,255	6,703,286
Interest-bearing liabilities	16,331	17,366	1.10%	1.12%	5,971,412	6,296,576
Tax equivalent net interest income / spread	76,141	93,802	4.66%	5.60%	465,843	406,710
Tax equivalent interest rate margin			4.74%	5.68%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	9,508	9,195	2.63%	2.77%	1,450,127	1,344,617
Interest bearing cash and money market investments	646	323	0.52%	0.23%	502,718	564,237
Total investments	10,154	9,518	2.09%	2.02%	1,952,845	1,908,854
Non-acquired loans						
Mortgage	9,606	10,211	5.09%	5.26%	756,291	787,330
Commercial	15,414	16,954	4.34%	5.42%	1,425,332	1,269,104
Consumer	6,185	4,585	10.58%	10.25%	234,499	181,464
Auto and leasing	16,710	14,534	9.80%	9.91%	684,035	594,760
Total non-acquired loans	47,915	46,284	6.20%	6.63%	3,100,157	2,832,658
Acquired loans:						
Acquired BBVAPR						
Mortgage	8,307	8,987	5.54%	5.61%	601,761	649,710
Commercial	7,696	14,572	9.21%	10.79%	335,240	547,578
Consumer	3,088	3,189	17.56%	14.54%	70,553	88,954
Auto	6,570	8,947	11.32%	9.05%	232,699	400,803
Total acquired BBVAPR loans	25,661	35,695	8.30%	8.58%	1,240,252	1,687,044
Acquired Eurobank	7,576	15,504	21.10%	22.89%	144,001	274,731
Total loans	81,152	97,483	7.26%	8.25%	4,484,410	4,794,432
Total interest earning assets	91,306	107,001	5.69%	6.47%	6,437,255	6,703,286

	Interest		Average rate		Average balance	
	March 2016	March 2015	March 2016	March 2015	March 2016	March 2015
			(Dollars in thousands)			
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	$ 1,081	$ 1,281	0.38%	0.41%	$ 1,152,055	$ 1,260,952
Savings and money market	1,398	1,734	0.50%	0.54%	1,115,552	1,314,360
Individual retirement accounts	502	771	0.75%	1.05%	267,058	296,661
Retail certificates of deposits	1,339	1,407	1.28%	1.33%	417,992	428,466
Total core deposits	**4,320**	**5,193**	**0.59%**	**0.65%**	**2,952,657**	**3,300,439**
Institutional deposits	654	798	0.97%	1.22%	269,807	264,964
Brokered deposits	1,988	1,166	1.09%	0.79%	734,326	602,189
Total wholesale deposits	**2,642**	**1,964**	**1.06%**	**0.92%**	**1,004,133**	**867,153**
	6,962	**7,157**	**0.71%**	**0.70%**	**3,956,790**	**4,167,592**
Non-interest bearing deposits	-	-	0.00%	0.00%	774,950	$ 750,640
Deposits fair value premium amortization	(96)	(345)	0.00%	0.00%	-	-
Core deposit intangible amortization	258	292	0.00%	0.00%	-	-
Total deposits	**7,124**	**7,104**	**0.60%**	**0.69%**	**4,731,740**	**4,918,232**
Borrowings:						
Securities sold under agreements to repurchase	6,099	7,164	3.06%	3.09%	799,613	939,377
Advances from FHLB and other borrowings	2,240	2,235	2.66%	2.69%	337,364	337,292
Subordinated capital notes	868	863	3.39%	3.44%	102,695	101,675
Total borrowings	**9,207**	**10,262**	**2.98%**	**3.02%**	**1,239,672**	**1,378,344**
Total interest bearing liabilities	**16,331**	**17,366**	**1.10%**	**1.12%**	**5,971,412**	**6,296,576**
Net interest income / spread	**$ 74,975**	**$ 89,635**	**4.59%**	**5.35%**		
Interest rate margin			**4.67%**	**5.42%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 465,843**	**$ 406,710**
Average interest-earning assets to average interest-bearing liabilities ratio					**107.80%**	**106.46%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
		(In thousands)	
Interest Income:			
Investments	$ 219	$ 417	$ 636
Loans	(12,460)	(3,871)	(16,331)
Total interest income	(12,241)	(3,454)	(15,695)
Interest Expense:			
Deposits	(269)	289	20
Repurchase agreements	(1,066)	1	(1,065)
Other borrowings	8	2	10
Total interest expense	(1,327)	292	(1,035)
Net Interest Income	**$** (10,914)	**$** (3,746)	**$** (14,660)

Net Interest Income

Comparison of quarters ended March 31, 2016 and 2015

Net interest income is a function of the difference between rates earned on the Company's interest-earning assets and rates paid on its interest-bearing liabilities (interest rate spread) and the relative amounts of its interest earning assets and interest-bearing liabilities (interest rate margin). The Company constantly monitors the composition and re-pricing of its assets and liabilities to maintain its net interest income at adequate levels. Table 1 above shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the quarters ended March 31, 2016 and 2015.

Net interest income of $75.0 million decreased 16.4% compared with $89.6 million reported in the first quarter of 2015, reflecting a decrease of 16.8% in interest income from loans.

Interest rate spread decreased 76 basis points from 5.35% to 4.59%. This decrease is mainly due to the net effect of a 78 basis points decrease in the average yield of interest-earning assets from 6.47% to 5.69%.

Interest income decreased to $91.3 million from $107.0 million in the first quarter of 2016. Such decrease reflects decreases of $12.2 million and $3.5 million in the volume and interest rate, respectively, of interest-earning assets. Interest income from loans decreased 16.8% to $81.2 million, reflecting a decrease in volume and interest rate by $12.5 million and a $3.9 million, respectively, primarily due to lower acquired loan balances and yields. Our loan portfolio is transitioning as originated loans with normal yields grow at a slower pace than higher-yielding acquired loans fall due to repayments and maturities.

Originated loans interest income increased 3.5% to $47.9 million as average balances grew 9.4% and yields decreased 43 basis points to 6.20%. During the first quarter of 2015, the revolving line of credit to PREPA was classified as non-accrual. Starting with the second quarter of 2015, quarterly interest payments of $3.6 million per quarter, have been applied to principal, reducing the yield on originated loans. In addition, as a result of the Company's efforts to reduce our risk in Puerto Rico government exposures, the outstanding balance of credit facilities to public corporations decreased as a result of a repayment in full of a $75 million loan by the Puerto Rico Aqueduct and Sewer Authority in the second quarter of 2015 and a repayment in full of a $78 million loan by the State Insurance Fund Corporation in the third quarter of 2015.

Acquired BBVAPR loans interest income declined 28.1% to $25.7 million as average balances declined 26.5% and yields decreased 28 basis points to 8.30%. Acquired Eurobank loans interest income fell 51.2% to $7.6 million as average balances declined 47.6% and yields decreased 183 basis points to 21.06%. Interest income from investments increased 6.7% to $10.2 million, reflecting increases in volume and interest rate of $219 thousand and $417 thousand, respectively. The average balance of total interest-earning assets was $6.437 billion, a decrease of 4.0% from the same period in 2015. The decrease in average balance of interest-earning assets was mainly attributable to a decrease of 6.5% in average loans, partially offset by an increase of 2.3% in average investments. The decrease in average loans is mostly related to the bulk sale on September 28, 2015, of a portion of covered non-performing commercial loans amounting to $197.1 million unpaid principal balance or UPB ($100.0 million carrying amount). The FDIC agreed to cover $20.0 million of losses as part of its loss-share agreement with the Company. Also, as part of this transaction, the Company sold certain non-performing commercial loans and real estate owned from the BBVAPR acquisition amounting to $38.1 million of unpaid principal balance ($9.9 million carrying amount).

Interest expense decreased 6.0% to $16.3 million, primarily because of a $1.3 million decrease in the volume of interest-bearing liabilities and an increase of $292 thousand in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease in repurchase agreements volume of $1.1 million and a decrease in deposit volume of $269 thousand which was offset by an increase in interest rate of $289 thousand. The decrease in repurchase agreement volume reflects a partial unwinding of repurchase agreements amounting to $268.0 million, which carried a cost of 4.78%. The cost of deposits before fair value amortization and core deposit intangible amortization slightly increased 1 basis point to 0.71% for the first quarter of 2016, compared to 0.70% for the first quarter of 2015. The cost of borrowings decreased 4 basis points to 2.98% from 3.02%.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Quarter Ended March 31,		
	2016	2015	Variance
	(Dollars in thousands)		
Banking service revenue	$ 10,118	$ 10,205	-0.9%
Wealth management revenue	6,152	7,155	-14.0%
Mortgage banking activities	855	1,863	-54.1%
Total banking and financial service revenue	**17,125**	**19,223**	**-10.9%**
FDIC shared-loss expense, net	(4,029)	(13,084)	69.2%
Net gain (loss) on:			
Sale of securities available for sale	11,996	2,572	366.4%
Derivatives	(3)	(90)	96.7%
Early extinguishment of debt	(12,000)	-	-100.0%
Other non-interest income (loss)	414	(1,740)	123.8%
	(3,622)	(12,342)	70.7%
Total non-interest income, net	**$ 13,503**	**$ 6,881**	**96.2%**

Non-Interest Income, net

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

Comparison of quarters ended March 31, 2016 and 2015

As shown in Table 2 above, the Company recorded non-interest income, net in the amount of $13.5 million, compared to $6.9 million for the same period in 2015, an increase of 96.2%, or $6.6 million.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, slightly decreased 1.0% to $10.1 million, from $10.2 million for the same period in 2015. The decrease is mainly due to a decrease in electronic banking fees of $242 thousand, partially offset by an increase of $195 thousand for prepayment penalty fees.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 14.0% to $6.2 million, compared to $7.2 million for the same period in 2015. Such decrease reflects a reduction in some securities brokerage activities and the cancellation of various retirement plans. Client trading volumes in our broker-dealer subsidiary continued to fall due to the general investor uncertainty in the Puerto Rico market.

Income generated from mortgage banking activities decreased 54.1% to $855 thousand, compared to $1.9 million for the same period in 2015. The decrease in mortgage banking activities was mostly due to foregone gains on sales as a result of the Company retaining securitized GNMA pools. During the first quarter of 2016, the Company retained securitized GNMA pools totaling $23.0 million, amortized cost, at a yield of 3.06%, from its own originations.

The net FDIC shared-loss expense decreased to $4.0 million as compared to $13.1 million for the first quarter of 2015, primarily from the expiration of the FDIC commercial loss share coverage. The decrease is also related to the ongoing evaluation of expected cash flows of the covered loan portfolio and from changes in the fair value of the true-up payment obligation (also known as a clawback liability).

During the first quarter of 2016, the Company capitalized on favorable market conditions to partially unwind a high-rate repurchase agreement amounting to $268.0 million at a cost of $12 million, included as a loss on early extinguishment of debt in the unaudited statements of operations. In addition, the Company sold $272.1 million in mortgage backed securities and $11.1 million in Puerto Rico government bonds. As a result, the Company recorded a net gain on sale of securities of $12.0 million, compared to $2.6 million for the first quarter of 2015.

Other non-interest income increased $2.2 million, as the first quarter of 2015 included the recognition of $1.9 million loss in the valuation of part of the mortgage servicing asset subsequently sold to Scotiabank Puerto Rico.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Quarter Ended March 31,		
	2016	**2015**	**Variance %**
	(Dollars in thousands)		
Compensation and employee benefits	$ 20,284	$ 20,180	0.5%
Professional and service fees	3,626	4,181	-13.3%
Occupancy and equipment	7,822	8,636	-9.4%
Insurance	3,150	1,953	61.3%
Electronic banking charges	5,589	5,367	4.1%
Information technology expenses	1,657	1,454	14.0%
Advertising, business promotion, and strategic initiatives	1,443	1,629	-11.4%
Foreclosure, repossession and other real estate expenses	2,806	5,447	-48.5%
Loan servicing and clearing expenses	2,081	2,353	-11.6%
Taxes, other than payroll and income taxes	2,671	1,479	80.6%
Communication	819	691	18.5%
Printing, postage, stationery and supplies	725	637	13.8%
Director and investor relations	278	294	-5.4%
Other operating expenses	1,906	2,031	-6.2%
Total non-interest expenses	**$ 54,857**	**$ 56,332**	**-2.6%**
Relevant ratios and data:			
Efficiency ratio	**59.56%**	**51.75%**	
Compensation and benefits to non-interest expense	**36.98%**	**35.82%**	
Compensation to average total assets owned	**1.16%**	**1.09%**	
Average number of employees	**1,468**	**1,510**	
Average compensation per employee	**$ 13.8**	**$ 13.4**	
Average loans per average employee	**$ 3,055**	**$ 3,175**	

Non-Interest Expenses

Comparison of quarters ended March 31, 2016 and 2015

Non-interest expense for the first quarter of 2016 was $54.9 million, representing a decrease of 2.6% compared to $56.3 million in the same quarter of the previous year.

Professional and service fees decreased 13.3% or $555 thousand to $3.6 million, mostly due to a decrease of $522 thousand in legal expenses from reduced billings.

Occupancy and equipment decreased 9.4% to $7.8 million, reflecting decreases in rent expense and in depreciation expenses of $890 thousand and $227 thousand, respectively, and was partially offset by an increase of $332 thousand in new technology for clients. The rent expense decrease is mainly due to a reduction in the number of branches.

Foreclosure, repossession and other real estate expenses decreased 48.5% to $2.8 million, as compared to $5.4 million in the same period for the previous year. The first quarter of 2015 included a loss of $2.1 million on the sale of repossessed assets, contrasting with 2016 which included a gain of $723 thousand on the sale of repossessed assets, as the unit count decreased from 1,195 to 928 mostly due to reduction in new entries and efficiencies in the selling process.

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

Insurance expense increased 61.3% to $3.2 million, as compared to $2.0 million in the same period of 2015, mainly due to an increase in the State Accident Insurance Fund ("SAIF") premiums.

Taxes, other than payroll and income taxes increased 80.6% to $2.7 million from $1.5 million for the same quarter in 2015. The first quarter of 2015 included a $1.2 million adjustment related to a special gross receipts tax ("Patente Nacional") taxes from a 2014 accrual, which reduced the expense balance in such period.

The efficiency ratio was 59.56% compared to 51.75% for the same period in 2015. The efficiency ratio measures how much of the Company's revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, FDIC shared-loss expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest (losses) income that are excluded from the efficiency ratio computation for the quarter ended March 31, 2016 amounted to losses of $3.6 million, compared to income of $12.3 million for the quarter ended March 31, 2015.

Provision for Loan and Lease Losses

Comparison of quarters ended March 31, 2016 and 2015

Provision for loan and lease losses decreased 67.3% or $28.4 million, to $13.8 million, as a result of a $24.0 million provision for loan and lease losses related to the PREPA line of credit recorded during the first quarter of 2015.

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

Provision for originated and other loan and lease losses decreased 68.6%, or $23.3 million, to $10.7 million from $33.9 million when compared with the same period in 2015. During the first quarter of 2015, the Company changed to non-accrual status of the PREPA line of credit recorded a $24.0 million provision for loan and lease losses related thereto. Management determined that no additional provision was required on the PREPA line of credit after the evaluation made during the first quarter of 2016.

Total charge-offs on originated and other loans increased 9.4% to $13.4 million, as compared to $12.2 million for the same quarter in 2015. Consumer charge-offs increased $651 thousand to $1.7 million. Mortgage charge-offs increased $248 thousand to $1.7 million. Auto and leasing charge-offs increased $226 thousand to $8.4 million. Commercial charge-offs increased $19 thousand to $1.0 million. Total recoveries on originated and other loans decreased from $3.6 million to $3.3 million. As a result, the recoveries to charge-offs ratio decreased from 29.68% to 24.80%. Net credit losses increased $1.5 million to $10.0 million, representing 1.30% of average originated and other loans outstanding versus 1.21% for the same quarter in 2015, annualized.

Provision for acquired loan and lease losses decreased 62.2%, or $5.2 million, to $3.1 million from $8.3 million when compared with the same period in 2015. Provision for acquired BBVAPR loan and lease losses decreased $1.1 million to $2.3 million from $3.5 million, when compared to the same period in 2015. Provision for acquired Eurobank loan and lease losses decreased $4.0 million from $4.8 million to $805 thousand. Such decrease reflects an additional provision of $3.5 million in the first quarter of 2015 related to the commercial shared-loss coverage with the FDIC that ended on June 30, 2015.

Income Taxes

Comparison of quarters ended March 31, 2016 and 2015

Income tax expense was $5.7 million, compared to $979 thousand for the same period in 2015. Income tax expense reflects the net income before income taxes of $19.8 million for the first quarter of 2016, compared to a net loss before income taxes of $2.0 million for the year-ago quarter.

Business Segments

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

	Quarter Ended March 31, 2016					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
			(In thousands)			
Interest income	$ 81,152	$ 18	$ 10,136	$ 91,306	$ -	**$ 91,306**
Interest expense	(6,807)	-	(9,524)	(16,331)	-	**(16,331)**
Net interest income	74,345	18	612	74,975	**-**	**74,975**
Provision for loan and lease losses	(13,789)	-	-	(13,789)	-	**(13,789)**
Non-interest income (loss), net	7,795	6,020	(312)	13,503	-	**13,503**
Non-interest expenses	(48,249)	(4,484)	(2,124)	(54,857)	-	**(54,857)**
Intersegment revenue	398	-	1,198	1,596	(1,596)	-
Intersegment expenses	(1,198)	(291)	(107)	(1,596)	1,596	-
Income (loss) before income taxes	**$ 19,302**	**$ 1,263**	**(733)**	**$ 19,832**	**$ -**	**$ 19,832**
Total assets	**$ 5,814,279**	**$ 23,369**	**$ 1,970,264**	**$ 7,807,912**	**$ (933,340)**	**$ 6,874,572**

	Quarter Ended March 31, 2015					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
			(In thousands)			
Interest income	$ 97,482	$ 23	$ 9,496	$ 107,001	$ -	**$ 107,001**
Interest expense	(7,454)	-	(9,912)	(17,366)	-	**(17,366)**
Net interest income	90,028	23	(416)	89,635	-	**89,635**
Provision for loan and lease losses	(42,193)	-	-	(42,193)	-	**(42,193)**
Non-interest income (loss), net	(2,249)	7,010	2,120	6,881	-	**6,881**
Non-interest expenses	(49,313)	(4,790)	(2,229)	(56,332)	-	**(56,332)**
Intersegment revenue	544	-	98	642	(642)	-
Intersegment expenses	(98)	(432)	(112)	(642)	642	-
(Loss) income before income taxes	**$ (3,281)**	**$ 1,811**	**$ (539)**	**$ (2,009)**	**$ -**	**$ (2,009)**
Total assets	**$ 6,302,044**	**$ 21,995**	**$ 1,965,342**	**$ 8,289,381**	**(925,225)**	**$ 7,364,156**

Comparison of quarters ended March 31, 2016 and 2015

Banking

Net interest income of the Company's Banking segment decreased $14.7 million for 2016, or 16.4%, reflecting a decrease of 16.8% in interest income from loans. Interest income from loans decreased 16.8% to $81.2 million, reflecting a decrease in volume and in interest rate by $12.5 million and $3.9 million, respectively, primarily due to lower acquired loan balances and yields. Our loan portfolio is transitioning as originated loans with normal yields grow at a slower pace than higher-yielding acquired loans fall due to repayments and maturities.

Originated loans interest income increased 3.5% to $47.9 million as average balances grew 9.4% and yields declined 43 basis points to 6.20%. During the first quarter of 2015, the revolving line of credit to PREPA was classified as non-accrual. Starting with the second quarter of 2015, quarterly interest payments of $3.6 million, have been applied to principal, reducing the yield on originated loans. In addition, as a result of the Company's efforts to reduce our risk in government exposures, the outstanding balance of credit facilities to public corporations decreased as a result of a repayment in full of a $75 million loan by the Puerto Rico Aqueduct and Sewer Authority in the second quarter of 2015 and a repayment in full of a $78 million loan by the State Insurance Fund Corporation in the third quarter of 2015.

Acquired BBVAPR loans interest income decreased 28.1% to $25.7 million as average balances declined 26.5% and yields declined 28 basis points to 8.30%. Acquired Eurobank loans interest income fell 51.2% to $7.6 million as average balances declined 47.6% and yields declined 183 basis points to 21.06%. The decrease in average loans is mostly related to the bulk sale on September 28, 2015, of a portion of covered non-performing commercial loans amounting to $197.1 million unpaid principal balance or UPB ($100.0 million carrying amount). The FDIC agreed to cover $20.0 million of losses as part of its loss-share agreement with the Company. Also, as part of this transaction, the Company sold certain non-performing commercial loans and real estate owned from the BBVAPR acquisition amounting to $38.1 million of unpaid principal balance ($9.9 million carrying amount).

Provision for originated and other loan and lease losses decreased 68.6%, or $23.3 million, to $10.7 million from $33.9 million when compared with the same period in 2015. During the first quarter of 2015, the Company recorded a $24.0 million provision for loan and lease losses for the PREPA line of credit. No additional provision was required on the PREPA line of credit during the first quarter of 2016. Provision for acquired loan and lease losses decreased 62.2%, or $5.2 million, when compared with the same period in 2015. Provision for acquired Eurobank loan and lease losses decreased $4.0 million, which reflects an additional provision of $3.5 million in the first quarter of 2015 related to the commercial shared-loss coverage with the FDIC that ended on June 30, 2015.

Non-interest income, net, is affected by the level of mortgage banking activities and fees generated from loans and deposit accounts. It is also affected by the FDIC shared-loss expense, which varies depending on the results of the

on-going evaluation of expected cash flows of the loan portfolio acquired in the FDIC-assisted acquisition.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, slightly decreased 1.0% to $10.1 million, from $10.2 million for the same period in 2015. The decrease is mainly due to a decrease in electronic banking fees of $242 thousand, partially offset by an increase of $195 thousand for prepayment penalty fees.

Income generated from mortgage banking activities decreased 54.1% to $855 thousand, compared to $1.9 million for the same period in 2015. The decrease in mortgage banking activities was mostly due to foregone gains on sales as a result of the Company retaining securitized GNMA pools. During the first quarter of 2016, the Company retained securitized GNMA pools totaling $23.0 million, amortized cost, from its own originations. The net FDIC shared-loss expense decreased to $4.0 million as compared to $13.1 million for the first quarter of 2015, primarily from the expiration of the FDIC commercial loss-share coverage.

Non-interest expense of $48.3 million decreased 2.1% when compared to the first quarter of 2015, primarily reflecting a decrease in foreclosure, repossession and other real estate expenses of 48.5% to $2.8 million, as compared to $5.4 million in the same period for the previous year. The first quarter of 2015 included a loss of $2.1 million on the sale of repossessed assets, contrasting with the first quarter of 2016 which included a gain of $723 thousand due to efforts to sell units at a gain.

Wealth Management

Wealth management revenue, which consists of commissions and fees from fiduciary, securities brokerage and insurance activities decreased to $1.3 million, compared to $1.8 million in the first quarter of 2015. Such decrease reflects a reduction in some security brokerage activities and the cancellation of various retirement plans. Client trading volumes in our broker-dealer subsidiary continued to fall due to the general investor uncertainty in the Puerto Rico market.

Treasury

Treasury revenue, which consists of the Company's asset/liability management activities, such as purchase and sale of investment securities, interest rate risk management, derivatives, and borrowings, increased to a loss of $733 thousand, compared to a loss of $539 thousand in the first quarter of 2015. Such increase reflects a gain of $2.6 million from the sale of $37.7 million in FNMA and FHLMC certificates during the first quarter of 2015, partially offset by an increase of $1.0 million in net interest income and intersegment revenue of $1.1 million from the previous year.

During the first quarter of 2016, the Company capitalized on favorable market conditions to partially unwind a high-rate repurchase agreement amounting to $268.0 million, at a cost of $12.0 million, and sell $272.1 million in mortgage backed securities and $11.1 million in Puerto Rico government bonds, at a net gain on sale of securities of $12.0 million.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At March 31, 2016, the Company's total assets amounted to $6.875 billion representing a decrease of 3.2% when compared to $7.099 billion at December 31, 2015. This reduction is mainly due to a decrease in the investment and loan portfolios. The investment portfolio decreased $288.5 million from $1.616 billion at December 31, 2015 to $1.327 billion, which included the sale of $272.1 million in mortgage backed securities and $11.1 million in Puerto Rico government bonds during the first quarter of 2016. As a result, at March 31, 2016, loans represented 77% of total interest-earning assets while investments represented 23%, compared to 73% and 27%, respectively, at December 31, 2015.

The Company's loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate located in Puerto Rico, other commercial and industrial loans, consumer loans, and auto loans. At March 31, 2016, the Company's loan portfolio decreased by 1.7% to $4.360 billion compared to $4.434 billion at December 31, 2015, primarily due to lower acquired loan balances. Our loan portfolio is transitioning as originated loans grow at a slower pace than acquired loans decrease, due to repayments and maturities. At March 31, 2016, the originated loan portfolio increased $4.6 million, or 0.2%, the acquired BBVAPR loan portfolio decreased $78.4 million, or 6.2%, and the acquired Eurobank loan portfolio decreased $3.9 million, or 2.7% from December 31, 2015.

Investments principally consist of U.S. government and agency bonds, mortgage-backed securities, and Puerto Rico government and agency bonds. At March 31, 2016, the investment portfolio decreased 17.9% to $1.327 billion from $1.616 billion at December 31, 2015. During the first quarter of 2016 the Company sold $272.1 million in mortgage backed securities and $11.1 million in Puerto Rico government bonds and reduced some interest rate sensitivity and Puerto Rico government exposure. Recent purchases of investment securities were categorized as held-to-maturity. The Company's management will determine the category of upcoming investment securities purchases based on the Company's expectations at such time.

Financial Assets Managed

The Company's financial assets include those managed by the Company's trust division, retirement plan administration subsidiary, and assets gathered by its broker-dealer subsidiary. The Company's trust division offers various types of 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 March 31, 2016, total assets managed by the Company's trust division and OPC amounted to $2.758 billion, compared to $2.691 billion at December 31, 2015. Oriental Financial Services offers a wide array of investment alternatives to its client base, such

as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At March 31, 2016, total assets gathered by Oriental Financial Services from its customer investment accounts decreased to $2.352 billion, compared to $2.375 billion at December 31, 2015. Changes in trust and broker-dealer related assets primarily reflect a decrease in portfolio balances and differences in market values.

Goodwill

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

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

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

As of March 31, 2016, the Company had $86.1 million of goodwill allocated as follows: $84.1 million to the Banking unit and $2.0 to the Wealth Management unit. During the last quarter of 2015, based on its annual goodwill impairment test, the Company determined that the Banking unit failed step one of the two-step impairment test and that Wealth Management unit passed such step. As a result of step one, the Banking unit’s adjusted net book value exceed its fair value by approximately $263.1 million, or 29.6%. Accordingly, the Company proceeded to perform step two of the analysis. Based on the results of step two, the Company determined that the carrying value of the goodwill allocated to the Banking unit was not impaired as of the valuation date. During the first quarter of 2016, the Company performed an assessment of events or circumstances that could trigger reductions in the book value of the goodwill. Based on this assessment, no events were identified that triggered changes in the book value of Goodwill at March 31, 2016.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION

	March 31, 2016	December 31, 2015	Variance %
	(Dollars in thousands)		
Investments:			
FNMA and FHLMC certificates	$ 1,056,869	$ 1,354,802	-22.0%
Obligations of US government-sponsored agencies	4,835	5,093	-5.1%
US Treasury securities	25,024	25,032	0.0%
CMOs issued by US government-sponsored agencies	128,583	135,073	-4.8%
GNMA certificates	82,697	58,495	41.4%
Puerto Rico government and public instrumentalities	5,847	13,731	-57.4%
FHLB stock	20,761	20,783	-0.1%
Other debt securities	2,466	2,572	-4.1%
Other investments	317	291	8.9%
Total investments	**1,327,399**	**1,615,872**	**-17.9%**
Loans	**4,360,129**	**4,434,213**	**-1.7%**
Total securities and loans	**5,687,528**	**6,050,085**	**-6.0%**
Other assets:			
Cash and due from banks (including restricted cash)	675,301	535,359	26.1%
Money market investments	5,897	4,699	25.5%
FDIC indemnification asset	20,923	22,599	-7.4%
Foreclosed real estate	56,777	58,176	-2.4%
Accrued interest receivable	18,392	20,637	-10.9%
Deferred tax asset, net	145,518	145,901	-0.3%
Premises and equipment, net	73,975	74,590	-0.8%
Servicing assets	7,819	7,455	4.9%
Derivative assets	2,662	3,025	-12.0%
Goodwill	86,069	86,069	0.0%
Other assets and customers' liability on acceptances	93,711	90,554	3.5%
Total other assets	**1,187,044**	**1,049,064**	**13.2%**
Total assets	**$ 6,874,572**	**$ 7,099,149**	**-3.2%**
Investments portfolio composition:			
FNMA and FHLMC certificates	79.6%	83.9%	
Obligations of US government-sponsored agencies	0.4%	0.3%	
US Treasury securities	1.9%	1.5%	
CMOs issued by US government-sponsored agencies	9.7%	8.4%	
GNMA certificates	6.2%	3.6%	
Puerto Rico government and public instrumentalities	0.4%	0.8%	
FHLB stock	1.6%	1.3%	
Other debt securities and other investments	0.2%	0.2%	
	100.0%	**100.0%**	

TABLE 5 — LOANS RECEIVABLE COMPOSITION

	March 31, 2016	Dec
	(In thousan	
Originated and other loans and leases held for investment:		
Mortgage	$ 751,819	$
Commercial	1,425,385	
Consumer	252,327	
Auto and leasing	687,159	
	3,116,690	
Allowance for loan and lease losses on originated and other loans and leases	(113,238)	
	3,003,452	
Deferred loan costs, net	4,350	
Total originated and other loans loans held for investment, net	**3,007,802**	
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	6,558	
Consumer	36,346	
Auto	91,406	
	134,310	
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(4,993)	
	129,317	
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	600,901	
Commercial	267,931	
Construction	77,858	
Consumer	9,345	
Auto	134,669	
	1,090,704	
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(27,747)	
	1,062,957	
Total acquired BBVAPR loans, net	**1,192,274**	
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	91,113	
Commercial and construction	142,298	
Consumer	1,770	
	235,181	
Allowance for loan and lease losses on Eurobank loans	(92,293)	
Total acquired Eurobank loans, net	**142,888**	
Total acquired loans, net	**1,335,162**	
Total held for investment, net	**4,342,964**	
Mortgage loans held for sale	**17,165**	
Total loans, net	**$ 4,360,129**	**$**

The Company’s loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred as "originated and other" loans) and loans acquired (referred 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. The FDIC loss-sharing coverage, related to acquired Eurobank commercial loans expired on June 30, 2015. Notwithstanding the expiration of loss-share coverage of commercial loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a potential sale of a pool of loss-share assets covered under the commercial loss-share agreement. Pursuant to such agreement, the FDIC agreed to pay up to $20 million in loss-share coverage with respect to the aggregate loss resulting from any portfolio sale within 120 days of the agreement. This sale was completed on September 28, 2015. The coverage for the single-family residential loans will expire on June 30, 2020. At March 31, 2016, the remaining covered loans amounting to $57.1 million, net carrying amount, are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties". At December 31, 2015, covered loans amounted to $59.6 million, net carrying amount, and also included under the name "loans secured by 1-4 family residential properties". Covered loans are no longer a material amount. Therefore, the Company changed its loan disclosures during 2015.

As shown in Table 5 above, total loans, net, amounted to $4.360 billion at March 31, 2016 and $4.434 billion at December 31, 2015. The Company’s originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to $751.8 million (24.1% of the gross originated loan portfolio) compared to $757.8 million (24.4% of the gross originated loan portfolio) at December 31, 2015. Mortgage loan production totaled $48.3 million for the first quarter of 2016, which represents a decrease of 21.7% from $61.7 million in the first quarter of the previous year. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $7.7 million and $7.9 million at March 31, 2016 and December 31, 2015, respectively. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

- Commercial loan portfolio amounted to $1.425 billion (45.7% of the gross originated loan portfolio) compared to $1.442 billion (46.3% of the gross originated loan portfolio) at December 31, 2015. Commercial loan production decreased 7.5% to $79.3 million for the first quarter of 2016 from $85.7 million for the same period in 2015.

- Consumer loan portfolio amounted to $252.3 million (8.1% of the gross originated loan portfolio) compared to $243.0 million (7.8% of the gross originated loan portfolio) at December 31, 2015. Consumer loan production increased 31.0% to $34.3 million for the first quarter of 2016 from $26.2 million for the same period in 2015.

- Auto and leasing portfolio amounted to $687.2 million (22.1% of the gross originated loan portfolio) compared to $669.2 million (21.5% of the gross originated loan portfolio) at December 31, 2015. Auto and leasing production decreased by 2.5% to $64.3 million for the first quarter of 2016, compared to $65.9 million for the same period in

2015.

TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	March 31, 2016 Higher-Risk Residential Mortgage Loans*								
	Junior Lien Mortgages			Interest Only Loans			High Loan-to-Value Ratio Mortgages LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 11,388	$ 259	2.27%	$ 13,852	$ 798	5.76%	$ 89,456	$ 1,936	2.16%
90 - 119 days	91	1	1.10%	128	9	7.03%	1,317	48	3.64%
120 - 179 days	-	-	0.00%	640	56	8.75%	1,703	82	4.82%
180 - 364 days	268	2	0.75%	1,481	130	8.78%	2,450	165	6.73%
365+ days	388	76	19.59%	1,010	272	26.93%	10,452	748	7.16%
Total	$ 12,135	$ 338	2.79%	$ 17,111	$ 1,265	7.39%	$ 105,378	$ 2,979	2.83%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.37%			0.53%			3.24%		
Refinanced or Modified Loans:									
Amount	$ 2,084	$ 211	10.12%	$ 195	$ 18	9.23%	$ 21,247	$ 1,546	7.28%
Percentage of Higher-Risk Loan Category	17.17%			1.14%			20.16%		
Loan-to-Value Ratio:									
Under 70%	$ 7,651	$ 226	2.95%	$ 1,491	$ 102	6.84%	$ -	$ -	-
70% - 79%	2,438	73	2.99%	2,679	156	5.82%	-	-	-
80% - 89%	127	14	11.02%	4,741	397	8.37%	-	-	-
90% and over	1,919	25	1.30%	8,200	610	7.44%	105,378	2,979	2.83%
	$ 12,135	$ 338	2.79%	$ 17,111	$ 1,265	7.39%	$ 105,378	$ 2,979	2.83%

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

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

TABLE 7 - PUERTO RICO GOVERNMENT RELATED LOANS AND SECURITIES

	March 31, 2016				
		Maturity			
Loans and Securities:	**Carrying Value**	**Less than 1 Year**	**1 to 3 Years**	**More than 3 Years**	**Comments**
		(In thousands)			
Central government	$ 10,980	$ -	$ -	$ 10,980	Repayment sources include all available revenues of the Commonwealth
Public corporations	187,186	187,186	-	-	Includes $186.7 million PREPA loan, which has $53.3 million allowance for loan and lease losses
Municipalities	203,617	187	48,159	155,271	Repayment from property taxes
Investment securities	6,720	-	6,720	-	Remaining position is PRHTA security issued for P3 Project Teodoro Moscoso Bridge operated by private companies that have the payment obligation
Total	**$ 408,503**	**$ 187,373**	**$ 54,879**	**$ 166,251**	

Some highlights follow regarding the data included above:

- Loans to municipalities are backed by their unlimited taxing power or real and personal property taxes.
- 46% of loans and securities balances mature in 12-months or less.
- Deposits from municipalities, central government and other government entities totaled $220.5 million at March 31, 2016. However, this amount could decline as a result of local legislation intended to improve the liquidity of the Government Development Bank for Puerto Rico (“GDB”) by requiring the Commonwealth’s agencies, instrumentalities and public corporations to maintain certain deposits at GDB.
- Oriental Bank, is part of a four bank syndicate providing a $550 million dollar revolving line of credit to finance the purchase of fuel for the day-to-day power generation activities of PREPA. The Bank’s participation in the line of credit has an unpaid principal balance of $186.7 million as of March 31, 2016. During the first quarter of 2015, the Bank placed its participation in such line of credit on non-accrual status. After the first quarter of 2015, interest payments received were applied to principal. As of March 31, 2016, the specific reserve was at $53.3 million.

Credit Risk Management

Allowance for Loan and Lease Losses

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. At March 31, 2016, the Company's allowance for loan and lease losses amounted to $238.3 million, an increase from $234.1 million at December 31, 2015. Tables 8 through 12 set forth an analysis of activity in the allowance for loan and lease losses and present selected loan loss statistics. In addition, Table 5 sets forth the composition of the loan portfolio.

At March 31, 2016, $113.2 million of the allowance corresponded to originated and other loans held for investment, or 3.63% of total originated and other loans held for investment, compared to $112.6 million or 3.62% of total originated and other loans held for investment at December 31, 2015. The allowance increased as a result of a $10.7 million provision for loan and lease losses and $3.3 million of recoveries, which were partially offset by charge-offs of $13.4 million during the first quarter of 2016. The allowance for residential mortgage loans increased by 2.4% (or $432 thousand), when compared with the balances recorded at December 31, 2015. The allowance for consumer loans and auto and leases increased by 1.9% (or $217 thousand) and 2.5% (or $455 thousand), respectively, when compared with the balances recorded at December 31, 2015. The allowance for commercial loans slightly decreased 0.9% (or 585 thousand), when compared with the balances recorded at December 31, 2015.

Allowance for loan and lease losses recorded for acquired BBVAPR loans accounted for under the provisions of ASC 310-20 at March 31, 2016 was $5.0 million compared to $5.5 million at December 31, 2015, a 9.9% decrease. The allowance decreased as a result of $1.6 million in charge-offs, which were partially offset by a $296 thousand provision for loan and lease losses and $711 thousand of recoveries during the first quarter of 2016. The allowance for commercial loans decreased by 11.5% (or $3 thousand), when compared with the balance recorded at December 31, 2015. The allowance for consumer loans decreased by 5.4% (or $186 thousand) and auto loans decreased by 17.2% (or $360 thousand), respectively, when compared with the balances recorded at December 31, 2015, due to the normal amortization of credit discount of these acquired loans.

Allowance for loan and lease losses recorded for acquired BBVAPR loans accounted for under ASC-310-30 at March 31, 2016 was $27.7 million as compared to $25.8 million at December 31, 2015. The allowance increased as a result of a $2.0 million provision for loan and lease losses, partially offset by $66 thousand in loan pools fully charged-off during the first quarter of 2016. Under this accounting guidance, the allowance for loan and lease losses on these loans is evaluated at each financial reporting period based on forecasted cash flows. 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.

Allowance for loan and lease losses recorded for acquired Eurobank loans at March 31, 2016 was $92.3 million as compared to $90.2 million at December 31, 2015. The allowance increased as a result of a $805 thousand provision for loan and lease losses and $1.4 million for FDIC shared-loss portion of provision for covered loan and lease losses, partially offset by $134 thousand in loan pools fully charged-off. The allowance for loan and lease losses on acquired Eurobank loans is accounted for under the provisions of ASC 310-30. Under this accounting guidance, the allowance for loan and lease losses on covered loans is evaluated at each financial reporting period based on forecasted cash flows. Credit-related decreases in expected cash flows, compared to those previously forecasted, are recognized by recording a provision for credit losses on covered loans when it is probable that all cash flows expected at acquisition will not be collected. The portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC indemnification asset.

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

Non-performing Assets

The Company's non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At March 31, 2016 and December 31, 2015, the Company had $293.6 million and $300.1 million, respectively, of non-accrual loans, including acquired BBVAPR loans accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium). During the first quarter of 2015, the Company placed its $200.0 million participation in the PREPA line of credit, which was previously classified as troubled-debt restructuring, on non-accrual status. At March 31, 2016 and December 31, 2015, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $96.5 million and $93.6 million, respectively.

Oriental Bank is part of a four bank syndicate providing a $550 million revolving line of credit to finance the purchase of fuel for PREPA's day-to-day power generation activities. Our participation in the line of credit has an unpaid principal balance of $186.7 million as of March 31, 2016. As part of the bank syndicate, the Bank entered into a forbearance agreement with PREPA, which was extended several times until the execution of a Restructuring Support Agreement on November 5, 2015 with PREPA and certain other creditors. The Restructuring Support Agreement provides for the restructuring of the fuel line of credit subject to the accomplishment of several milestones, including some milestones that depend on the actions of third parties to the agreement, such as the negotiation of agreements with other creditors and legislative action. The Company has classified the credit facility to PREPA as substandard and on non-accrual status. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual during the first quarter of 2015. Since April 1, 2015, interest payments have been applied to principal.

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

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

At March 31, 2016, the Company's non-performing assets decreased by 2.3% to $359.4 million (6.34% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) from $367.8 million (6.31% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) at December 31, 2015. The Company does not expect non-performing loans to result in significantly higher losses. At March 31, 2016, the

allowance for originated loan and lease losses to non-performing loans coverage ratio was 37.94% (37.15% at December 31, 2015).

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

The following items comprise non-performing assets:

- Originated and other loans held for investment:

Mortgage loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 18 months or more past due. At March 31, 2016, the Company's originated non-performing mortgage loans totaled $76.2 million (25.3% of the Company's non-performing loans), a 2.1% decrease from $77.9 million (25.5% of the Company's non-performing loans) at December 31, 2015. Non-performing loans in this category are residential mortgage loans.

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 March 31, 2016, the Company's originated non-performing commercial loans amounted to $212.3 million (70.6% of the Company's non-performing loans), a 1.4% decrease from $215.3 million at December 31, 2015 (70.5% of the Company's non-performing loans). Most of this portfolio is collateralized by commercial real estate properties. During the first quarter of 2015, the Company placed its $200.0 million participation in the PREPA line of credit, which was previously classified as troubled-debt-restructuring, on non-accrual status. At March 31, 2016, the PREPA line of credit had an outstanding principal balance of $186.7 million.

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 March 31, 2016, the Company's originated non-performing consumer loans totaled $2.0 million (0.7% of the Company's non-performing loans), a 25.0% increase from $1.6 million (0.5% of the Company's non-performing loans) at December 31, 2015.

Auto loans and leases — are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At March 31, 2016, the Company's originated non-performing auto loans and leases amounted to $7.9 million (2.6% of the Company's total non-performing loans), a decrease of 6.5% from $8.4 million at December 31, 2015 (2.8% of the Company's total non-performing loans).

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

Commercial revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At March 31, 2016, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $854 thousand (0.3% of the Company's non-performing loans), a 3.0% decrease from $880 thousand at December 31, 2015 (0.3% of the Company's non-performing loans).

Consumer revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 180 days. At March 31, 2016, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $788 thousand (0.3% of the Company's non-performing loans), a 47.3% increase from $535 thousand at December 31, 2015 (0.2% of the Company's non-performing loans).

Auto loans acquired at premium - are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At March 31, 2016, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled $572 thousand (0.2% of the Company's non-performing loans), a 31.2% decrease from $831 thousand at December 31, 2015 (0.2% of the Company's non-performing loans).

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

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

The Non-traditional Mortgage Loan Program is for non-traditional mortgages, including balloon payment, interest only/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 by the Company's current credit and underwriting guidelines. The Company achieved an affordable and sustainable monthly payment by taking specific, sequential, and necessary steps such as reducing the interest rate, extending the loan term, capitalizing arrearages, deferring the payment of principal or, if the borrower qualifies, refinancing the loan.

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

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES BREAKDOWN

	March 31, 2016	December 31, 2015	Variance %
	(Dollars in thousands)		
<u>**Originated and other loans held for investment**</u>			
Allowance balance:			
Mortgage	$ 18,784	$ 18,352	2.4%
Commercial	64,206	64,791	-0.9%
Consumer	11,414	11,197	1.9%
Auto and leasing	18,716	18,261	2.5%
Unallocated allowance	118	25	372.0%
Total allowance balance	**$ 113,238**	**$ 112,626**	**0.5%**
Allowance composition:			
Mortgage	16.59%	16.29%	1.8%
Commercial	56.70%	57.53%	-1.4%
Consumer	10.08%	9.94%	1.4%
Auto and leasing	16.53%	16.21%	2.0%
Unallocated allowance	0.10%	0.02%	100.0%
	100.00%	**100.00%**	
Allowance coverage ratio at end of period applicable to:			
Mortgage	2.50%	2.42%	3.3%
Commercial	4.50%	4.49%	0.2%
Consumer	4.52%	4.61%	-2.0%
Auto and leasing	2.72%	2.73%	-0.4%
Total allowance to total originated loans	**3.63%**	**3.62%**	**0.3%**
Allowance coverage ratio to non-performing loans:			
Mortgage	24.65%	23.57%	4.6%
Commercial	30.24%	30.10%	0.5%
Consumer	559.78%	686.51%	-18.5%
Auto and leasing	237.72%	216.93%	9.6%
Total	**37.94%**	**37.15%**	**2.1%**
<u>**Acquired BBVAPR loans accounted for under ASC 310-20**</u>			
Allowance balance:			
Commercial	$ 23	$ 26	-11.5%
Consumer	3,243	3,429	-5.4%
Auto	1,727	2,087	-17.2%
Total allowance balance	**$ 4,993**	**$ 5,542**	**-9.9%**
Allowance composition:			
Commercial	0.46%	0.47%	-2.1%
Consumer	64.95%	61.87%	5.0%
Auto	34.59%	37.66%	-8.2%
	100.00%	**100.00%**	
Allowance coverage ratio at end of period applicable to:			
Commercial	0.35%	0.35%	0.0%
Consumer	8.92%	8.93%	-0.1%

Auto	1.89%	1.95%	-3.1%
Total allowance to total acquired loans	**3.72%**	**3.63%**	**2.5%**
Allowance coverage ratio to non-performing loans:			
Commercial	2.69%	2.95%	-8.8%
Consumer	411.55%	640.93%	-35.8%
Auto	301.92%	251.14%	20.2%
Total	**225.52%**	**246.75%**	**-8.6%**

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

	March 31, 2016	December 31, 2015	Variance %
	(Dollars in thousands)		
Acquired BBVAPR loans accounted for under ASC 310-30			
Allowance balance:			
Mortgage	$ 1,762	$ 1,762	0.0%
Commercial	20,430	21,161	-3.5%
Auto	5,555	2,862	94.1%
Total allowance balance	**$ 27,747**	**$ 25,785**	**7.6%**
Allowance composition:			
Mortgage	6.35%	6.83%	-7.0%
Commercial	73.63%	82.07%	-10.3%
Auto	20.02%	11.10%	80.4%
	100.00%	**99.99%**	
Acquired Eurobank loans accounted for under ASC 310-30			
Allowance balance:			
Mortgage	$ 23,961	$ 22,570	6.2%
Commercial	68,089	67,365	1.1%
Consumer	243	243	0.0%
Total allowance balance	**$ 92,293**	**$ 90,178**	**2.3%**
Allowance composition:			
Mortgage	25.96%	25.03%	3.7%
Commercial	73.76%	74.70%	-1.3%
Consumer	0.26%	0.27%	-3.7%
	100.0%	**100.0%**	

TABLE 9 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY

	Quarter Ended March 31,				Variance
	2016		2015		%
	(Dollars in thousands)				
Originated and other loans:					
Balance at beginning of period	$	112,626	$	51,439	119.0%
Provision for loan and lease losses		10,660		33,912	-68.6%
Charge-offs		(13,362)		(12,218)	9.4%
Recoveries		3,314		3,626	-8.6%
Balance at end of period	**$**	**113,238**	**$**	**76,759**	**47.5%**
Acquired loans:					
BBVAPR loans					
Acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$	5,542	$	4,597	20.6%
Provision for loan and lease losses		296		2,787	-89.4%
Charge-offs		(1,556)		(2,647)	-41.2%
Recoveries		711		713	-0.3%
Balance at end of period	**$**	**4,993**	**$**	**5,450**	**-8.4%**
Acquired loans accounted for under ASC 310-30:					
Balance at beginning of period	$	25,785	$	13,481	91.3%
Provision for loan and lease losses		2,028		685	196.1%
Loan pools fully charged off		(66)		-	-100.0%
Balance at end of period	**$**	**27,747**	**$**	**14,166**	**95.9%**
Eurobank loans					
Balance at beginning of period	$	90,178	$	64,245	40.4%
Provision for loan and lease losses		805		4,809	-83.3%
Loan pools fully charged off		(134)		-	-100.0%
FDIC shared-loss portion on (provision for) recapture of loan and lease losses		1,444		1,597	-9.6%
Balance at end of period	**$**	**92,293**	**$**	**70,651**	**30.6%**
Allowance for loans and lease losses on originated and other loans to:					
Total originated loans		3.63%		2.64%	37.5%
Non-performing originated loans		37.94%		24.80%	53.0%
Allowance for loans and lease losses on acquired					

loans accounted for under ASC 310-20 to:			
Total acquired loans accounted for under ASC 310-20	3.72%	2.54%	46.5%
Non-performing acquired loans accounted for under ASC 310-20	225.52%	152.83%	47.6%

109

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

	Quarter Ended March 31,		
	2016	**2015**	**Variance %**
	(Dollar in thousands)		
Originated and other loans and leases:			
Mortgage			
Charge-offs	$ (1,662)	$ (1,414)	17.5%
Recoveries	145	-	100.0%
Total	**(1,517)**	**(1,414)**	**7.3%**
Commercial			
Charge-offs	(1,011)	(992)	1.9%
Recoveries	88	89	-1.1%
Total	**(923)**	**(903)**	**2.2%**
Consumer			
Charge-offs	(2,327)	(1,676)	38.8%
Recoveries	102	153	-33.3%
Total	**(2,225)**	**(1,523)**	**46.1%**
Auto			
Charge-offs	(8,362)	(8,136)	2.8%
Recoveries	2,979	3,384	-12.0%
Total	**(5,383)**	**(4,752)**	**13.3%**
Net credit losses			
Total charge-offs	(13,362)	(12,218)	9.4%
Total recoveries	3,314	3,626	-8.6%
Total	**$ (10,048)**	**$ (8,592)**	**16.9%**
Net credit losses to average loans outstanding:			
Mortgage	0.80%	0.72%	11.1%
Commercial	0.26%	0.28%	-7.1%
Consumer	3.80%	3.36%	13.1%
Auto	3.15%	3.20%	-1.6%
Total	**1.30%**	**1.21%**	**7.4%**
Recoveries to charge-offs	**24.80%**	**29.68%**	**-16.4%**
Average originated loans:			
Mortgage	$ 756,291	$ 787,330	-3.9%
Commercial	1,425,332	1,269,104	12.3%
Consumer	234,499	181,464	29.2%
Auto	684,035	594,760	15.0%
Total	**$ 3,100,157**	**$ 2,832,658**	**9.4%**

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

	Quarter Ended March 31,		
	2016	**2015**	**Variance %**
	(Dollars in thousands)		
Acquired loans accounted for under ASC 310-20:			
Commercial			
Charge-offs	$ (7)	$ -	100.0%
Recoveries	32	9	255.6%
Total	**25**	**9**	**177.8%**
Consumer			
Charge-offs	(812)	(1,380)	-41.2%
Recoveries	81	134	-39.6%
Total	**(731)**	**(1,246)**	**-41.3%**
Auto			
Charge-offs	(737)	(1,267)	-41.8%
Recoveries	598	570	4.9%
Total	**(139)**	**(697)**	**-80.1%**
Net credit losses			
Total charge-offs	(1,556)	(2,647)	-41.2%
Total recoveries	711	713	-0.3%
Total	**$ (845)**	**$ (1,934)**	**-56.3%**
Net credit losses to average loans outstanding:			
Commercial	-16.67%	-0.55%	2930.9%
Consumer	4.84%	7.85%	-38.3%
Auto	0.60%	1.62%	-62.6%
Total	**2.21%**	**3.20%**	**-30.7%**
Recoveries to charge-offs	**45.69%**	**26.94%**	**69.6%**
Average loans accounted for under ASC 310-20:			
Commercial	$ 600	$ 6,583	-90.9%
Consumer	60,389	63,479	-4.9%
Auto	92,026	172,046	-46.5%
Total	**$ 153,015**	**$ 242,108**	**-36.8%**

TABLE 11 — NON-PERFORMING ASSETS

	March 31, 2016	December 31, 2015	Variance (%)
	(Dollars in thousands)		
Non-performing assets:			
Non-accruing loans			
Troubled-Debt Restructuring loans	$ 213,450	$ 217,691	-1.9%
Other loans	80,148	82,429	-2.8%
Accruing loans			
Troubled-Debt Restructuring loans	5,884	4,240	38.8%
Other loans	1,207	1,091	10.6%
Total non-performing loans	$ 300,689	$ 305,451	-1.6%
Foreclosed real estate not covered under the shared-loss agreements with the FDIC	54,332	56,304	-3.5%
Other repossessed assets	4,368	6,034	-27.6%
	$ 359,389	**$ 367,789**	**-2.3%**
Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)	**6.34%**	**6.31%**	**0.5%**
Non-performing assets to total capital	**39.76%**	**41.00%**	**-3.0%**

	Quarter Ended March 31, 2016	2015
	(In thousands)	
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	$ 1,093	$ 833

TABLE 12 — NON-PERFORMING LOANS

	March 31, 2016	December 31, 2015	Variance %
	(Dollars in thousands)		
Non-performing loans:			
Originated and other loans held for investment			
Mortgage	$ 76,218	$ 77,875	-2.1%
Commercial	212,345	215,281	-1.4%
Consumer	2,039	1,631	25.0%
Auto and leasing	7,873	8,418	-6.5%
	298,475	303,205	-1.6%
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	854	880	-3.0%
Consumer	788	535	47.3%
Auto	572	831	-31.2%
	2,214	2,246	-1.4%
Total	**$ 300,689**	**$ 305,451**	**-1.6%**
Non-performing loans composition percentages:			
Originated loans			
Mortgage	25.3%	25.5%	
Commercial	70.6%	70.5%	
Consumer	0.7%	0.5%	
Auto and leasing	2.6%	2.8%	
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	0.3%	0.3%	
Consumer	0.3%	0.2%	
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)	**9.25%**	**9.36%**	**-1.2%**
Total assets, excluding loans accounted for under ASC 310-30 (including those by analogy)	**5.31%**	**5.24%**	**1.3%**
Total capital	**33.27%**	**34.05%**	**-2.3%**
Non-performing loans with partial charge-offs to:			
Total loans, excluding loans accounted for under ASC 310-30 (including those by analogy)	**1.19%**	**1.15%**	**3.48%**
Non-performing loans	**12.87%**	**12.25%**	**5.1%**
Other non-performing loans ratios:			
Charge-off rate on non-performing loans to non-performing loans	**62.97%**	**61.15%**	**3.0%**

on which charge-offs have been taken			
Allowance for loan and lease losses to non-performing loans on which no charge-offs have been taken	**45.13%**	**44.09%**	**2.4%**

113

FDIC Indemnification Asset

The Company recorded the FDIC indemnification asset, measured separately from the covered loans, as part of the Eurobank FDIC-assisted transaction. Based on the accounting guidance in ASC Topic 805, at each reporting date subsequent to the initial recording of the indemnification asset, the Company measures the indemnification asset on the same basis as the covered loans and assesses its collectability. The amount to be ultimately collected for the indemnification asset is dependent upon the performance of the underlying covered assets, the passage of time, claims submitted to the FDIC and the Corporation's compliance with the terms of the loss sharing agreements. Refer to Note 6 to the unaudited consolidated financial statements for additional information on the FDIC loss share agreements.

The FDIC loss share coverage for the commercial loans and other non-single family loans was in effect until June 30, 2015. The coverage for the single family residential loans will expire on June 30, 2020. Accordingly, the Company amortized the remaining portion of the FDIC indemnification asset attributable to non-single family loans at the close of the second quarter of 2015. At March 31, 2016, the FDIC indemnification asset only reflects the balance for single family residential mortgage loans.

TABLE 13 - ACTIVITY OF FDIC INDEMNIFICATION ASSET

	Quarter Ended March 31,			
	2016		2015	
	(In thousands)			
FDIC indemnification asset:				
Balance at beginning of period	$	22,599	$	97,378
Shared-loss agreements reimbursements from the FDIC		(406)		(17,172)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net		1,444		1,597
FDIC indemnification asset expense		(2,865)		(12,221)
Incurred expenses to be reimbursed under shared-loss agreements		151		5,639
Balance at end of period	**$**	**20,923**	**$**	**75,221**

TABLE 14 - ACTIVITY IN THE REMAINING FDIC INDEMNIFICATION ASSET DISCOUNT

	Quarter Ended March 31,			
	2016		2015	
	(In thousands)			
Balance at beginning of period	$	4,814	$	21,682
Amortization of negative discount		(2,865)		(12,221)
Impact of lower projected losses		8,077		(4,705)
Balance at end of period	**$**	**10,026**	**$**	**4,756**

TABLE 15 - LIABILITIES SUMMARY AND COMPOSITION

	March 31, 2016	December 31, 2015	Variance %
	(Dollars in thousands)		
Deposits:			
Non-interest bearing deposits	$ 816,887	$ 762,009	7.2%
NOW accounts	1,201,437	1,100,541	9.2%
Savings and money market accounts	1,180,935	1,179,229	0.1%
Certificates of deposit	1,578,759	1,674,431	-5.7%
Total deposits	**4,778,018**	**4,716,210**	**1.3%**
Accrued interest payable	1,675	1,541	8.7%
Total deposits and accrued interest payable	**4,779,693**	**4,717,751**	**1.3%**
Borrowings:			
Securities sold under agreements to repurchase	636,172	934,691	-31.9%
Advances from FHLB	331,980	332,476	-0.1%
Subordinated capital notes	102,808	102,633	0.2%
Other term notes	1,756	1,734	1.3%
Total borrowings	**1,072,716**	**1,371,534**	**-21.8%**
Total deposits and borrowings	**5,852,409**	**6,089,285**	**-3.9%**
Other Liabilities:			
Derivative liabilities	6,220	6,162	0.9%
Acceptances outstanding	19,381	14,582	32.9%
Other liabilities	92,761	92,043	0.8%
Total liabilities	**$ 5,970,771**	**$ 6,202,072**	**-3.7%**
Deposits portfolio composition percentages:			
Non-interest bearing deposits	17.1%	16.2%	
NOW accounts	25.2%	23.3%	
Savings and money market accounts	24.7%	25.0%	
Certificates of deposit	33.0%	35.5%	
	100.0%	**100.0%**	
Borrowings portfolio composition percentages:			
Securities sold under agreements to repurchase	59.3%	68.2%	
Advances from FHLB	30.9%	24.2%	
Other term notes	0.2%	0.1%	
Subordinated capital notes	9.6%	7.5%	
	100.0%	**100.0%**	
Securities sold under agreements to repurchase (excluding accrued interest)			
Amount outstanding at period-end	$ 634,500	$ 932,500	
Daily average outstanding balance	$ 799,613	$ 1,012,756	
Maximum outstanding balance at any month-end	$ 902,500	$ 1,158,945	

Liabilities and Funding Sources

As shown in Table 15 above, at March 31, 2016, the Company's total liabilities were $5.971 billion, 3.7% less than the $6.202 billion reported at December 31, 2015. Deposits and borrowings, the Company's funding sources, amounted to $5.852 billion at March 31, 2016 versus $6.089 billion at December 31, 2015, a 3.9% decrease.

At March 31, 2016, deposits represented 82% and borrowings represented 18% of interest-bearing liabilities. At March 31, 2016, deposits, the largest category of the Company's interest-bearing liabilities, were $4.780 billion, an increase of 1.3% from $4.718 billion at December 31, 2015. Demand and savings deposits increased 5.3% to $3.129 billion, time deposits, excluding brokered deposits, declined 0.2% to $962.8 million, and brokered deposits decreased 12.1% to $688.1 million, as part of our efforts to reduce the cost of deposits, which averaged 0.60% at March 31, 2016 compared to 0.59% at December 31, 2015.

Borrowings consist mainly of repurchase agreements, FHLB-NY advances and subordinated capital notes. At March 31, 2016, borrowings amounted to $1.073 billion, representing a decrease of 21.8% when compared with the $1.372 billion reported at December 31, 2015. Repurchase agreements at March 31, 2016 decreased $298.5 million to $636.2 billion from $934.7 million at December 31, 2015, as the Company partially unwound $268.0 million in repurchase agreements at a cost of $12.0 million.

As a member of the FHLB-NY, the Bank can obtain advances from the FHLB-NY secured by the FHLB-NY stock owned by the Bank as well as by certain of the Bank's mortgage loans and investment securities. Advances from the FHLB-NY amounted to $332.0 million at March 31, 2016 and $332.5 million at December 31, 2015. These advances mature from April 2016 through 2020.

Stockholders' Equity

At March 31, 2016, the Company's total stockholders' equity was $903.8 million, a 0.7% increase when compared to $897.1 million at December 31, 2015. This increase in stockholders' equity reflects increases in retained earnings of $6.6 million and legal surplus of $1.4 million, partially offset by a decrease in accumulated comprehensive income of $1.7 million, which in turn reflects the realized gains on available-for-sale securities for the first quarter of 2016. Book value per share was $16.80 at March 31, 2016 compared to $16.67 at December 31, 2015.

From December 31, 2015 to March 31, 2016, tangible common equity to total assets increased to 9.37% from 8.98%, Tier 1 Leverage capital ratio increased to 11.38% from 11.18%, Common Equity Tier 1 capital ratio increased to 12.33% from $12.14%, Tier 1 Risk-Based capital ratio increased to 16.36% from 15.99%, and Total Risk-Based

capital ratio increased to 17.67% from 17.29%.

New Capital Rules to Implement Basel III Capital Requirements

In July 2013, the Board of Governors of the Federal Reserve System (the "Board"), the Office of the Comptroller of the Currency (the "OCC") and the FDIC (together with the Board and the OCC, the "Agencies") approved new rules ("New Capital Rules") to establish a revised comprehensive regulatory capital framework for all U.S. banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Bank, as compared to the previous U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the New Capital Rules implement certain provisions of Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The New Capital Rules became effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. Among other matters, the New 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 existing regulations. Under the New Capital Rules, for most banking organizations, including the Company, the most common form of Additional Tier 1 capital is noncumulative perpetual preferred stock and the most common

form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 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% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The New Capital Rules also introduce a new 2.5% "capital conservation buffer", composed entirely of CET1, on top of the three minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, the Company and the Bank will be required to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition (as noted above), under the previous general risk-based capital rules, the effects of AOCI items included in shareholders' equity (for example, mark-to-market adjustments to the value of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approach banking organizations may make a one-time permanent election to continue to exclude these items. The Company and the Bank made the election to continue to exclude these items in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolio, concurrently with the first filing of the Company's and Oriental Bank's periodic regulatory reports in the beginning of 2015. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out, in the case of bank holding companies that had $15 billion or more in total consolidated assets as of December 31, 2009. Therefore, the Company is permitted to continue to include its existing trust preferred securities as Tier 1 capital.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to the Bank, the New Capital Rules revise the "prompt corrective action" ("PCA") regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category.

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current 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.

The following are the consolidated capital ratios of the Company under the New Capital Rules at March 31, 2016 and December 31, 2015:

TABLE 16 — CAPITAL, DIVIDENDS AND STOCK DATA

	March 31, 2016		December 31, 2015		Variance %
	(Dollars in thousands, except per share data)				
Capital data:					
Stockholders' equity	$	903,801	$	897,077	0.7%
Regulatory Capital Ratios data:					
Common equity tier 1 capital ratio		**12.33%**		**12.14%**	**1.6%**
Minimum common equity tier 1 capital ratio required		4.50%		4.50%	0.0%
Actual common equity tier 1 capital	$	585,144	$	594,482	-1.6%
Minimum common equity tier 1 capital required	$	213,508	$	220,344	-3.1%
Excess over regulatory requirement	$	371,636	$	374,138	-0.7%
Risk-weighted assets	$	4,744,630	$	4,896,539	-3.1%
Tier 1 risk-based capital ratio		**16.36%**		**15.99%**	2.3%
Minimum tier 1 risk-based capital ratio required		0.00%		6.00%	
Actual tier 1 risk-based capital	$	776,181	$	782,912	-0.9%
Minimum tier 1 risk-based capital required	$	284,678	$	293,792	-3.1%
Excess over regulatory requirement	$	491,503	$	489,120	0.5%
Risk-weighted assets	$	4,744,630	$	4,896,539	-3.1%
Total risk-based capital ratio		**17.67%**		**17.29%**	2.2%
Minimum total risk-based capital ratio required		8.00%		8.00%	
Actual total risk-based capital	$	838,284	$	846,748	-1.0%
Minimum total risk-based capital required	$	379,570	$	391,723	-3.1%
Excess over regulatory requirement	$	458,714	$	455,025	0.8%
Risk-weighted assets	$	4,744,630	$	4,896,539	-3.1%
Leverage capital ratio		**11.38%**		**11.18%**	1.8%
Actual tier 1 capital	$	776,181	$	782,912	-0.9%
Minimum tier 1 capital required	$	272,797	$	280,009	-2.6%
Excess over regulatory requirement	$	503,384	$	502,903	0.1%
Tangible common equity to total assets		**9.37%**		**8.98%**	4.3%
Tangible common equity to risk-weighted assets		**13.58%**		**13.02%**	4.3%
Total equity to total assets		**13.15%**		**12.64%**	4.0%
Total equity to risk-weighted assets		**19.05%**		**18.32%**	4.0%
Stock data:					
Outstanding common shares		43,913,719		43,867,909	0.1%
Book value per common share	$	16.80	$	16.67	0.8%
Tangible book value per common share	$	14.68	$	14.53	1.0%
Market price at end of period	$	6.99	$	7.32	-4.5%
Market capitalization at end of period	$	306,957	$	321,113	-4.4%

118

The following table presents a reconciliation of the Company's total stockholders' equity to tangible common equity and total assets to tangible assets at March 31, 2016 and December 31, 2015:

		March 31, 2016		December 31, 2015
		(In thousands, except share or per share information)		
Total stockholders' equity	$	903,801	$	897,077
Preferred stock		(176,000)		(176,000)
Preferred stock issuance costs		10,130		10,130
Goodwill		(86,069)		(86,069)
Core deposit intangible		(5,035)		(5,294)
Customer relationship intangible		(2,383)		(2,544)
Total tangible common equity	**$**	**644,444**	**$**	**637,300**
Total assets		6,874,572		7,099,149
Goodwill		(86,069)		(86,069)
Core deposit intangible		(5,035)		(5,294)
Customer relationship intangible		(2,383)		(2,544)
Total tangible assets	**$**	**6,781,085**	**$**	**7,005,242**
Tangible common equity to tangible assets		**9.50%**		**9.10%**
Common shares outstanding at end of period		43,913,719		43,867,909
Tangible book value per common share	**$**	**14.68**	**$**	**14.53**

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 the Company 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, the Company 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.

119

The following table presents the Company's capital adequacy information under the New Capital Rules:

		March 31 2016		December 31, 2015
		(Dollars in thousands)		
Risk-based capital:				
Common equity tier 1 capital	$	585,144		594,482
Additional tier 1 capital		191,036		188,430
Tier 1 capital		776,180	$	782,912
Additional Tier 2 capital		62,104		63,836
Total risk-based capital	**$**	**838,284**	**$**	**846,748**
Risk-weighted assets:				
Balance sheet items	$	4,591,587	$	4,742,113
Off-balance sheet items		153,043		154,426
Total risk-weighted assets	**$**	**4,744,630**	**$**	**4,896,539**
Ratios:				
Common equity tier 1 capital (minimum required - 4.5%)		**12.33%**		**12.14%**
Tier 1 capital (minimum required - 6%)		**16.36%**		**15.99%**
Total capital (minimum required - 8%)		**17.67%**		**17.29%**
Leverage ratio		**11.38%**		**11.18%**
Equity to assets		**13.15%**		**12.64%**
Tangible common equity to assets		**9.37%**		**8.98%**

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 March 31, 2016 and December 31, 2015:

		March 31, 2016		December 31, 2015	Variance %
		(Dollars in thousands)			
Oriental Bank Regulatory Capital Ratios:					
Common Equity Tier 1 Capital to Risk-Weighted Assets		**15.99%**		**15.40%**	**3.8%**
Actual common equity tier 1 capital	$	757,828	$	751,886	0.8%
Minimum capital requirement (4.5%)	$	213,323	$	219,762	-2.9%
Minimum to be well capitalized (6.5%)	$	308,134	$	317,434	-2.9%
Tier 1 Capital to Risk-Weighted Assets		**15.99%**		**15.40%**	**3.8%**
Actual tier 1 risk-based capital	$	757,828	$	751,886	0.8%
Minimum capital requirement (6%)	$	284,431	$	293,016	-2.9%
Minimum to be well capitalized (8%)	$	379,242	$	390,688	-2.9%
Total Capital to Risk-Weighted Assets		**17.29%**		**16.70%**	**3.5%**
Actual total risk-based capital	$	819,731	$	815,458	0.5%
Minimum capital requirement (8%)	$	379,242	$	390,688	-2.9%
Minimum to be well capitalized (10%)	$	474,052	$	488,360	-2.9%
Total Tier 1 Capital to Average Total Assets		**11.16%**		**10.80%**	**3.3%**
Actual tier 1 capital	$	757,828	$	751,886	0.8%

Minimum capital requirement (4%)	$	271,538	$	278,399	-2.5%
Minimum to be well capitalized (5%)	$	339,423	$	347,999	-2.5%

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At March 31, 2016 and December 31, 2015, the Company's market capitalization for its outstanding common stock was $307.0 million ($6.99 per share) and $321.1 million ($7.32 per share), respectively.

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

	Price		Cash Dividend
	High	**Low**	**Per share**
2016			
March 31, 2016	$ 7.32	$ 4.77	$ 0.06
2015			
December 31, 2015	$ 10.52	$ 6.39	$ 0.06
September 30, 2015	$ 10.20	$ 6.63	$ 0.10
June 30, 2015	$ 17.04	$ 10.67	$ 0.10
March 31, 2015	$ 17.70	$ 14.88	$ 0.10
2014			
December 31, 2014	$ 16.76	$ 14.35	$ 0.10
September 30, 2014	$ 18.89	$ 14.92	$ 0.08
June 30, 2014	$ 18.88	$ 16.38	$ 0.08
March 31, 2014	$ 17.54	$ 14.30	$ 0.08

Under the Company's current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock, of which approximately $7.7 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. There were no repurchases during the first quarters of 2016 and 2015. The number of shares that may yet be purchased under the $70 million program is estimated at 1,105,988 and was calculated by dividing the remaining balance of $7.7 million by $6.99 (closing price of the Company common stock at March 31, 2016).

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

Background

The Company'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 Officer and the Risk Management and Compliance Committee. The Company 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 the Company's business activities are susceptible to risk. Consequently, risk identification and monitoring are essential to risk management. As more fully discussed below, the Company'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. The Company evaluates market risk together with interest rate risk. The Company'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 the Company 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 the Company is within the parameters established in such policies.

Interest Rate Risk

Interest rate risk is the exposure of the Company's earnings or capital to adverse movements in interest rates. It is a predominant market risk in terms of its potential impact on earnings. The Company 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, the Company 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 the Company 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.

The Company uses a software application to project future movements in the Company’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 the Company 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 March 31, 2016 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	$	7,973	3.06%	$	882	0.34%
+ 100 Basis points	$	4,239	1.63%	$	707	0.27%
- 50 Basis points	$	(1,624)	-0.62%	$	(98)	-0.04%

The impact of -100 and -200 basis point reductions in interest rates is not presented in view of current level of the federal funds rate and other short-term interest rates.

Future net interest income could be affected by the Company'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 the Company's assets and liabilities, the Company 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 March 31, 2016.

The Company 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. The Company'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 the Company's gains and losses on the derivative instruments that are linked to the forecasted cash flows of these hedged assets and liabilities. The Company 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 the Company's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations 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 the Company'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 the Company the right to enter into interest rate swaps and cap and floor agreements with the writer of the option. In addition, the Company 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 8 to the accompanying unaudited consolidated financial statements for further information concerning the Company's derivative activities.

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

Interest rate swaps — The Company 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 borrowings transactions occurred, the interest rate swap effectively fixes the Company'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 liability of $4.3 million (notional amount of $262.6 million) was recognized at March 31, 2016 related to the valuation of these swaps.

In addition, the Company 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 the Company 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 March 31, 2016, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of $1.8 million (notional amounts of $16.2 million), and the mirror-image interest rate swaps in which the Company entered into represented a derivative liability of $1.8 million (notional amounts of $16.2 million).

S&P options — The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. At the end of five years, the depositor receives a minimum return or a specified percentage of the average increase of the month-end value of the S&P 500 Index. The Company uses option agreements with major money center banks and major broker-dealer companies to manage its exposure to changes in that index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the S&P 500 Index in exchange for a fixed premium. The changes in fair value of the options purchased and the options embedded in the certificates of deposit are recorded in earnings.

At March 31, 2016, the fair value of the purchased options used to manage the exposure to the S&P 500 Index on stock-indexed certificates of deposit represented an asset of $772 thousand (notional amounts of $2.2 million) and the options sold to customers embedded in the certificates of deposit represented a liability of $746 thousand (notional amount of $2.1 million).

Wholesale borrowings — The Company 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 the Company's interest payments on these borrowings. As of March 31, 2016, the Company had $262.6 million in interest rate swaps at an average rate of 2.6% designated as cash flow hedges for $262.6 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 the Company is its lending activities. In Puerto Rico, the Company's principal market, economic conditions are challenging, as they have been for the last ten 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 recent credit or payment default on certain Puerto Rico government bonds, with additional defaults expected if the Puerto Rico government is unable to restructure its debts and/or access the capital markets to place new debt or refinance its upcoming maturities. Also, the Company's banking subsidiary has an outstanding $186.7 million credit facility to PREPA that is classified as substandard and on

non-accrual status, which now stands at $133.4 million, net of allowances. The Company recorded a $53.3 million loss provision for such credit facility in 2015.

The Company 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. The Company also employs proactive collection and loss mitigation practices.

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

The Company’s Executive Credit Committee, composed of its Chief Executive Officer, Chief Credit Risk Officer and other senior executives, has primary responsibility for setting strategies to achieve the Company’s credit risk goals and objectives. Those goals and objectives are set forth in the Company’s Credit Policy as approved by the Board.

Liquidity Risk

Liquidity risk is the risk of the Company 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. The Company’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.

The Company’s business requires continuous access to various funding sources. While the Company is able to fund its operations through deposits as well as through advances from the FHLB-NY and other alternative sources, the Company’s business is dependent upon other external wholesale funding sources. Although the Company has selectively reduced its use of wholesale funding sources, such as repurchase agreements and brokered deposits, it is still dependent on wholesale funding sources. As of March 31, 2016, the Company had $634.5 million in repurchase agreements, excluding accrued interests, and $668.1 million in brokered deposits.

Brokered deposits are typically offered through an intermediary to small retail investors. The Company’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, the Company’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 the Company 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 the Company, the availability and cost of the Company’s funding sources could be adversely affected. In that event, the Company’s cost of funds may increase, thereby reducing its net interest income, or the Company 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. The Company’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 the Company or market-related events. In the event that such sources of funds are reduced or eliminated and the Company is not able to replace these on a cost-effective basis, the Company 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 March 31, 2016, the Company had approximately $677.8 million in unrestricted cash and cash equivalents, $530.8 million in investment securities that are not pledged as collateral, and $875.3 million in borrowing capacity at the FHLB-NY available to cover liquidity needs.

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 the Company are susceptible to operational risk.

The Company 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 market conditions, security risks, and legal risk, the potential for operational and reputational loss has increased. In order to mitigate and control operational risk, the Company 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 the Company's business operations are functioning within established limits.

The Company 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, the Company 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 Information Technology Steering Committee, and the Executive Risk and Compliance Committee.

The Company is subject to extensive United States federal and Puerto Rico regulations, and this regulatory scrutiny has been significantly increasing over the last several years. The Company 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. The Company has a corporate compliance function headed by a Regulatory Compliance Director who reports to the Deputy General Counsel and the BSA Officer who reports to the Chief Risk Officer. The Regulatory Compliance Director is responsible for the oversight of regulatory compliance and implementation of a company-wide compliance program, except for the Bank Secrecy Act/Anti-Money Laundering compliance program, which is overseen and implemented by the BSA Officer.

Concentration Risk

Substantially all of the Company's business activities and a significant portion of its credit exposure are concentrated in Puerto Rico. As a consequence, the Company's profitability and financial condition may be adversely affected by an extended economic slowdown, adverse political 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 4. ***CONTROLS AND PROCEDURES***

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon such evaluation, the CEO and the CFO have concluded that, as of the end of such period, the Company'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 the Company in the reports that it files or submits under the Exchange Act. 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 the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Internal Control over Financial Reporting

There have not been any changes in the Company'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 quarter ended March 31, 2016, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART - II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2015. In addition to other information set forth in this report, you should carefully consider the risk factors included in the Company's annual report on Form 10-K, as updated by this report or other filings the Company makes with the SEC under the Exchange Act. Additional risks and uncertainties not presently known to the Company at this time or that the Company currently deems immaterial may also adversely affect the Company's business, financial condition or results of operations.

ITEM 2. *UNREGISTERED SALES OF EQUITY SECURITES AND USE OF PROCEEDS*

None

ITEM 3. *DEFAULTS UPON SENIOR SECURITIES*

None.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

ITEM 5. *OTHER INFORMATION*

None.

ITEM 6. ***EXHIBITS***

Exhibit No.	**Description of Document:**
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	The following materials from OFG Bancorp's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Statements of Financial Condition, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Changes in Stockholders' Equity, (v) Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements.

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

(Registrant)

By: /s/ José Rafael Fernández — Date: May 6, 2016

José Rafael Fernández
President and Chief Executive Officer

By: /s/ Ganesh Kumar — Date: May 6, 2016

Ganesh Kumar
Executive Vice President and Chief Financial Officer

By: /s/ Maritza Arizmendi — Date: May 6, 2016

Maritza Arizmendi
Senior Vice President and Chief Accounting Officer