ANNUAL REPORT 2022

Sí puedo

OFG Bancorp

Our "Sí Puedo" (Yes I Can) Campaign

This year's annual report cover photos are from the second phase of OFG's Oriental Bank's highly successful **"Si puedo"** (Yes, I can) advertising campaign. Please see our channel on YouTube for the full television commercials.

The second phase demonstrates how every success story starts with a **"Yes, I can."** The campaign tells real and inspiring stories about our customers at different stages of life in which they were able to move forward with Oriental's support. At OFG's Oriental, we are more than ready to help our customers achieve their financial goals to benefit their families and communities.

About OFG Bancorp

Founded in 1964, OFG Bancorp is a diversified financial holding company that operates under U.S., Puerto Rico, and U.S. Virgin Islands banking laws and regulations.

Our principal subsidiaries – Oriental Bank, Oriental Financial Services, and Oriental Insurance – provide a wide range of retail and commercial banking, lending, wealth management products, services, and technology, primarily in Puerto Rico and U.S. Virgin Islands.

As a challenger brand, Oriental differentiates itself through superior, customer-facing technology and forward-thinking value-added service for our retail customers and commercial clients.

To Our Shareholders

We achieved great progress executing our strategies for the benefit of our customers -- deploying technology, expanding and improving our network, and investing in talented people.

We took major steps forward in our "digital first" business transformation, with a focus on innovation, convenience, and speed. This solidified our position as a challenger bank, differentiating us from our competitors.

All this has contributed to our strong financial results, with record high performance metrics.

Earnings per share were up 22% to $3.44, and we increased our common stock dividend 67%, to $0.20 per share.

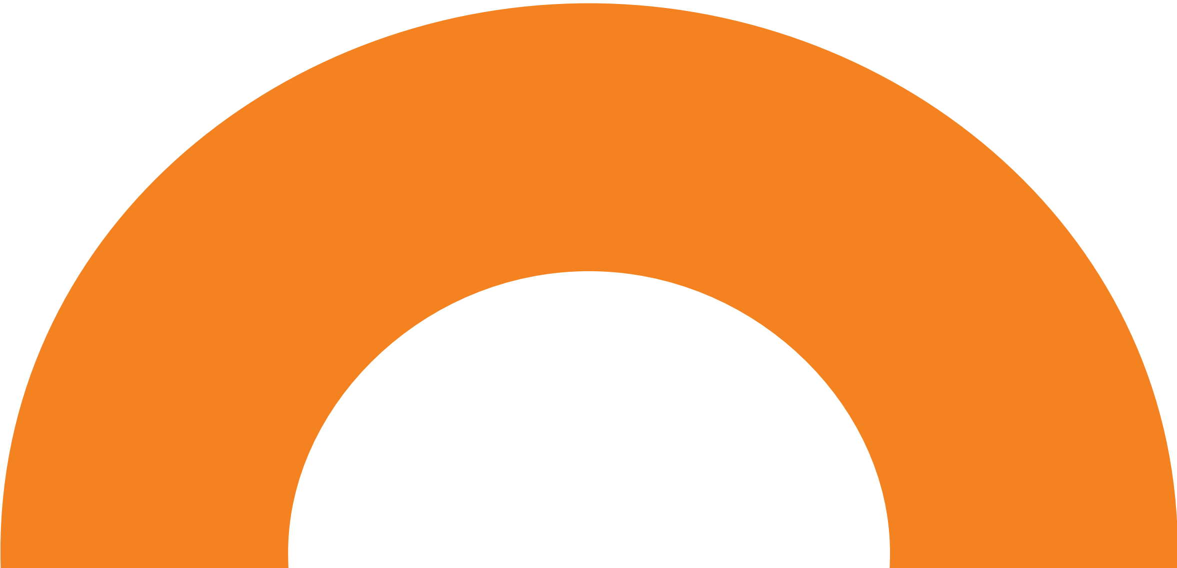
To see more about our results and strategic initiatives, please visit our 2022 digital annual report site at http://annualreport.orientalbank.com.

Thank you,

José Rafael Fernández
Chief Executive Officer and Vice Chair of the Board

OFG Bancorp

Form 10K



UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2022

or

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

For the transition period from ______________ to ______________

Commission file number: 001-12647

OFG Bancorp

(Exact name of registrant as specified in its charter)

Commonwealth of Puerto Rico	**66-0538893**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
254 Muñoz Rivera Avenue	
San Juan, Puerto Rico	**00918**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(787) 771-6800**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares, par value $1.00 per share	**OFG**	**New York Stock Exchange**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐	Smaller reporting company ☐

Emerging Growth Company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the common stock held by non-affiliates of OFG Bancorp (the "Company") was approximately $1.208 billion as of June 30, 2022 based upon 47,553,723 shares outstanding and the reported closing price of $25.40 on the New York Stock Exchange on that date.

47,600,346 common shares ($1.00 par value per share) outstanding as of January 31, 2023

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement relating to the 2023 annual meeting of shareholders are incorporated herein by reference in response to Items 10 through 14 of Part III, except for certain information set forth herein under Item 12.

OFG Bancorp

FORM 10-K

Year Ended December 31, 2022

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FORWARD-LOOKING STATEMENTS

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

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

- the rate of growth in the economy and employment levels, inflationary pressures or recessionary conditions, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- a credit default by municipalities of the government of Puerto Rico;
- amendments to the fiscal plan approved by the Financial Oversight and Management Board for Puerto Rico;
- determinations in the court-supervised debt-restructuring process under Title III of PROMESA for the Puerto Rico government and all of its agencies, including some of its public corporations, as well as the ability to successfully implement any court-approved plan of adjustment;
- unforeseen or catastrophic events, including extreme weather events, other natural disasters, man-made disasters, pandemics, war or other international conflicts (including the ongoing conflict between Russia and Ukraine) and acts of terrorism (including cyber-attacks), or utility disruptions, which could cause a disruption in our operations or other adverse consequences for our business;
- the impact of property, credit and other losses in Puerto Rico as a result of hurricanes, earthquakes and other natural disasters;
- the amount of government financial assistance for the reconstruction of Puerto Rico's infrastructure, which was impacted by the effects of Hurricane Maria in 2017, earthquakes in 2020, and Hurricane Fiona in 2022;
- the pace and magnitude of Puerto Rico's economic recovery;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in federal bank regulatory and supervisory policies, including with respect to required levels of capital;
- the relative strength or weakness of the commercial and consumer credit sectors and the real estate market in Puerto Rico;
- the performance of the stock and bond markets;
- competition in the financial services industry;
- possible legislative, tax or regulatory changes;
- the long-term effects of the Covid-19 pandemic, including government measures to contain the pandemic, and their impact on the United States, Puerto Rico, and global economy, financial market conditions and our business, results of operations and financial condition; and

- factors beyond our control such as continued waves of Covid-19 cases, the severity and contagiousness of new variants, severe weather conditions, natural disasters, power loss, disruptions in telecommunications, terrorism and other catastrophic events, any of which could significantly affect delinquency rates, loan and receivable balances and other aspects of our business and results of operations.

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

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

PART I

ITEM 1. *BUSINESS*

General

OFG Bancorp ("OFG") is a financial holding company headquartered in San Juan, Puerto Rico. OFG is subject to the provisions of the U.S. Bank Holding Company Act of 1956, as amended, (the "BHC Act") and accordingly, subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). OFG's principal subsidiary is Oriental Bank ("Oriental" or the "Bank"), an FDIC insured Puerto Rico commercial bank founded as a federal savings and loan in 1964.

OFG provides comprehensive banking and financial services and solutions to its clients through Oriental and various other subsidiaries, including commercial, consumer and mortgage lending, auto leasing and lending, financial planning, insurance sales, money management, investment banking and security brokerage services, as well as corporate and individual trust services. OFG operates through three major business segments: Banking, Wealth Management, and Treasury. OFG provides most of its products and services to clients in Puerto Rico and U.S. Virgin Islands (the "USVI") and certain loan products in the continental United States. OFG operates through various subsidiaries, including a commercial bank, Oriental Bank (the "Bank"), a securities broker-dealer and investment adviser, Oriental Financial Services LLC ("Oriental Financial Services"), an insurance agency, Oriental Insurance, LLC ("Oriental Insurance"), a captive reinsurance company, OFG Reinsurance Ltd ("OFG Reinsurance"), OFG Ventures LLC ("OFG Ventures"), which holds investments, and a commercial lender, OFG USA LLC ("OFG USA"), which is a subsidiary of the Bank. Most of our subsidiaries are based in San Juan, Puerto Rico and the USVI, except for OFG USA which is organized in Delaware, but operates out of Cornelius, North Carolina, OFG Reinsurance which is based in the Cayman Islands, and OFG Ventures which is based on Delaware. As part of the Company's ongoing strategic reviews, OFG sold its retirement plan administration business in its subsidiary Oriental Pension Consultants, Inc. ("OPC") effective as of December 30, 2022, and thereafter discontinued its operations.

OFG's mission is to make possible the progress of our customers, employees, shareholders, and communities we serve. OFG has been deploying its Digital First strategy to achieve this mission. Our strategy highly differentiates OFG through a sales and service business model and culture that emphasizes convenience and accessibility through digital channels while creating a simple, self-service and enjoyable customer experience. OFG strives to proactively identify the customer's objectives and needs to offer value added services, that help them achieve financial progress and well-being. Our promise is to provide financial services and solutions that are "Rápido, Fácil y Bien Hecho" ("Fast, Easy and Well Done"). This Digital First vision is anchored on four main pillars:

- **Digital:** All customers interactions are on digital channels that are (a) always available, (b) with low friction, (c) low effort, (d) consistent, and (e) self-service with instant results with customers controlling how and when to transact.

- **Banking services** are (a) low latency, (b) trouble free, (c) secure, (d) automated and (e) efficient with employees always looking for continuous improvement in achieving better and more efficient processes.

- **Relationships and Interactions:** Interactions with expert bankers limited to most complex situations and can be over digital mediums. Branches transformed from a place mainly for transactions to a place where advice and business development are primarily provided.

- **Data and Insight:** Readily available, timely insights that helps customers to monitor and manage their finances. Our banking experts use insights from data to proactively help customers achieve their life goals and aspirations.

Our strategy to become a digital first bank will continue to be carried by investing in our:

- **Technology** to make systems and processes oriented to provide digital customer service interactions above all else aiming for self-service to become the norm.

- **People** to attract, retain, and develop people with necessary capabilities and skills for digital transformation with a strong customer service orientation, flexibility, and good collaboration skills, in addition to technical capabilities needed for specific jobs.

- **Analytics** to enhance our vision, empower business and drive profitability by anticipating our customers' needs and proactively offer them solutions.

- **Business Development** to build an engine of growth with intelligence of customer behavior and experience across the whole sales process from awareness to the final purchase and amplify digital sales models.

OFG'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, continuously improving our already effective asset-liability management, growing non-interest revenue from banking and financial services, and achieving greater operating efficiencies. OFG's key drivers are:

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

- Further grow and improve performance in all operating areas;

- Continue to invest for the future in transforming our business model, emphasize customer experience, further simplifying operations, improving efficiencies and enhancing our ability to serve customers;

- Focusing on greater growth in commercial and retail lending and financial services; and

- Implementing a broad ranging effort to instill in employees and make customers aware of OFG's determination to effectively serve and advise our customer base in a responsive and professional manner.

OFG's principal funding source is branch deposits. Through its branch network, Oriental offers personal non-interest and interest-bearing checking accounts, savings accounts, certificates of deposit, individual retirement accounts ("IRAs") and commercial non-interest-bearing checking accounts. The FDIC insures the Bank's deposit accounts up to applicable limits. Management makes retail deposit pricing decisions periodically, adjusting the rates paid on retail deposits in response to general market conditions and local competition. Pricing decisions take into account the rates being offered by other local banks, the applicable market benchmarks, and mainland U.S. market interest rates.

Segment Disclosure

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

For detailed information regarding the performance of OFG's operating segments, please refer to "Note 28 – Business Segments" in OFG's accompanying consolidated financial statements.

Banking Activities

The Bank, OFG's main subsidiary, is a full-service Puerto Rico commercial bank with its main office located in San Juan, Puerto Rico. The Bank has 41 branches throughout Puerto Rico and 2 branches in the USVI. As an FDIC-insured Puerto Rico-chartered commercial bank, it is subject to examination by the FDIC and the Office of the Commissioner of Financial Institutions of Puerto Rico (the "OCFI"). The Bank offers banking services such as commercial, consumer, and mortgage lending, savings and time deposit products, wealth management services, and corporate and individual trust services, and capitalizes on its retail banking network to provide commercial and mortgage lending products to its clients. The Bank has an operating subsidiary, OFG USA, which is organized in Delaware but operates out of Cornelius, North Carolina. It also has two international banking entities (each an "IBE") organized in Puerto Rico pursuant to the International Banking Center Regulatory Act of Puerto Rico, as amended (the "IBE Act"), a unit operating within the Bank, named Oriental Overseas (the "IBE Unit"), and the other is a wholly-owned subsidiary of the Bank, named Oriental International Bank,

Inc. (the “IBE Subsidiary”). The IBE Unit and the IBE Subsidiary offer the Bank certain Puerto Rico tax advantages, and their services are limited under Puerto Rico law to persons and assets/liabilities located outside of Puerto Rico.

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

OFG’s mortgage banking activities are conducted through a division of the Bank. The mortgage banking activities include the origination of mortgage loans for the Bank’s own portfolio, the sale of loans directly into the secondary market or the securitization of conforming loans into mortgage-backed securities, and the purchase or assumption of the right to service loans originated by others. The Bank originates Federal Housing Administration (“FHA”) insured mortgages, Veterans Administration (“VA”) guaranteed mortgages, and Rural Housing Service (“RHS”) guaranteed loans that are primarily securitized for issuance of Government National Mortgage Association (“GNMA”) mortgage-backed securities which can be resold to individual or institutional investors in the secondary market. Conventional loans that meet the underwriting requirements for sale or exchange under standard Federal National Mortgage Association (the “FNMA”) or the Federal Home Loan Mortgage Corporation (the “FHLMC”) programs are referred to as conforming mortgage loans and are also securitized for issuance of FNMA or FHLMC mortgage-backed securities. The Bank is an approved seller of FNMA mortgage loans for issuance of FNMA mortgage-backed securities. The Bank is also an approved issuer of GNMA mortgage-backed securities. The Bank is the master servicer of the GNMA, FNMA and FHLMC pools that it issues and of its mortgage loan portfolio and up to December 31, 2022 had a subservicing arrangement with a third party for a portion of its acquired loan portfolio. This subservicing arrangement will conclude on May 1, 2023. OFG services most of its mortgage loan portfolio.

Loan Underwriting

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

Consumer loans: Consumer loans include personal loans, residential solar panel loans, credit cards, lines of credit and other loans made by the Bank to individual borrowers. All loan originations must be underwritten in accordance with OFG’s underwriting criteria and include an assessment of each borrower’s personal financial condition, including verification of income, assets, FICO score, and credit reports. The proprietary credit scoring system is a fundamental part of the decision process.

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

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

Sale of Loans and Securitization Activities

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

Wealth Management Activities

Wealth management activities at OFG are generated by four wholly-owned subsidiaries and a division of the Bank. These activities include such businesses as securities brokerage, insurance agency, captive reinsurance, pension plan administration and servicing, trust services, and other financial services.

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

Oriental Insurance LLC, a Puerto Rico limited liability company, is Oriental's subsidiary engaged in insurance agency services in Puerto Rico. Oriental Insurance currently earns commissions by acting as a licensed insurance agent in connection with the issuance of insurance policies by unaffiliated insurance companies and continues to cross market its services to Oriental's existing customer base.

OFG Reinsurance Ltd., a Cayman Islands company, is Oriental's subsidiary engaged in the reinsurance business. It reinsures credit insurance policies on consumer loans originated by the Bank, as well as personal accident and health policies underwritten by unaffiliated insurers.

Oriental Pension Consultants Inc., a Florida corporation, is Oriental's subsidiary engaged in the administration and servicing of retirement plans in the U.S., Puerto Rico, and the Caribbean. On December 30, 2022, the Company sold the rights to administer and service the retirement plans of its customers and discontinued its operations.

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

Treasury Activities

Treasury activities encompass all of the Company's treasury-related functions. OFG's investment portfolio consists of mortgage-backed securities, obligations of U.S. government-sponsored agencies, US Treasury securities and money market instruments. U.S. agency mortgage-backed securities, the largest component, consist principally of pools of residential mortgage loans that are made to consumers and could be either retained as available for sale ("AFS") securities or resold in the form of pass-through certificates in the secondary market, the payment of interest and principal of those pools is guaranteed by GNMA, FNMA or FHLMC.

Market Area and Competition

The main geographic business and service area of OFG is Puerto Rico, where the banking market is competitive. Puerto Rico banks are subject to the same federal laws, regulations and supervision that apply to similar institutions in the U.S. OFG also competes with brokerage firms with retail operations, credit unions, savings and loan cooperatives, small loan companies, insurance agencies, and mortgage banks in Puerto Rico. OFG encounters intense competition in attracting and retaining deposits and in its consumer and commercial lending activities. Management believes that OFG has been able to compete effectively for deposits and loans by offering a variety of transactional account products and loans with competitive terms, emphasizing the quality of its service and its innovative banking technologies. OFG's ability to originate loans depends primarily on the services that it provides to its borrowers, in making prompt credit decisions, and on the rates and fees that it charges.

OFG continues to develop commercial relationships in the United States with its U.S. commercial loan program. This program, through its internally developed and managed relationship with commercial and investment banks across the United States, engages primarily in the activities of purchasing participations in credit facilities through underwriting and portfolio management of commercial and industrial loans to middle-market and lower middle-market commercial borrowers in the mainland United States.

As part of the Scotiabank PR & USVI Acquisition on December 31, 2019, OFG began to operate in the USVI with the intention to grow the business acquired in such jurisdiction.

Managing Our Human Capital

At OFG, we are driven by a high sense of purpose aimed to make possible progress focused on our customers, employees, shareholders, and the communities we serve. It is this purpose that inspires our talent strategy, a strategic priority for us.

Our talent practices are employee experience centered. And thus, from hiring to exiting, we foster the engagement of our workforce by delivering them an experience that resembles the experience we aspire for our customers. We believe, that a performance driven culture and highly proficient skills-based talent translates into business results and strategy achievement. As of December 31, 2022, OFG had 2,253 employees, none of which are represented by a collective bargaining group.

Diversity, equity and inclusion

OFG's hiring and talent management practices are designed to ensure a diverse workforce that reflects the makeup of the communities in which it operates. OFG prepares an annual diversity plan, whereby it identifies members of the community that are underrepresented in our workforce. We are continuously reviewing and ensuring a diverse workforce representation at all levels.

In addition, OFG's anti-discrimination policy forbids employment decisions, including hiring, promotions, or terminations, based on race, gender, age, sexual orientation, or disability and prohibits harassment in the workplace. The anti-discrimination policy also includes procedures for protecting employees from domestic abuse.

Talent engagement, acquisition and retention

To ensure we are delivering the employee experience we aim for while we retain, develop and provide an engaging work environment and culture, we regularly conduct an engagement survey. Besides measuring employee satisfaction and engagement, the survey provides insights to actively promote employees and team connections with their respective leaders to work on an improvement plan for their respective business units in topics such as resources and tools, job expectations, recognition, ideas, collaboration and development.

OFG has leveraged on internships and partnerships with universities to enrich recruiting efforts. OFG has also utilized outreach and partnerships with local community resources at different locations such as workforce development agencies, industry groups and other entities to strengthen OFG's hiring process and expand the future workforce candidate pool.

We continually monitor employee turnover rates, as our success depends upon retaining our highly skilled and dedicated talent. We believe that our philosophy of providing highly competitive compensation, along with significant opportunities for career growth and development opportunities, encourage a high level of employee retention.

Learning and development

OFG ensures we have the right talent in the right place to meet our needs. As such, our culture enables continuous learning by facilitating a workplace environment that encourages experimentation, feedback, and empowerment. We constantly provide training and developing opportunities to enhance the skills of our employees need in order to achieve the expected performance standards. We assess talent needs continuously and with guidance of our leaders an annual training plan is scheduled, and learning opportunities are made accessible virtually and online through our learning platform. Among other learning offerings, we provide a trainee program for emerging top talent, and a manager's academy for more seasoned managers to further develop their leadership skills. Oriental also has customer service and sales-service academies provided to client-facing sales and service employees. During 2022, and as part of our career growth and development programs, 25% of open positions were filled internally.

OFG conducts a succession planning process once a year for senior leaders and presents it to our Board of Directors. Besides providing business continuity, the process serves as tool to drive our diversity and inclusion practices. The process is also carried out for other managerial levels periodically allowing time to act on the development plans.

In addition, as a highly regulated entity, OFG makes sure that its employees are properly trained on company policies and important compliance matters, including regulatory compliance and anti-money laundering programs, among others. All employees are required to complete annual online trainings covering all required topics.

Compensation

A key component of delivering our mission is our compensation program. OFG's Human Resources team designs offers for new salaried employees and develops and administers promotions to maintain the internal integrity of the compensation levels. The Board's Compensation Committee, with the recommendation of the full Board in the case of incentive compensation, determines annual salaries of OFG's senior executive management team, considering similarly situated executives employed by a peer group of companies while also considering the input of the Compensation Committee's independent compensation consultant.

Our compensation program is intended to reward achievements of individual and business performance objectives and align such objectives with our corporate governance principles and the creation of shareholder value. The main objectives of our compensation program are to: attract and retain employees, ensure a strong link between pay and performance, provide a compensation mix (direct and indirect compensation, and short and long-term incentives) that is competitive with market practices and reflects performance, support our business and talent management strategy encouraging and motivating desired employee behaviors, and ensures a strong alignment with shareholder interests.

The application of our compensation philosophy is supported through program design and communication. It is also presented to the Compensation Committee annually.

We also offer a comprehensive benefits package to all eligible employees. We continuously review our compensation and benefits package through the participation of market surveys. These results and metrics assist us to improve, and drive pay equity while ensuring our competitiveness.

Wellbeing and safety

The success of our business is fundamentally connected to the wellbeing of our people. We have a holistic approach to wellbeing that considers five dimensions: physical, emotional, professional, community and financial. Our wellness program offers a comprehensive series of onsite and virtual activities throughout the year focused on these dimensions. We offer continuing financial planning education by OFG's 401(k) plan administrator to assist employees in financial and retirement planning. For many years, OFG's investment in human capital has also involved commitments to worker training, apprenticeship programs and funding college scholarships for employee's dependents.

We also provide targeted benefits aimed at promoting work-life balance, such as paid off time for vacation, illness, maternity and paternity leave, community service leave, personal days, and flexible work arrangements, among others. In addition, in response to the COVID-19 pandemic, OFG launched work from home arrangements for employees and kept them as part of its comprehensive approach to the health and safety of its employees. As of December 31, 2022, 60% of the total workforce works in hybrid format.

Company Culture

Our practices are guided by the highest levels of business ethics, integrity, mutual respect, tolerance, and inclusivity. OFG has controls in place related to compliance with its Code of Business Conduct and Ethics, including a requirement for annual employee certifications thereof, as well as an established whistleblower line and related procedures.

Management and Board Oversight

Management is engaged in OFG's efforts regarding management of human capital resources through regular informational meetings, OFG's Enterprise Risk Management program and organized succession planning. The Board of Directors oversees these activities through regular reports by senior management regarding new or altered programs and as part of the Compensation Committee and Enterprise Risk Management process. In addition, the Board's Compensation Committee is actively engaged in achieving and maintaining internal and external pay equity for the executive team and the Board of Directors members while overseeing incentive compensation more broadly throughout the organization. In promoting external pay equity, the Board and the compensation committee make use of peer comparisons and benchmarking measures.

Regulation and Supervision

As a publicly-traded financial services firm, we are subject to extensive regulation under U.S. federal, Puerto Rico and other laws and are also subject to supervision by regulators in the markets where we conduct our business. This section is not intended to summarize all laws and regulations applicable to us or any of our subsidiaries. The descriptions of statutory and regulatory provisions included herein do not purport to be complete and are qualified by reference to those laws and regulations.

We continue to monitor the changing political, tax and regulatory environment. Changes in statutes, regulations, or regulatory policies applicable us or any of our subsidiaries (including their interpretation or implementation) cannot be predicted and could have a material effect on our business and operations. We expect to remain subject to extensive regulation and supervision.

General

OFG is a financial holding company subject to supervision and regulation by the Federal Reserve Board under the BHC Act, as amended by the Gramm-Leach-Bliley Financial Services Modernization Act of 1999, as amended (the "Gramm-Leach-Bliley Act") and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended (the "Dodd-Frank Act"). The qualification requirements applicable to a bank holding company that elects to be treated as a financial holding company require that the bank holding company, and each depository institution controlled by it, at the time of election must be and thereafter remain at all times "well capitalized" and "well managed."

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

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

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

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

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

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

OFG and its subsidiaries are subject to the rules and regulations of certain other regulatory agencies. Oriental Financial Services, as a registered broker-dealer, is subject to the supervision, examination and regulation of FINRA, the SEC, and the OCFI in matters relating to the conduct of its securities business, including record keeping and reporting requirements, supervision and licensing of employees, and obligations to customers. As a registered investment adviser, it is subject to the supervision, examination and regulation of the SEC in connection with its advisory activities and is subject to custody, disclosure, books and records, contractual and other requirements.

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

OFG Reinsurance is subject to regulation by the Cayman Islands Monetary Authority ("CIMA"). The laws and regulations of the Cayman Islands require that, among other things, OFG Reinsurance maintain minimum levels of statutory capital, surplus and liquidity, meet solvency standards, submit to periodic examinations of its financial condition and restrict payments of dividends and reductions of capital. Statutes, regulations and policies that OFG Reinsurance is subject to may also restrict the ability of OFG Reinsurance to write insurance and reinsurance policies, make certain investments and distribute funds. Any failure to meet the applicable requirements or minimum statutory capital requirements could subject it to further examination or corrective action by CIMA, including restrictions on dividend payments, limitations on our writing of additional business or engaging in finance activities, supervision or liquidation.

Dodd-Frank Wall Street Reform and Consumer Protection Act

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

The Dodd-Frank Act also created a new consumer financial services regulator, the Consumer Financial Protection Bureau (the "CFPB"), empowered it to exercise broad rulemaking, supervision, and enforcement authority for a wide range of consumer protection laws previously exercised by federal banking regulators and other agencies. The CFPB's primary functions include the supervision of "covered persons" (which term is broadly defined to include any person offering or providing a consumer financial product or service and any affiliated service provider) for compliance with federal consumer financial laws. It has primary authority to enforce the federal consumer financial laws, as well as exclusive authority to require reports and conduct examinations for compliance with such laws in the case of any insured depository institution with total assets of more than $10 billion and any affiliate thereof. The CFPB also has broad powers to prescribe rules applicable to a covered person or service provider in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. Although the CFPB has exclusive supervisory authority with respect to federal consumer financial laws, the Dodd-Frank Act does not specify how or when to determine an insured depository institution's asset size for such purpose. However, pursuant to a supervisory statement issued by the federal banking regulators, including the CFPB, an insured depository institution would become subject to CFPB's supervisory and enforcement authority with respect to consumer financial laws as a "Large Institution" if it has reported total assets greater than $10 billion in its quarterly reports of condition (call reports) for four consecutive quarters.

Holding Company Structure

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

Under the Dodd-Frank Act, a bank holding company, such as OFG, must serve as a source of financial strength for any subsidiary depository institution. The term "source of financial strength" is defined as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress at such subsidiaries. This support may be required at times when, absent such requirement, the bank holding company might not otherwise provide such support. This means that OFG is required to commit, as necessary, capital and resources to support the Bank, including at times when OFG may not be in a financial position to provide such resources or when it may not be in OFG's or its shareholders' best interests to do so. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain capital of a subsidiary bank will be assumed by the bankruptcy trustee and be entitled to a priority of payment. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The Bank is currently the only depository institution subsidiary of OFG.

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

Dividend Restrictions

The principal source of funds for OFG is the dividends that it receives from the Bank, which are subject to regulation and limitations. As a general rule, regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. For example, the ability of the Bank to pay dividends on its common stock is restricted by the Puerto Rico Banking Act of 1933, as amended (the "Banking Act"), the Federal Deposit Insurance Act, as amended (the "FDIA"), and the FDIC regulations. In general terms, the Banking Act provides that when the expenditures of a bank are greater than its receipts, the excess of expenditures over receipts shall be charged against the undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If there is no sufficient reserve fund to cover such balance, in whole or in part, the outstanding amount shall be charged against the bank's capital account. The Banking Act provides that until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends. In general terms, the FDIA and the FDIC regulations restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding a bank.

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

Federal Home Loan Bank System

The FHLB system, of which the Bank is a member, consists of 11 regional FHLBs supervised and regulated by the Federal Housing Finance Agency. The FHLB serves as a credit facility for member institutions within their assigned regions. They are funded primarily by raising funds in the global financial markets and then lending in the form of advances (loans) to members in accordance with policies and procedures established by the FHLB and the boards of directors of each regional FHLB.

As a system member, the Bank is entitled to borrow from the FHLB of New York (the "FHLB-NY") and is required to invest in FHLB membership and activity-based stock. The Bank must purchase membership stock equal to the greater of $1,000 or 0.125% of certain mortgage-related assets held by the Bank. The Bank is also required to purchase activity-based stock equal to 4.50% of the dollar amount of any outstanding advances to the Bank by the FHLB. The Bank is in compliance with the membership and activity-based stock ownership requirements described above. All loans, advances and other extensions of credit made by the FHLB to the Bank are secured by a portion of the Bank's mortgage and commercial loan portfolios and certain other investments.

Regulatory Capital Requirements

Under the Dodd-Frank Act, federal banking regulators are required to establish minimum leverage and risk-based capital requirements, on a consolidated basis, for insured institutions, depository institution holding companies, and non-bank financial companies supervised by the Federal Reserve Board. The minimum leverage and risk-based capital requirements are to be determined based on the minimum ratios established for insured depository institutions under prompt corrective action regulations. In effect, such provision of the Dodd-Frank Act, which is commonly known as the Collins Amendment, applies to bank holding companies the same leverage and risk-based capital requirements that apply to insured depository institutions. Because the capital requirements must be the same for insured depository institutions and their holding companies, the Collins Amendment generally excludes certain debt or equity instruments, such as cumulative perpetual preferred stock and trust preferred securities, from Tier 1 Capital.

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

In July 2019, the federal banking regulatory agencies adopted a final rule, pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, that simplifies for banking organizations following non-advanced approaches, as OFG, the regulatory capital treatment for mortgage servicing assets ("MSAs") and certain deferred tax assets arising from temporary differences (temporary difference DTAs). It increases common equity tier 1 capital threshold deductions from 10% to 25% and removes the aggregate 15% common equity tier 1 threshold deduction. However, it retains the 250% risk weight applicable to non-deducted amounts of MSAs and temporary difference DTAs. In November 2019, the agencies jointly issued a final rule that permits insured depository institutions and depository institution holding companies to implement the simplifications to the capital rule beginning on January 1, 2020, rather than April 1, 2020. OFG elected to implement the simplifications to the capital rule on January 1, 2020.

Failure to meet the capital rules could subject an institution to a variety of enforcement actions including the termination of deposit insurance by the FDIC and the imposition of certain restrictions on its business. As of December 31, 2022, OFG was in compliance with all applicable capital requirements. For more information, please refer to the accompanying consolidated financial statements.

Prompt Corrective Action Regulations

Pursuant to the Dodd-Frank Act, federal banking regulatory agencies adopted capital rules based on the framework of the Basel Committee on Banking Supervision in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" ("Basel III"), which became effective January 1, 2014 for advanced approaches banking organizations (i.e., those with consolidated assets greater than $250 billion or consolidated on-balance sheet foreign exposures of at least $10 billion) and January 1, 2015 for all other covered organizations, replaced their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules.

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

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

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

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

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

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

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

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

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

FDIC Insurance Assessments

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

The Dodd-Frank Act contains several important deposit insurance reforms, including the following: (i) the maximum deposit insurance amount was permanently increased to $250,000; (ii) the deposit insurance assessment is now based on the insured depository institution's average consolidated assets minus its average tangible equity, rather than on its deposit base; (iii) the minimum reserve ratio for the Deposit Insurance Fund ("DIF") was raised from 1.15% to 1.35% of estimated insured deposits; (iv) the FDIC is required to "offset the effect" of increased assessments on insured depository institutions with total consolidated assets of less than $10 billion; (v) the FDIC is no longer required to pay dividends if the Deposit Insurance Fund's reserve ratio is greater than the minimum ratio; and (vi) the FDIC temporarily insured the full amount of qualifying "noninterest-bearing transaction accounts" until December 31, 2012. There is no upper limit on the reserve ratio and, therefore, no statutory limit on the size of the fund. The Designated Reserve Ratio ("DRR") set by the FDIC's Board of Directors is currently 2%.

In October 2022, the FDIC adopted a final rule to increase the initial base deposit insurance assessment rate schedules uniformly by 2 basis points beginning in the first quarterly assessment period in 2023. The increased assessment is expected to improve the likelihood that the DIF reserve ratio would reach the statutory minimum of 1.35% by the statutory deadline of September 30, 2028. The new assessment rate schedules will remain in effect unless and until the reserve ratio meets or exceeds 2% in order to support growth in the DIF in progressing toward the FDIC's long-term goal of a 2% DRR. Progressively lower assessment rate schedules will take effect when the reserve ratio reaches 2%, and again when it reaches 2.5%.

Brokered Deposits

FDIC regulations adopted under the FDIA govern the receipt of brokered deposits by banks. Well capitalized institutions are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the interest paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. As of December 31, 2022, the Bank meets the requirements to be considered a well-capitalized institution and is therefore not subject to these limitations on brokered deposits.

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

Safety and Soundness Standards

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

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

Activities and Investments of Insured State-Chartered Banks

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

Transactions with Affiliates and Related Parties

Transactions between the Bank and any of its affiliates are governed by sections 23A and 23B of the Federal Reserve Act. These sections are important statutory provisions designed to protect a depository institution from transferring to its affiliates the subsidy arising from the institution's access to the Federal safety net. An affiliate of a bank is any company or entity that controls, is controlled by, or is under common control with the bank, including investment funds for which the bank or any of its affiliates is an investment advisor. Generally, sections 23A and 23B (i) limit the extent to which a bank

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

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

Community Reinvestment Act

Under the Community Reinvestment Act of 1977, as amended ("CRA"), a financial institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires federal examiners, in connection with the examination of a financial institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received a "satisfactory" rating in its most recent CRA examination.

USA Patriot Act

Under Title III of the USA Patriot Act, also known as the "International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001," as amended, which is part of the legislative framework known as the "Bank Secrecy Act", all financial institutions, including OFG, Oriental Financial Services, and the Bank, are generally required to identify and verify the identity of their customers (including the beneficial owners of a legal entity customer and an individual with significant responsibility for managing such legal entity customer), adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions.

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

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

Privacy Policies

Under the Gramm-Leach-Bliley Act, all financial institutions are required to adopt policies for protecting the privacy of nonpublic personal information about consumers, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect customer data from unauthorized access. OFG and its subsidiaries have established policies and procedures to assure OFG's compliance with all privacy provisions of the Gramm-Leach-Bliley Act, as well as the CFPB regulations implementing such provisions. These regulations require a bank to disclose its privacy policy, including informing consumers of the bank's information sharing practices and their right to opt out of certain practices.

Sarbanes-Oxley Act

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

OFG has included in this annual report on Form 10-K management's assessment regarding the effectiveness of OFG's internal control over financial reporting. The internal control report includes a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for OFG; management's assessment as to the effectiveness of OFG's internal control over financial reporting based on management's evaluation as of year-end; and the framework used by management as criteria for evaluating the effectiveness of OFG's internal control over financial reporting. As of December 31, 2022, OFG's management concluded that its internal control over financial reporting was effective.

Puerto Rico Banking Act

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

The Banking Act requires that a minimum of 10% of the Bank's net income for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid-in capital on common and preferred stock. At December 31, 2022 and 2021, legal surplus amounted to $133.9 million and $117.7 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

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

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

The Banking Act also requires change of control filings. When any person or entity will own, directly or indirectly, upon consummation of a transfer, 5% or more of the outstanding voting capital stock of a bank, the acquiring parties must inform the OCFI of the details not less than 60 days prior to the date said transfer is to be consummated. The transfer will

require the approval of the OCFI if it results in a change of control of the bank. Under the Banking Act, a change of control is presumed if an acquirer who did not own more than 5% of the voting capital stock before the transfer exceeds such percentage after the transfer.

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

The Puerto Rico Finance Board (the "PRFB") is composed of the Commissioner of Financial Institutions of Puerto Rico, the Executive Director of the Puerto Rico Fiscal Agency and Finance Advisory Authority, the Presidents of the Economic Development Bank for Puerto Rico and the Puerto Rico Planning Board, the Secretaries of Commerce and Economic Development, Treasury and Consumer Affairs of Puerto Rico, the Commissioner of Insurance of Puerto Rico, and the President of the Public Corporation for Insurance and Supervision of Puerto Rico Cooperatives. The PRFB has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and businesses in the Commonwealth. The current regulations of the PRFB provide that the applicable interest rate on loans to individuals and businesses is to be determined by free competition. The PRFB is also authorized to regulate maximum finance charges on retail installment sales contracts and for credit card purchases. There is presently no maximum rate for retail installment sales contracts and for credit card purchases.

Puerto Rico Internal Revenue Code

Under the Puerto Rico Internal Revenue Code of 2011, as amended (the "PR Code"), a corporation pays taxes at a fixed rate of 18.5% (the regular corporate tax) plus a surtax that ranges from 5% for net income subject to surtax not greater than $75,000 to 19% for net income subject to surtax in excess of $275,000. Net income subject to surtax is net income less $25,000. The result is a maximum combined rate of 37.5% under the PR Code for years beginning after December 31, 2018. The Bank and other subsidiaries of OFG are treated as separate taxable corporations and are not entitled to file consolidated returns. The PR Code also provides a dividends-received deduction of 100% on dividends received from "controlled subsidiaries" subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations. Net operating losses ("NOLs") are allowed as a deduction in computing the net income of the taxpayer. The carryover period for NOLs is currently 10 years. Moreover, the amount to be carried over to a particular year is limited to the excess of the NOL over 90% of the net income for the year for regular tax and is limited to the excess of the NOL over 70% of the net income for Alternative Minimum Tax ("ATM") purposes.

On June 30, 2022, Puerto Rico enacted Act 52-2022 amending various provision of the PR Code and the Puerto Rico Municipal Code (the "Municipal Code"). Act 52-2022 amends the definition of "trade or business" to include, for taxable years beginning after December 31, 2021, the concept of "distance worker" for purposes of determining whether such individual's employer is engaged in trade or business in Puerto Rico. This amendment includes provisions that relieve such employers from withholding obligations relating to Puerto Rico income tax on wages paid to this type of employee and impose on such employee the obligation to pay estimated income taxes. The PR Code has also been amended to codify the provisions included within sales and use tax ("SUT") regulations for digital goods and to eliminate the requirement of biweekly sales tax deposits (*i.e.* sales tax prepayments) after the period of June 2022. Act 52-2022's other amendments to the PR Code include provisions relating to disregarded entity and flow-through entity treatment, optional tax for self-employed individuals and the alternative minimum tax, sales of partnership interests and foreign financial account reporting. Also, the amendment included the creation of a new section of the PR Code to give the Puerto Rico Treasury Secretary the power to create the tax credit manager tool. This tool will allow the administration, supervision, request, among other of the tax credits. The Municipal Code was also amended by Act 52-2022 to provide for the implementation of rules regarding the filing of supplementary information together with personal tax returns to be filed with the Municipal Revenues Collection Center and to include provisions relating to the filing of volume of business declarations for purposes of municipal license tax.

International Banking Center Regulatory Act of Puerto Rico

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

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

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

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

Volcker Rule

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

The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 amended the BHC Act to exempt from the Volcker Rule those bank holding companies, insured depository institutions and their affiliates with total assets that do not exceed $10 billion and trading assets and liabilities comprising not more than 5% of their total assets. Therefore, banking entities that meet such threshold may generally engage in proprietary trading and invest in private equity and hedge funds. On July 22, 2019, the federal banking regulatory agencies adopted final rules amending their regulations in a manner consistent with such exemption.

Durbin Amendment

The Dodd-Frank Act included provisions which restrict interchange fees to those which are "reasonable and proportionate" for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. This statutory provision is known as the "Durbin Amendment". In the Federal Reserve's final rules implementing the Durbin Amendment, interchange fees for debit card transactions were capped at $0.21 plus five basis points in order to be eligible for a safe harbor such that the fee is conclusively determined to be reasonable and proportionate. Another related rule also permits an additional $0.01 per transaction "fraud prevention adjustment" to the interchange fee if certain Federal Reserve standards are implemented, including an annual review of fraud prevention policies and procedures. With respect to network exclusivity and merchant routing restrictions, it is now required that all debit cards participate in at least two unaffiliated networks so that the transactions initiated using those debit cards will have at least two independent routing channels. The interchange fee restrictions contained in the Durbin Amendment, and the rules promulgated thereunder, apply to debit card issuers with $10 billion or more in total consolidated assets, and presently does not apply to OFG. Additional information regarding the Durbin Amendment is discussed under Item 1A. Risk Factors of this annual report on Form 10-K.

Website Access to Reports

OFG's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any and all amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available free of charge on or through the "SEC filings" link of OFG's internet website at www.ofgbancorp.com, as soon as reasonably practicable after OFG electronically files such material with, or furnishes it to, the SEC. The SEC also maintains an internet website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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

ITEM 1A. *RISK FACTORS*

In addition to other information set forth in this annual report on Form 10-K, you should carefully consider the following risk factors, as updated by other filings OFG makes with the SEC under the Exchange Act. Additional risks and uncertainties not presently known to us at this time or that OFG currently deems immaterial may also adversely affect OFG's business, financial condition or results of operations.

ECONOMIC AND MARKET CONDITIONS RISK

Most of our business is conducted in Puerto Rico, where economic and government fiscal and liquidity challenges, as well as the impact of natural disasters and the Covid-19 pandemic, have adversely impacted and may continue to adversely impact us.

Our business is directly affected by economic conditions within Puerto Rico. A significant portion of our credit risk exposure on our loan portfolio is concentrated in Puerto Rico. Thus, our profitability and financial condition may be adversely affected by an extended economic recession, adverse political, fiscal or economic developments in Puerto Rico, or the effects of natural disasters, all of which could result in a reduction in loan originations, an increase in credit losses and a reduction in the value of our loans and loan servicing portfolio.

In the past decades, Puerto Rico has experienced a significant economic contraction in several years, a government fiscal crisis that led to the appointment of a federal oversight board in 2016 and a bankruptcy-type restructuring process of the government's finances, various significant natural disasters, including hurricanes and earthquakes, as well as the Covid-19 pandemic that began in 2020. Although federal disaster recovery assistance and related insurance payouts are expected to drive economic growth in the short term, there is no guarantee that funds set aside for these purposes will not be repurposed by the federal government or that their disbursement will not be unreasonably conditioned or delayed. In addition, there is no assurance that the government will be able to satisfy its obligations as restructured. Puerto Rico also continues to be vulnerable to hurricanes and earthquakes and may continue to be impacted by natural disasters in the future, including those as a result of climate change.

Deterioration in local economic conditions or in the financial condition of an industry on which the local market depends could adversely affect factors such as unemployment rates and real estate vacancy and values. This could result in, among other things, a reduction of creditworthy borrowers seeking loans, an increase in loan delinquencies, defaults and foreclosures, an increase in classified and non-accrual loans, a decrease in the value of collateral for loans, and a decrease in core deposits. Any of these factors could materially impact our business.

Puerto Rico and the USVI are susceptible to earthquakes, hurricanes and major storms, the severity of which could be heightened by the effect of climate change, which could further deteriorate their economy and infrastructure.

Our branch network and business are concentrated in Puerto Rico and the USVI, which are susceptible to earthquakes, hurricanes and major storms that affect the local economy and the demand for our loans and financial services, as well as the ability of our customers to repay their loans. Any such natural disasters may further adversely affect Puerto Rico's and the USVI's critical infrastructure, which are generally weak and necessitating capital investment. This makes us vulnerable to downturns in Puerto Rico's and the USVI's economy as a result of natural disasters, such as earthquakes in 2020, and hurricanes Irma and Maria in 2017, and Hurricane Fiona in September 2022, the severity of which could increase as a result of the effects of climate change. Any subsequent earthquakes, hurricanes, major storms or other natural disasters could further deteriorate the economy and infrastructure of Puerto Rico and USVI, as well as negatively affect or disrupt our operations and customer base and materially impact our business.

Climate change presents both immediate and long-term risks to OFG and its clients, and these risks are expected to increase over time. Climate change presents multi-faceted risks, including: operational risk from the physical effects of climate events on OFG and its clients' facilities and other assets; credit risk from borrowers with significant exposure to climate risk; transition risks associated with the transition to a less carbon-dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, OFG's carbon footprint, and its business relationships with clients who operate in carbon-intensive industries.

Terrorist attacks and armed conflicts may impact all aspects of our operations, revenues, costs and stock price.

Geopolitical and macroeconomic uncertainty, including the military actions taken by the Russian Federation against Ukraine that began in early 2022, have negatively impacted and will continue to have a significant negative impact on the global and United States economies. This uncertainty has resulted in considerable volatility in the financial and commodity markets, including through significant increases in the price of oil, natural gas and food and continue putting additional inflationary pressures on central banks, including the FRB. Also, it has increased cybersecurity risks and may continue to have a negative impact on the stock market generally and, in turn, on our stock price.

The full impact of the actions by the Russian Federation regarding Ukraine are not known at this time, but they could continue to bring economic disruption, heightened volatility in financial and commodity markets, and diminished consumer, business and investor confidence, among others, adversely impacting the financial services industry generally and our business, financial condition, results of operation, and stock price.

Changes in interest rates could adversely affect OFG's results of operations and financial condition.

OFG's earnings depend substantially on OFG's interest rate spread, which is the difference between (i) the rates earned on loans, securities, and other earning-assets and (ii) the interest rates paid on deposits and other borrowings. These rates are highly sensitive to many factors beyond OFG's control, including general economic conditions, inflation, unemployment, money supply, fiscal policies of the U.S. government and regulatory authorities, domestic and international events, as act of war, and events in U.S. and other financial markets. In an effort to address inflation, the Federal Open Market Committee of the Board of Governors of the Federal Reserve System ("FRB") has tightened monetary policy and has increased the federal funds rate seven times during fiscal year 2022, with the latest increases of 50 basis points each made on June 15, 2022, July 27, 2022, September 21, 2022, November 2, 2022 and December 14, 2022. In February 1, 2023, the FRB furthered increased federal funds rate by 25 basis points updating the federal funds target rate range between 4.50% to 4.75%. We expect that incremental interest rate increases announced by the FRB will continue to occur throughout 2023, but the amount, timing, and frequency of such increases are not fully known at this time. If market interest rates continue to rise, OFG will have competitive pressure to increase the rates on deposits, which could result in a decrease of net interest income. If market interest rates decline, OFG could experience fixed-rate loan prepayments and higher investment portfolio cash flows, resulting in a lower yield on earning assets. OFG's earnings can also be impacted by the spread between short-term and long-term market interest rates.

Changes in the method pursuant to which the LIBOR and other benchmark rates are determined could adversely impact our business and results of operations.

Our floating-rate funding, certain hedging transactions and certain of the products that we offer, such as floating-rate loans and mortgages, determine the applicable interest rate or payment amount by reference to a benchmark rate, such as LIBOR, or to an index, or other financial metric. LIBOR and certain other benchmark rates are the subject of several national, international, and other regulatory guidance and proposals for reform. In July 2017, the Chief Executive of the Financial

Conduct Authority ("FCA") announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. However, the administrator of LIBOR has proposed to extend publication of the most commonly used U.S. Dollar LIBOR settings until June 30, 2023 and has ceased publishing other LIBOR settings on December 31, 2021. The U.S. federal banking agencies have issued guidance strongly encouraging banking organizations to cease using the U.S. Dollar LIBOR as a reference rate in "new" contracts as soon as practicable and in any event by December 31, 2021. It is not possible to predict the effects of any changes in views or the acceptance of alternative rates on the markets for LIBOR-linked financial instruments.

There is considerable uncertainty as to how the financial services industry will address the discontinuance of LIBOR in financial instruments. Specifically, the discontinuation of LIBOR could result in changes to our risk exposures (for example, if the anticipated discontinuation of LIBOR adversely affects the availability or cost of floating-rate funding and, therefore, our exposure to fluctuations in interest rates) or otherwise result in losses on a product. There can be no assurance that legislative or regulatory actions will dictate what happens if LIBOR ceases or is no longer representative or viable, or what those actions might be.

Although OFG believes that its exposure to LIBOR is not material, as it represents only 3% of total assets, LIBOR-based contracts that will be impacted by the cessation of LIBOR have been under review to ensure they contain adequate fallback language. OFG has discontinued the origination of loans that use LIBOR as a reference rate and also been working to transition to alternative reference rates ("ARR") and/or fallback language in both existing as well as new contracts to prepare for the cessation of LIBOR. Furthermore, management has a LIBOR transition team to leads OFG in the execution of its project plan and is monitoring the development and adoption of Secured Overnight Financing Rate ("SOFR") alternatives as well as other credit sensitive ARR and their liquidity in the market, and provided oversight of business and system readiness to originate SOFR-based loans.

CREDIT RISK

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

At December 31, 2022, we have approximately $73.7 million of direct credit exposure to four Puerto Rico municipalities, a $13.6 million decrease from December 31, 2021. At December 31, 2021, total loan exposure to the Puerto Rico government included a $1.1 million purchased credit-deteriorated ("PCD") loan granted to a public corporation classified as non-accrual, which was repaid during 2022. The total credit exposure at December 31, 2022 consists of general obligations of municipalities secured by ad valorem property taxes, without limitation as to rate of amount, on all taxable property within the issuing municipalities in current status. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the repayment of its general obligations.

Under Title III of PROMESA, the Puerto Rico central government has begun to implement the plan of adjustment approved by the Title III bankruptcy court on January 18, 2022, setting the stage for its exit from bankruptcy. Nevertheless, the Puerto Rico government still faces a number of severe economic and fiscal challenges that are expected to require additional austerity measures to balance its budget. If the government restructuring affects the ability of the municipalities to pay their obligations to us as they become due, or under certain other circumstances, we may be required to adversely classify such loans and increase the provision for loan losses in connection therewith. Such provision may significantly impact our earnings.

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

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

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

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

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

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

Although we believe our allowance for credit losses is currently sufficient given the constant monitoring of the risk inherent in the loan portfolio, there is no precise method of predicting loan losses and therefore we always face the risk that charge-offs in future periods will exceed the allowance for credit losses and that additional increases in the allowance for credit losses will be required. Additions to the allowance for credit losses would result in a decrease of net earnings and capital and could hinder our ability to pay dividends.

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

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

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

From the time that we fund the mortgage loans originated to the time that they are sold, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loans, the risk of loss from mortgage loan defaults and foreclosures passes to the purchaser or insurer of the mortgage loans. However, in the ordinary course of business, we make representations and warranties to the purchasers and insurers of mortgage loans relating to the validity of such loans. If there is a breach of any such representations or warranties, we may be required to repurchase the mortgage loan and bear any subsequent loss on the mortgage loan. We also may be required to repurchase mortgage loans in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. Any such repurchases in the future may negatively impact our liquidity and operating results. Termination of our ability to sell mortgage products to U.S government-sponsored entities would have a material adverse effect on our results of operations and financial condition. In addition, we may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of our representations and warranties and in various other circumstances, including securities fraud claims, and the amount of such losses could exceed the purchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans. In addition, we incur higher liquidity risk with respect to mortgage loans not eligible to be purchased or insured by FNMA, GNMA or FHLMC, due to a lack of secondary market in which to sell these loans. During 2022, we repurchased $24.2 million of loans from GNMA and FNMA.

We have established reserves in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by us. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation related to us and the industry, actual recoveries on the collateral, and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations.

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

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

In the past, the decline in Puerto Rico’s economy had an adverse effect in the credit quality of our loan portfolios. Among other things, during the local recession, we experienced an increase in the level of non-performing assets and credit loss provision, which adversely affected our profitability. Delinquency rates and non-performing assets may increase if Puerto Rico’s economic recession continues or worsens. If there is another decline in economic activity, additional increases in the allowance for credit losses could be necessary with further adverse effects on our profitability.

Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the price received on the sale of such loans, and the value of the mortgage loan portfolio, all of which could have a negative impact on our results of operations and financial condition. In addition, any material decline in real estate values would weaken our collateral loan-to-value ratios and increase the possibility of loss if a borrower default.

OPERATIONS AND BUSINESS RISK

We may experience losses related to fraud and theft.

OFG has experienced, and may experience in the future, losses incurred due to customer or employee fraud and theft. These losses may be material and negatively affect OFG's results of operations, financial condition or prospects. These losses could also lead to significant reputational risks and other effects. The sophistication of external fraud actors continues to increase, and in some cases includes large criminal rings, which increases the resources and infrastructure needed to thwart these attacks. The industry fraud threat continues to evolve, including but not limited to card fraud, check fraud, social engineering and phishing attacks for identity theft and account takeover. OFG continues to invest in fraud prevention in the forms of people and systems designed to prevent, detect and mitigate the customer and financial impacts.

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

Financial institutions like us, as well as our customers, colleagues, regulators, service providers and other third parties, have experienced a significant increase in information and cyber security risk in recent years and will likely continue to be the target of increasingly sophisticated cyberattacks, including computer viruses, malicious or destructive code, ransomware, social engineering attacks (including phishing, impersonation and identity takeover attempts), corporate espionage, hacking, website defacement, denial-of-service attacks, exploitation of vulnerabilities and other attacks and similar disruptions from the misconfiguration or unauthorized use of or access to computer system. A major information or cyber security incident or an increase in fraudulent activity could lead to reputational damage to our brand and material legal, regulatory and financial exposure, and could reduce the use and acceptance of our services.

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

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

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

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

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

Service disruptions or degradations could prevent access to our online services and account information, compromise or limit access to company or customer data, impede or prevent transaction processing and financial reporting, and lead to regulatory investigations and fines, increased regulatory oversight, and litigation. Any such service disruption or degradation could adversely affect the perception of the reliability of our products and services and materially adversely affect our overall business, reputation and results of operations.

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

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

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

Consumer protection laws and the Durbin Amendment may reduce our noninterest income.

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. The Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB") with powers to supervise and enforce federal consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive acts and practices." The CFPB also has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets for certain designated consumer laws and regulations. The other federal banking agencies enforce such consumer laws and regulations for banks and savings institutions under $10 billion in assets. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices and restrict our ability to raise interest rates and charge non-sufficient funds ("NSF") fees. A significant portion of our noninterest income is derived from service charge income, including NSF fees. Violations of applicable consumer protection laws could result in enforcement actions and significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees.

In addition, the Durbin Amendment is a provision in the larger Dodd-Frank Act that gave the Federal Reserve the authority to establish rates on debit card transactions. The Durbin Amendment aims to control debit card interchange fees and restrict anti-competitive practices. The law applies to banks with over $10 billion in consolidated assets and limits these banks on what they charge for debit card interchange fees. If OFG's assets were to exceed $10 billion as of December 31 of any calendar year, the Durbin Amendment would reduce OFG's income from debit card interchange fees by approximately $8 to $10 million on an annual basis in subsequent years based on current volume.

Prior to the COVID-19 pandemic, there was little or no likelihood that OFG or the Bank would surpass $10 billion in total assets for several years. However, with the CARES Act, stimulus payments to households, and artificially high household savings rates, our deposits and assets have grown significantly during the pandemic. OFG and the Bank exceeded $10 billion in assets for the first time during the first quarter of 2021, and even though OFG ended 2022 with less than $10 billion in total assets, thereby postponing the applicability of the Durbin Amendment and other regulatory changes, OFG has commenced preparing for the increased regulatory oversight and other requirements that will apply as a result of crossing such size threshold in the future. To the extent that OFG continues to increase its core deposits market share, OFG and the Bank could eventually cross the asset thresholds that would trigger the applicability of the Durbin Amendment.

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

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

LIQUIDITY RISK

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

Our business requires continuous access to various funding sources. Although we are normally able to fund our operations through deposits, as well as through advances from the FHLB-NY, our business may need to access other wholesale funding sources to satisfy our liquidity needs.

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

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

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

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

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

COMPETITIVE AND STRATEGIC RISK

Failure to keep pace with technological change could adversely affect OFG's results of operations and financial condition.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients and to reduce costs. OFG's future success depends, in part, upon its ability to address client needs by using technology to provide products and services that will satisfy client demands, as well as to create additional efficiencies in OFG's operations. OFG may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its clients. Failure to successfully keep pace with technological change affecting the financial services industry could negatively affect OFG's growth, revenue, and profit.

Competition with other financial institutions could adversely affect our profitability.

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

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

Our operations are subject to extensive regulation by federal and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on all or part of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. For example, the Dodd-Frank Act has a broad impact on the financial services industry, including significant regulatory and compliance changes, as discussed under the subheading "Dodd-Frank Wall Street Reform and Consumer Protection Act" in Item 1of this annual report on Form 10-K.

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

Reputational risk and social factors may impact our results.

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

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

ACCOUNTING AND TAX RISK

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

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

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

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

Based on our annual goodwill impairment test, we determined that no impairment charges were necessary. As of December 31, 2022, we had on our consolidated balance sheet $84.2 million of goodwill in connection with the BBVAPR Acquisition and the FDIC-assisted acquisition of Eurobank in 2010, $21.1 million of core deposit intangible in connection with the Scotiabank Acquisition and a $6.5 million of customer relationship intangible in connection with the Scotiabank Acquisition. There can be no assurance that future evaluations of such goodwill or intangibles will not result in any impairment charges. Among other factors, any declines in our common stock as a result of macroeconomic conditions and any weakness in the Puerto Rico economy could lead to an impairment of such assets. If such assets become impaired, it could have a negative impact on our results of operations.

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

Legislative changes, particularly changes in local tax laws, could adversely impact our results of operations. In an effort to address the Commonwealth's ongoing fiscal problems, the Puerto Rico government has enacted tax reforms in the past providing, among other things, for changes in income tax rates and the expansion of certain taxes, such as the sales and use tax, and may do so again in the future.

We operate an IBE unit and an IBE subsidiary pursuant to the IBE Act which provides significant tax advantages. The IBEs have an exemption from Puerto Rico income taxes on interest earned on, or gain realized from the sale of, non-Puerto Rico assets, including U.S. government obligations and certain mortgage-backed securities. This exemption has allowed us to have an effective tax rate below the maximum statutory tax rate. In the past, the Legislature of Puerto Rico has considered proposals to curb the tax benefits afforded to IBEs. For example, Puerto Rico enacted legislation in 2012 under which no new IBEs may be organized and newly organized "international financial entities" are generally subject to a 4% Puerto Rico income tax rate. In the event other legislation is enacted by the Puerto Rico government to eliminate or modify the tax exemption provided to IBEs, the consequences could have a materially adverse impact on our financial results, including an increase in income tax expense and consequently our effective tax rate, adversely affecting our financial condition, results of operations and cash flows.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. ***PROPERTIES***

At December 31, 2022, OFG owns a fifteen-story office building located at 254 Muñoz Rivera Avenue, San Juan, Puerto Rico, known as "Oriental Center", where its executive offices are located. OFG operates a full-service branch at the plaza level and its centralized units and subsidiaries occupy approximately 99% of the office floor space. Approximately 1% of the office space is leased to outside tenants.

In addition, at December 31, 2022, the Bank owns three branch premises and leases thirty-eight branch locations throughout Puerto Rico and owns two branch premises in the USVI.

The Bank's management believes that each of its facilities is well maintained and suitable for its purpose and can readily obtain appropriate additional space as may be required at competitive rates by extending expiring leases or finding alternative space.

At December 31, 2022, the aggregate future rental commitments under the terms of its leases, exclusive of taxes, insurance and maintenance expenses payable by OFG, was approximately $27.4 million.

OFG's investment in premises and equipment, exclusive of leasehold improvements at December 31, 2022, was $161.0 million, gross of accumulated depreciation.

ITEM 3. ***LEGAL PROCEEDINGS***

OFG and its subsidiaries are defendants in a number of legal proceedings incidental to their business. OFG 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 OFG's financial condition or results of operations.

ITEM 4. ***MINE SAFETY DISCLOSURES***

Not applicable.

PART II

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

Common Stock

OFG's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG".

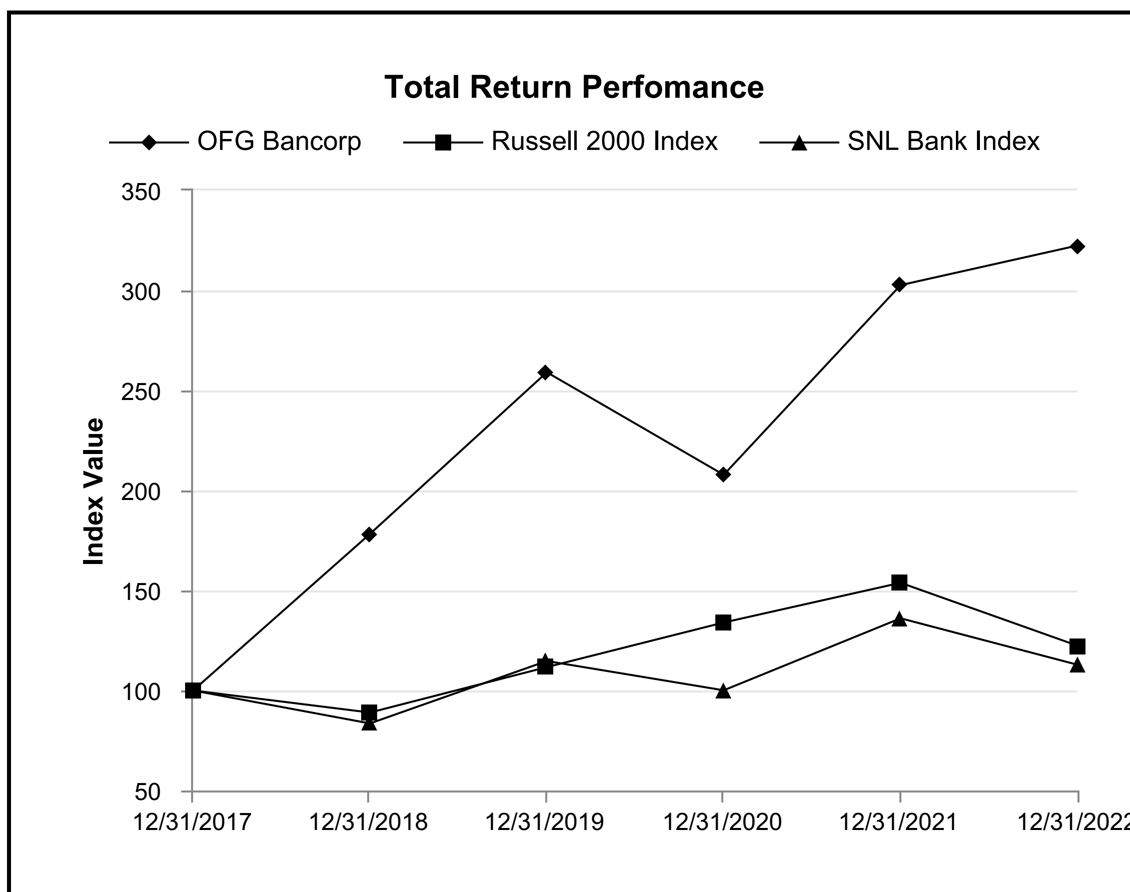
As of December 31, 2022, OFG had approximately 12,641 holders of record of its common stock, including all directors and officers of OFG, and beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees.

Stock Performance Graph

The stock performance graph below compares the percentage change in OFG's cumulative total stockholder return during the measurement period with the cumulative total return, assuming reinvestment of dividends, of the Russell 2000 Index and the SNL Bank Index. The information contained in this stock performance graph section shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

The cumulative total stockholder return was obtained by dividing (a) the sum of (i) the cumulative amount of dividends per share, assuming dividend reinvestment, for the measurement period beginning December 31, 2017, and (ii) the difference between the share price at the beginning and the end of the measurement period, by (b) the share price at the beginning of the measurement period.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100



Index	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
OFG Bancorp	100.00	178.29	259.12	207.84	302.69	322.48
Russell 2000	100.00	88.99	111.70	134.00	153.85	122.41
SNL Bank	100.00	83.54	114.74	100.10	136.10	112.89

Dividends

You can find dividend information concerning our common stock in Table 17 of Item 7 in this annual report on Form 10-K and our Consolidated Statements of Shareholders' Equity in our consolidated financial statements accompanying this annual report on Form 10-K. For information on dividend restrictions, see "Dividend Restrictions" under "Regulation and Supervision" in Item 1 of this annual report on Form 10-K and "Note 30– OFG Bancorp (Holding Company Only) Financial Information" to our consolidated financial statements included herein.

Equity Based Compensation

For information about the securities remaining available for issuance under our equity-based plans, refer to Part III, Item 12 of this annual report on Form 10-K.

Repurchase of Common Stock

Refer to "Recent Developments—Capital Actions" in Part II, Item 7 of this annual report on Form 10-K for information regarding OFG's common stock repurchase programs.

OFG did not repurchase any shares of its common stock during the quarter ended December 31, 2022.

ITEM 6. *RESERVED*

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

Please read the following discussion and analysis of our financial condition and results of operations together with "Note about Forward-Looking Statements," Part I, Item 1 "Business," Part I, Item 1A "Risk Factors," and our consolidated financial statements and related notes included under Item 8 of this annual report on Form 10-K. We have omitted discussion of 2020 results where it would be redundant to the discussion previously included in Item 7 of our 2021 annual report on Form 10-K. For our discussion and analysis of our financial condition and results of operations for the year ended December 31, 2021 compared to the year ended December 31, 2020, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2021 annual report on Form 10-K.

RECENT DEVELOPMENTS

Natural Events

During 2022, OFG was impacted by the effects of Hurricane Fiona, which caused power outages, widespread flooding, water and communication services interruptions, property damages in some areas, and disrupted economic activity throughout Puerto Rico. Although OFG's business operations were temporarily disrupted by the damages to Puerto Rico's critical infrastructure, OFG's digital channels, core banking and electronic funds transfer systems continued to function uninterrupted during and after the hurricane, and within days after the hurricane, OFG was able to open its main offices and many of its branches and automated teller machines ("ATMs") in addition to its digital and phone trade channels, and shortly after, business activity began to return to pre-Hurricane Fiona levels.

Banking service revenues for 2022 were impacted due to Hurricane Fiona's temporary effect on economic activity and OFG's decision to provide relief to our clients by waiving late charges and other fees. OFG incurred $1.6 million in expenses related to this event. Also, based on our assessments for the impact of the hurricane on our credit portfolio, 2022 results included higher qualitative reserves mainly from $1.1 million in loan loss provision, pre-tax. In addition, as a result of the effects of Hurricane Fiona and Puerto Rico being declared a disaster zone by local and federal authorities, OFG granted loan payment accommodations to certain qualified borrowers in order to provide them with flexibility to address the hurricane's immediate impact. Furthermore, for its business banking segment, OFG granted loans up to $50,000 with

three months of interest-only payments followed by up to thirty-three payments of principal and interest. At December 31, 2022, the total loans outstanding under the payment accommodations program amounted to $33.1 million.

Capital Actions

2022 Capital Actions

In January 2022, OFG announced that its Board of Directors approved the increase of its regular quarterly cash dividend to $0.15 per common share from $0.12 per share, beginning on the quarter ended March 31, 2022. Subsequently, in July 2022, OFG announced that its Board of Directors approved a new increase of its regular quarterly cash dividend to $0.20 per common share, beginning on the quarter ended September 30, 2022.

In January 2022, the Board of Directors also approved a new stock repurchase program to purchase $100 million of its common stock in the open market. At December 31, 2022, OFG has repurchased 2.4 million shares of common stock for $64.1 million. OFG expects to continue to execute this repurchase program to the extent favorable market opportunities exist at the relevant point in time.

Announcement of Forthcoming 2023 Capital Actions

In January 2023, OFG announced that its Board of Directors approved the increase of its regular quarterly cash dividend to $0.22 per common share from $0.20 per share, beginning on the quarter ending March 31, 2023.

Economic Conditions

Since March 2020, the Covid-19 pandemic has affected our communities and the way we do business, as well as economic activity globally, nationally and locally. Within the last year, as restrictions related to the pandemic eased in the United States, employment increased and pent-up demand was released, which together with Covid-19 lockdowns in foreign jurisdictions created global supply chain issues and shortages of goods, which in turn triggered price inflation. In an effort to address inflation, the Federal Open Market Committee of the Board of Governors of the Federal Reserve System ("FRB") has tightened monetary policy and increased the federal funds rate seven times during fiscal year 2022, with the last increase of 2022 made on December 14, 2022 of 50 basis points. In February 1, 2023, the FRB furthered increased federal funds rate by 25 basis points updating the federal funds target rate range between 4.50% to 4.75% and FRB officials forecast the federal funds target rate will continue to increase during 2023. In addition, the FRB has also scaled back its asset purchase program that provided liquidity to the bond markets.

Adding to economic uncertainty and increased inflationary pressures are military actions taken by Russia against Ukraine commencing in February 2022, which have added further stress to existing supply chain challenges and placed upward price pressure on commodities such as oil and natural gas, which have further exacerbated the global macroeconomic uncertainty and increased inflationary pressures. However, we believe that the macroeconomic outlook for Puerto Rico continues to show strength, notwithstanding the effects of Hurricane Fiona. Recent data show that the Puerto Rico Economic Activity Index, as published by the Economic Development Bank for Puerto Rico, has been increasing for over a year which we believe signals a stable upward trend as employment gains remains solid. Our commercial clients are experiencing a higher demand for their products and services. Consumer demand also remains strong and, following five years of bankruptcy proceedings under Title III of PROMESA, the Puerto Rico central government has begun to implement the plan of adjustment approved by the Title III bankruptcy court on January 18, 2022, setting the stage for its exit from bankruptcy. Nevertheless, there remain several public instrumentalities whose debt obligations have not been restructured under the mechanisms provided by PROMESA and any recovery of the Puerto Rico economy could be adversely impacted by macroeconomic developments within the United States and across the globe. The global macroeconomic outlook continues to remain uncertain and, at this time, OFG cannot reasonably estimate the scope, term or intensity of any possible adverse impact on our financial position, operations or liquidity, resulting from economic disruption and uncertainty related to Covid-19 variants, economic recessions, trade and supply chain disruption, continuing inflationary pressures, labor shortages, armed conflicts such as the ongoing military actions against Ukraine, and the uncertainty of the timing and extent of potential actions that might be taken by the FRB. However, we believe that the high levels of reconstruction and stimulus funds being channeled towards the Puerto Rico economy are mitigating the foregoing negative effects.

LIBOR and Other Benchmark Rates

In July 2017, the Chief Executive of the Financial Conduct Authority ("FCA") announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. However, the administrator of LIBOR has proposed to extend publication of the most commonly used U.S. Dollar LIBOR settings until June 30, 2023 and has ceased publishing other LIBOR settings on December 31, 2021.

Although OFG believes that its exposure to LIBOR is not material, as it represents only 3.1% of total assets, LIBOR-based contracts that will be impacted by the cessation of LIBOR have been under review to ensure they contain adequate fallback language. OFG has also been proactively working to transition to alternative reference rates ("ARR") and/or fallback language in both existing as well as new contracts to prepare for the cessation of LIBOR. Furthermore, management has established a LIBOR transition team to lead OFG in the execution of its project plan and is monitoring the development and adoption of Secured Overnight Financing Rate ("SOFR") alternatives as well as other credit sensitive ARR and their liquidity in the market. OFG is also working towards business and system readiness to originate SOFR-based loans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by OFG conform with GAAP and general practices within the financial services industry. The preparation of these financial statements requires our management to make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We evaluate these judgments, assumptions and estimates for changes that would affect the reported amounts. These estimates are based on management's historical industry experience and on various other judgments and assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these judgments, assumptions and estimates. The following critical accounting estimate involves significant estimation uncertainty that has or is reasonably likely to have a material impact on our financial condition or results of operations. A discussion of OFG's significant accounting policies, including further discussion of the accounting estimate described below, can be found in "Note 1– Summary of Significant Accounting Policies" to the consolidated financial statements and should be read in conjunction with this section.

Allowance for Credit Losses related to loans collectively evaluated for impairment

The most critical and complex accounting estimate is associated with the determination of the allowance for credit losses. The provision for credit losses charged to current operations is based on this determination. The allowance for credit losses represents management's best estimate deemed appropriate to provide current expected future credit losses in the portfolio as of the date of the reporting period. OFG adopted ASU No. 2016-13, Financial Instruments – Credit Losses (ASC Topic 326) as of January 1, 2020. The total allowance for credit losses as of December 31, 2022 and 2021, which included loans evaluated on a collective basis, was calculated consistent with our adopted policy.

OFG's management evaluates the adequacy of the allowance for credit losses on a quarterly basis following a systematic methodology in order to provide for inherent risks in the loan portfolio. In developing its assessment of the adequacy of the allowance for credit losses, OFG must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown, such as economic developments affecting specific customers, industries or markets. Other factors that can affect management's estimates are the key drivers used for each macroeconomic scenario, the macroeconomic scenarios selected, and the weighting given to each scenario, among others. Significant changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience, and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for credit losses. Consequently, the business, financial condition, liquidity, capital and results of operations could also be affected.
The Allowance for Credit Losses ("ACL") estimation requires management to use relevant forward-looking economic forecasts, by using variables such as unemployment rate, gross national product, retail sales, and house price index, including in the application of reasonable and supportable forecasts. ACL estimations are performed by aggregating loans with similar risk characteristics.

OFG applied a discounted cash flow (DCF) method for non-purchased credit deteriorated loans (non-PCD) and an undiscounted cash flow (UDCF) method for purchased credit deteriorated (PCD) loans to determine the allowance for credit losses for loans collectively measured for impairment, except for credit cards and overdrafts which utilize a remaining life methodology. For non-PCD, the expected cash flows are calculated for each loan and discounted using the effective yield. The discounted amount of expected cash flows is compared to the amortized cost, and any shortfall is recorded as a reserve. For PCD loans, the expected cash flows are calculated for each loan pool, pool reserve is calculated

by the aggregation of total loss from the UDCF. Expected cash flows are resulted from applying the contractual payment term, probability of defaults, loss given defaults, and prepayment assumptions.

Management's judgment is required in selecting the macroeconomic scenarios and the weighting of the economic scenarios, which consist of baseline and moderate recession scenarios, giving more weight to the baseline scenario, except for the US loan segment that used the same level of probability in both economic scenarios, as of December 31, 2022. Management selects the macroeconomic forecast that is most reflective of expectations at that point in time. The applicability of qualitative adjustments includes adjustments of inherent risk not captured by the quantitative model.

OFG's sensitivity analysis does not represent management's view of expected credit losses at December 31, 2022. OFG evaluated sensitivities by applying 100% weight to baseline and moderate recession scenarios. The impact of assigning a 100% weight to the baseline scenario was a hypothetical decrease of 3% to the collective ACL, and the impact of assigning a 100% weight to the moderate recession scenario was a hypothetical increase of 6% to the collective ACL. These hypothetical sensitivities do not incorporate the impact of management's judgment for qualitative factors applied in the current ACL for loans. It is possible that others performing similar sensitivity analyses could reach different conclusions or results. The sensitivity analysis excludes the allowance for credit losses for off-balance sheet credit exposures.

For a detailed description of the principal factors used to determine the allowance for credit losses related to loans collectively evaluated for impairment and for the principal enhancement's management made to its methodology, please refer to "Note 1– Summary of Significant Accounting Policies" and "Note 6 – Loans" to the consolidated financial statements.

FINANCIAL HIGHLIGHTS

We believe that Puerto Rico businesses and consumers remain in good financial shape. We look forward to a year of continued progress in 2023, keeping a watchful eye to uncertainties from FRB interest rate actions, inflation, and the forecasted mainland recession. We owe a debt of thanks to our team members for their continued dedication, tireless commitment to sales and service, and purposeful drive to bring financial progress to our customers and the communities we serve every day.

Fourth Quarter of 2022:

The fourth quarter of 2022 reflected total core revenue growth of 7.3% when compared to the third quarter of 2022. Key performance metrics improved, with return on average assets of 1.86%, return on average tangible common stockholders' equity of 20.36%, and an efficiency ratio of 54.45%. Tangible Book Value per share increased to $19.56.

Earnings per share ("EPS") diluted was $0.97 compared to $0.87 in the third quarter of 2022 and $0.66 in the fourth quarter of 2021. Total core revenues were $168.3 million compared to $156.8 million in the third quarter of 2022 and $141.0 million in the fourth quarter of 2021.

Net interest income of $135.3 million compared to $126.5 million in the third quarter of 2022 and $104.2 million in the fourth quarter of 2021. Net interest margin expanded to 5.69% from 5.23% in the third quarter of 2022, reflecting FRB interest rate increases, along with increased investment and loan balances.

Interest income of $145.7 million compared to $134.7 million in the third quarter of 2022 and $112.6 million in the fourth quarter of 2021. Compared to the third quarter of 2022, the fourth quarter of 2022 benefited from higher yields on increased average balances of loans and investment securities.

Total interest expense of $10.4 million compared to $8.2 million in the third quarter of 2022 and $8.4 million in the fourth quarter of 2021. Compared to the third quarter of 2022, the fourth quarter of 2022 reflected an 11-basis point cost-increase, partially offset by a 1.8% balance decline.

Banking and financial service revenues of $33.0 million compared to $30.3 million in the third quarter of 2022 and $36.8 million in the fourth quarter of 2021. The fourth quarter of 2022 reflected higher electronic banking activity and higher gain on sale of mortgages compared to the third quarter of 2022, which was impacted by the interruption of services due to Hurricane Fiona.

Pre-provision net revenues were $76.9 million compared to $69.6 million in the third quarter of 2022 and $55.8 million in the fourth quarter of 2021.

Provision for credit losses of $8.8 million compared to $7.1 million in the third quarter of 2022 and $7.2 million in the fourth quarter of 2021. The fourth quarter of 2022 reflected $9.2 million in higher provision due to increased loan volume and a net release of $0.4 million mainly related to reduction in the qualitative adjustment due to the improved macro-economic environment in Puerto Rico as well as stable delinquency trends.

Credit quality: Net charge offs were $11.2 million compared to $11.3 million in the third quarter of 2022 and $32.5 million in the fourth quarter of 2021. The fourth quarter of 2022 reflected net-charge offs of $5.4 million for auto loans, $4.0 million for consumer loans, and $3.3 million for a commercial loan previously reserved. Total delinquency rates and the non-performing loan rate for the fourth quarter of 2022 fell from the third quarter of 2022. Net charge-offs for the fourth quarter of 2021 reflected the decision to sell $65.5 million of past due loans.

Non-interest expenses were $91.6 million compared to $87.5 million in the third quarter of 2022 and $86.5 million in the fourth quarter of 2021. Compared to the third quarter of 2022, the fourth quarter of 2022 reflected higher compensation expense due to hourly salary increases implemented in the previous quarter, increases in year-end performance bonuses, and added technology staffing; increased amortization related to new digital projects; and reduced Hurricane Fiona-related expenses.

Loans held for investment were $6.84 billion at December 31, 2022 compared to $6.68 billion at September 30, 2022 and $6.40 billion at December 31, 2021. Loans increased by 2.3% from September 30, 2022 and 6.8% from December 31, 2021. Compared to the third quarter of 2022, the fourth quarter of 2022 loan growth reflected increased balances of commercial, auto, and consumer loans.

New loan origination was $616.4 million compared to $511.3 million in the third quarter of 2022 and $632.7 million in the fourth quarter of 2021. Compared to the third quarter of 2022, the fourth quarter of 2022 originations increased 20.5%, reflecting strong production of commercial loans in Puerto Rico and the mainland United States, and continued high levels of auto loans at a record $221.4 million.

Total investments of $1.97 billion at December 31, 2022 compared to $2.04 billion at September 30, 2022 and $895.8 million at December 31, 2021. Investments declined by 3.5% from the third quarter of 2022 due to sales of U.S. Treasury securities and paydowns of mortgage-backed securities.

Customer deposits of $8.56 billion at December 31, 2022 compared to $8.84 billion at September 30, 2022 and $8.59 billion at December 31, 2021. Core deposits declined by $286.8 million from September 30, 2022 reflecting lower account balances of approximately $115 million in retail and of $172 million in commercial, including $59 million in public funds.

Total assets of $9.82 billion at December 31, 2022 compared to $10.06 billion at September 30, 2022 and $9.90 billion at December 31, 2021.

Capital: CET1 ratio was 13.64% at December 31, 2022 compared to 13.38% at September 30, 2022 and 13.77% at December 31, 2021. The change from the third quarter of 2022 reflected increased retained earnings and other comprehensive income. Tangible book value per share was $19.56 at December 31, 2022 compared to $18.46 at September 30, 2022 and $19.08 at December 31, 2021.

Year Ended 2022:

EPS diluted was $3.44 for 2022 compared to $2.81 for 2021. Total core revenues were $607.8 million in 2022 compared to $536.6 million in 2021. The fourth quarter of 2022 annual insurance commission recognition of $1.0 million was $1.2 million lower than a year ago due to Hurricane Fiona-related claims.

Selected income statement and balance sheet data and key performance indicators are presented in the tables below:

OFG Bancorp
FINANCIAL OVERVIEW
YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Year Ended December 31,		
	2022	**2021**	**2020**
EARNINGS DATA:	**(In thousands, except per share data)**		
Interest income	$ 515,573	$ 449,199	$ 473,347
Interest expense	33,493	41,829	64,915
Net interest income	**482,080**	**407,370**	**408,432**
Provision for credit losses	24,119	221	92,672
Net interest income after provision for credit losses	**457,961**	**407,149**	**315,760**
Non-interest income	131,690	133,210	124,352
Non-interest expenses	345,546	325,756	345,286
Income before taxes	**244,105**	**214,603**	**94,826**
Income tax expense	77,866	68,452	20,499
Net income	**166,239**	**146,151**	**74,327**
Less: dividends on preferred stock	—	(1,255)	(6,512)
Income available to common shareholders	**$ 166,239**	**$ 144,896**	**$ 67,815**
PER SHARE DATA:			
Basic	**$ 3.46**	**$ 2.85**	**$ 1.32**
Diluted	**$ 3.44**	**$ 2.81**	**$ 1.32**
Average common shares outstanding	**48,033**	**50,956**	**51,358**
Average common shares outstanding and equivalents	**48,436**	**51,370**	**51,555**
Cash dividends declared per common share	**$ 0.70**	**0.40**	**0.28**
Cash dividends declared on common shares	**$ 33,593**	**20,505**	**14,381**
PERFORMANCE RATIOS:			
Return on average assets (ROA)	**1.64 %**	**1.42 %**	**0.77 %**
Return on average tangible common stockholders' equity	**17.98 %**	**15.70 %**	**8.10 %**
Return on average common equity (ROE)	**15.95 %**	**13.80 %**	**6.96 %**
Equity-to-assets ratio	**10.62 %**	**10.80 %**	**11.05 %**
Efficiency ratio	**56.85 %**	**60.70 %**	**66.49 %**
Interest rate spread	**5.02 %**	**4.18 %**	**4.51 %**
Interest rate margin	**5.05 %**	**4.20 %**	**4.55 %**

	December 31,		
	2022	2021	2020
PERIOD END BALANCES AND CAPITAL RATIOS:	**(In thousands, except per share data)**		
Investments and loans			
Investment securities	$ 1,971,522	$ 895,818	$ 458,700
Loans, net	6,723,236	6,329,311	6,501,259
Total investments and loans	**$ 8,694,758**	**$ 7,225,129**	**$ 6,959,959**
Deposits and borrowings			
Deposits	$ 8,568,364	$ 8,603,118	$ 8,415,640
Other borrowings	27,034	64,571	102,351
Total deposits and borrowings	**$ 8,595,398**	**$ 8,667,689**	**$ 8,517,991**
Stockholders' equity			
Preferred stock	$ —	$ —	$ 92,000
Common stock	59,885	59,885	59,885
Additional paid-in capital	636,793	637,061	622,652
Legal surplus	133,901	117,677	103,269
Retained earnings	516,371	399,949	300,096
Treasury stock, at cost	(211,135)	(150,572)	(102,949)
Accumulated other comprehensive (loss) income	(93,409)	5,160	11,022
Total stockholders' equity	**$ 1,042,406**	**$ 1,069,160**	**$ 1,085,975**
Per share data			
Book value per common share	**$ 21.91**	**$ 21.54**	**$ 19.54**
Tangible book value per common share	**$ 19.56**	**$ 19.08**	**$ 16.97**
Market price	**$ 27.56**	**$ 26.56**	**$ 18.54**
Capital ratios			
Leverage capital	**10.36 %**	**9.69 %**	**10.30 %**
Common equity Tier 1 capital	**13.64 %**	**13.77 %**	**13.08 %**
Tier 1 risk-based capital	**13.64 %**	**14.27 %**	**14.78 %**
Total risk-based capital	**14.89 %**	**15.52 %**	**16.04 %**
Financial assets managed			
Trust assets managed	$ 2,334,672	$ 3,758,895	$ 3,476,491
Broker-dealer assets gathered	2,172,116	2,466,004	2,474,234
Total assets managed	**$ 4,506,788**	**$ 6,224,899**	**$ 5,950,725**

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 2022 and 2021.

TABLE 1 - ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Interest		Average rate		Average balance	
	December 2022	December 2021	December 2022	December 2021	December 2022	December 2021
			(Dollars in thousands)			
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 515,573**	**$ 449,199**	**5.40 %**	**4.64 %**	**$ 9,544,055**	**$ 9,688,890**
Tax equivalent adjustment	14,679	9,350	0.15 %	0.10 %	—	—
Interest-earning assets - tax equivalent	**530,252**	**458,549**	**5.55 %**	**4.74 %**	**9,544,055**	**9,688,890**
Interest-bearing liabilities	33,493	41,829	0.38 %	0.46 %	8,902,427	9,043,126
Tax equivalent net interest income / spread	**496,759**	**416,720**	**5.17 %**	**4.28 %**	**641,628**	**645,764**
Tax equivalent interest rate margin			**5.32 %**	**4.38 %**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	40,722	12,180	2.55 %	1.78 %	1,594,662	684,476
Interest bearing cash and money market investments	14,689	3,231	1.14 %	0.13 %	1,291,633	2,466,926
Total investments	**55,411**	**15,411**	**1.92 %**	**0.49 %**	**2,886,295**	**3,151,402**
Non-PCD loans						
Mortgage	36,881	40,270	5.42 %	5.27 %	680,768	764,153
Commercial	138,715	115,684	5.90 %	5.42 %	2,349,114	2,134,805
Consumer	58,181	45,669	11.28 %	11.21 %	515,781	407,403
Auto loans and leases	147,557	136,445	8.17 %	8.45 %	1,805,976	1,614,825
Total Non-PCD loans	**381,334**	**338,068**	**7.13 %**	**6.87 %**	**5,351,639**	**4,921,186**
PCD loans						
Mortgage	66,610	77,252	6.02 %	5.77 %	1,106,708	1,338,062
Commercial	11,112	16,213	5.86 %	6.29 %	189,606	257,820
Consumer	155	238	14.03 %	14.98 %	1,102	1,592
Auto loans and leases	951	2,017	10.94 %	10.71 %	8,705	18,828
Total PCD loans	**78,828**	**95,720**	**6.04 %**	**5.92 %**	**1,306,121**	**1,616,302**
Total loans [1]	**460,162**	**433,788**	**6.91 %**	**6.64 %**	**6,657,760**	**6,537,488**
Total interest-earning assets	**515,573**	**449,199**	**5.40 %**	**4.64 %**	**9,544,055**	**9,688,890**

	Interest		Average rate		Average balance	
	December 2022	December 2021	December 2022	December 2021	December 2022	December 2021
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	11,291	9,179	0.41 %	0.35 %	2,761,653	2,623,358
Savings and money market	6,470	7,149	0.28 %	0.32 %	2,306,607	2,233,824
Time deposits	7,943	15,130	0.69 %	1.01 %	1,143,469	1,499,457
Total core deposits	**25,704**	**31,458**	**0.41 %**	**0.49 %**	**6,211,729**	**6,356,639**
Brokered deposits	35	206	0.30 %	0.80 %	11,366	25,664
	25,739	**31,664**	**0.41 %**	**0.50 %**	**6,223,095**	**6,382,303**
Non-interest bearing deposits	—	—	— %	— %	2,647,871	2,566,924
Fair value premium and core deposit intangible amortizations	6,500	7,350	— %	— %	—	—
Total deposits	**32,239**	**39,014**	**0.36 %**	**0.44 %**	**8,870,966**	**8,949,227**
Borrowings:						
Advances from FHLB and other borrowings	733	1,641	2.67 %	2.84 %	27,497	57,816
Subordinated capital notes	521	1,174	13.15 %	3.25 %	3,964	36,083
Total borrowings	**1,254**	**2,815**	**3.99 %**	**3.00 %**	**31,461**	**93,899**
Total interest-bearing liabilities	**33,493**	**41,829**	**0.38 %**	**0.46 %**	**8,902,427**	**9,043,126**
Net interest income / spread	**$ 482,080**	**$ 407,370**	**5.02 %**	**4.18 %**		
Interest rate margin			**5.05 %**	**4.20 %**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 641,628**	**$ 645,764**
Average interest-earning assets to average interest-bearing liabilities ratio					**107.21 %**	**107.14 %**

(1) Includes loans held for sale and excludes allowance for credit losses. Nonperforming loans are included in the respective average loan balances. Income on these nonperforming loans is generally recognized on a cost recovery basis.

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
		(In thousands)	
Interest Income:			
Investment securities	$ 22,705	$ 5,837	$ 28,542
Interest-bearing cash and money market investments	(2,230)	13,688	11,458
Loans	9,220	17,154	26,374
Total interest income	**29,695**	**36,679**	**66,374**
Interest Expense:			
NOW Accounts	503	1,609	2,112
Savings and money market	227	(906)	(679)
Time deposits	(3,346)	(3,841)	(7,187)
Brokered deposits	(81)	(90)	(171)
Fair value premium and core deposit intangible amortizations	—	(850)	(850)
Advances from FHLB and other borrowings	(814)	(94)	(908)
Subordinated capital notes	(1,765)	1,112	(653)
Total interest expense	**(5,276)**	**(3,060)**	**(8,336)**
Net Interest Income	**$ 34,971**	**$ 39,739**	**$ 74,710**

Net Interest Income

Net interest income is a function of the difference between rates earned on OFG'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). OFG constantly monitors the composition and re-pricing of its assets and liabilities to maintain its net interest income at adequate levels.

Comparison of the years ended December 31, 2022 and 2021

Net interest income of $482.1 million increased by $74.7 million from $407.4 million. Tax equivalent basis net interest income of $496.8 million increased $80.1 million, or 19.2%, from $416.7 million.

Interest rate spread increased by 84 basis points to 5.02% from 4.18% and net interest margin increased 85 basis points to 5.05% from 4.20%. This increase reflects an increase of 76 basis points in the total average yield of interest-earning assets and a reduction in the average cost of interest-bearing liabilities of 8 basis points.

Net interest income was positively impacted by:

- A $28.5 million increase in interest income from investment securities, primarily related to a higher average volume of $910.2 million from purchases of FNMA and FHLMC certificates and US Treasury securities during 2022, which resulted in an increase in interest income of approximately $22.7 million, and higher yield by 77 basis points, which contributed to the increase in net interest income by approximately $5.8 million;

- A $26.4 million increase in interest income from loans driven by: (i) higher interest income from commercial loans of $17.9 million, primarily related to the upward repricing of variable rate commercial loans and increased yields on new loans originated during 2022; (ii) higher interest income from consumer loans of $12.4 million mainly due to an increase in the average balance of this portfolio of $107.9 million; and (iii) higher interest income from auto loans of $10.0 million reflecting higher originations during 2022; partially offset by a decrease of $14.0 million in interest income from mortgage loans due to a reduction of $314.7 million in the average balance of this portfolio;

- A $11.5 million increase in interest income from higher yield in lower balances of interest-bearing cash and money market related to the increase in FRB fund rates during 2022; and

- Lower interest expense by $8.3 million, reflecting a reduction of $140.7 million in the average balances of total deposits and borrowings and a reduction of 8 basis points in total cost of interest-bearing liabilities, which resulted in an increase in net interest income of approximately $5.3 million and $3.1 million, respectively.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Year Ended December 31,		
	2022	2021	Variance %
	(In thousands)		
Banking service revenue	$ 71,161	$ 71,706	(0.8) %
Wealth management revenue	32,635	35,044	(6.9) %
Mortgage banking activities	21,929	22,508	(2.6) %
Total banking and financial service revenue	**125,725**	**129,258**	**(2.7)%**
Net (loss) gain on:			
Sale of securities	(247)	19	(1,400.0) %
Early extinguishment of debt	42	(1,481)	-102.8 %
Other non-interest income	6,170	5,414	14.0 %
Total non-interest income	**$ 131,690**	**$ 133,210**	**(1.1)%**

Non-Interest Income

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

Comparison of the years ended December 31, 2022 and 2021

OFG recorded non-interest income in the amount of $131.7 million, compared to $133.2 million, a decrease of 1.1%, or $1.5 million. The decrease in non-interest income was mainly due to:

- A decrease of $2.4 million in wealth management revenue, primarily related to a $1.4 million decrease in broker-dealer revenues, a $1.3 million decrease in trust division fees from lower balances in assets under management, and a $1.2 million decrease in contingent annual commissions due to Hurricane Fiona-related claims, partially offset by a $1.5 million increase in income from the reinsurance business;

- A decrease of $579 thousand in mortgage-banking activities due to lower net gain on sales of $6.0 million, driven by lower sales volume, offset by an increase of $3.4 million related to higher gain in repurchased loans and higher servicing fees by $1.4 million;

- A decrease of $545 thousand in banking service revenues, primarily related to lower electronic banking charges by $1.3 million reflecting lower debit card interchange fees from lower debit card utilization, lower merchant-related income due to business disruptions caused by Hurricane Fiona during the third quarter of 2022, and lower fees from account analysis services. This decrease was partially offset by increases of $469 thousand in checking and savings account fees and $255 thousand in credit life commissions associated to higher consumer loan production during 2022; and

- A $247 thousand loss associated with the sale of $242.4 million US Treasury securities during 2022.

These decreases were partially offset by:

- The effect in 2021 of a $1.5 million loss recorded for the early termination of $33.3 million in Federal Home Loan Bank advances with an average cost of 2.98%; and

- An increase of $756 thousand in other non-interest income, primarily related to a $4.6 million gain recognized on the sale of a branch building during 2022; partially offset by a $2.4 million warrant revenue and a $1.5 million receivable recoveries written-off in the Scotiabank Acquisition, both recorded during 2021.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Year Ended December 31,		
	2022	2021	Variance %
	(In thousands)		
Compensation and employee benefits	$ 142,930	$ 133,442	7.1 %
Occupancy, equipment and infrastructure costs	51,308	50,158	2.3 %
Electronic banking charges	39,554	37,202	6.3 %
Information technology expenses	21,891	18,965	15.4 %
Professional and service fees	24,842	20,080	23.7 %
Taxes, other than payroll and income taxes	12,999	13,829	-6.0 %
Insurance	9,898	10,092	-1.9 %
Loan servicing and clearing expenses	9,161	7,604	20.5 %
Advertising, business promotion, and strategic initiatives	8,240	6,999	17.7 %
Communication	4,296	4,555	-5.7 %
Printing, postage, stationery and supplies	3,563	4,037	-11.7 %
Director and investor relations	1,125	1,135	-0.9 %
Climate event expenses	1,574	—	100.0 %
Foreclosed real estate and other repossessed assets income, net	(2,074)	(3,007)	31.0 %
Other	16,239	20,665	-21.4 %
Total non-interest expenses	**$ 345,546**	**$ 325,756**	**6.1%**
Relevant ratios and data:			
Efficiency ratio	**56.85 %**	**60.70 %**	
Compensation and benefits to non-interest expense	**41.36 %**	**40.96 %**	
Compensation to average total assets owned	**1.41 %**	**1.29 %**	
Number of employees end of year	**2,253**	**2,269**	
Average number of employees	**2,249**	**2,251**	
Average compensation per employee (in thousands)	**$ 63.55**	**$ 59.28**	
Average loans per average employee	**$ 2,960**	**$ 2,904**	

Non-Interest Expenses

Comparison of the years ended December 31, 2022 and 2021

Non-interest expense was $345.5 million, representing an increase of 6.1%, or $19.8 million, compared to $325.8 million. The increase in non-interest expenses was mainly due to:

- Increase in compensation and employee benefits of $9.5 million, primarily related to a one-time $1.3 million pandemic employee tax credit in the prior year, increases in minimum hourly wages and annual salaries in the current year, higher provision for bonuses and added technology staffing as part of OFG's "Digital First" strategy;

- Increase in professional and service fees expenses of $4.8 million, reflecting higher balances in compliance related expenses due to greater levels of business activity and supervisory examination fees by $4.6 million and $1.1 million, respectively, partially offset by lower balances in legal expenses related to residential mortgage loan servicing by $792 thousand;

- Increase of $2.9 million in information technology expenses driven by higher cloud computing expenses, cyber security expenses and new digital projects;

- Increase in electronic banking charges of $2.4 million mainly due to increases of $1.1 million in debit and credit card billing fees, $820 thousand in point-of-sale ("POS") and merchant-related fees, and $458 thousand in ATM/ Interactive Teller Machines ("ITMs")-related expenses due to higher transaction volume and new ITMs in 2022;

- Increase in climate event expenses of $1.6 million related to expenses incurred by OFG to operate in disaster response mode and provide assistance to employees and the communities it serves after Hurricane Fiona in 2022;
- Increase of $1.6 million in loan servicing and clearing expenses, including the impact of $750 thousand related to the termination of a mortgage servicing contract for loans in portfolio with an unpaid principal balance of $473.7 million;
- Increase of $1.2 million in advertising, business promotion, and strategic initiatives driven by increase marketing campaigns and digital marketing efforts made during 2022;
- Increase in occupancy, equipment and infrastructure costs by $1.2 million reflecting higher balances in depreciation and amortization expenses due to new digital projects placed in production during 2022 and software maintenance expenses, partially offset by lower internet service expenses and rent expenses related to branch consolidations;
- Lower foreclosed real estate and other repossessed assets income of $933 thousand reflecting lower gain on sales of foreclosed and other repossessed assets, partially offset by lower credit-related expenses; and
- Increase in charitable contributions of $572 thousand.

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

- Decrease in claims and settlement accruals of $3.1 million in the broker-dealer subsidiary;
- Decrease of $3.1 million in COVID-19-related expenses; and
- Decrease in taxes, other than payroll and income taxes by $830 thousand reflecting lower balances in license tax expenses and property and municipal taxes, as a result of changes in tax law.

The efficiency ratio was 56.85% and improved from 60.70%. The efficiency ratio measures how much of OFG's revenues is used to pay operating expenses. OFG 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, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation for 2022 and 2021 amounted to $6.0 million and $4.0 million, respectively.

Provision for Credit Losses

Comparison of the years ended December 31, 2022 and 2021

Provision for credit losses increased $23.9 million to $24.1 million from $221 thousand. The provision for credit losses for 2022 reflected a provision of $25.9 million related to the growth in loan balances, a provision of $11.8 million related to commercial-specific loan reserves due to certain commercial loans placed in non-accrual status, and a provision of $1.9 million for changes in the economic and loss rate models, offset by a $15.2 million release associated with qualitative adjustment due to improvement in the performance of the portfolios and in Puerto Rico's labor market and $288 thousand release in other miscellaneous reserves. The provision for credit losses for 2021 reflected improvements in macro-economic scenarios and continued improvement in asset quality trends, partially offset by an additional expense of $9.7 million related to the decision to sell $65.5 million of past due loans.

Income Tax Expense

Comparison of the years ended December 31, 2022 and 2021

Income tax expense increased $9.4 million to $77.9 million from $68.5 million. The income tax expense for 2022 reflects greater income before taxes, increase in foreign tax withholding due to higher income from U.S. Bank subsidiary subject to lower tax rate and lower net exempt income.

Refer to "Note 18 - Income Taxes" to the consolidated financial statements for additional information on the income tax expense.

TABLE 4 - BUSINESS SEGMENTS

	Year Ended December 31, 2022					
	Banking	Wealth Management	Treasury	Total	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 465,177	$ 21	$ 56,955	$ 522,153	$ (6,580)	**$ 515,573**
Interest expense	(31,926)	—	(8,147)	(40,073)	6,580	**(33,493)**
Net interest income	433,251	21	48,808	482,080	—	**482,080**
Provision for credit losses	24,111	—	8	24,119	—	**24,119**
Non-interest income	98,407	33,481	(198)	131,690	—	**131,690**
Non-interest expenses	(323,125)	(19,206)	(3,215)	(345,546)	—	**(345,546)**
Intersegment revenue	2,187	—	—	2,187	(2,187)	**—**
Intersegment expenses	—	(1,497)	(690)	(2,187)	2,187	**—**
Income before income taxes	$ 186,609	$ 12,799	$ 44,697	$ 244,105	$ —	**$ 244,105**
Income tax expense	77,731	97	38	77,866	—	**77,866**
Net income	**$ 108,878**	**$ 12,702**	**$ 44,659**	**$ 166,239**	**$ —**	**$ 166,239**
Total assets	**$ 8,347,767**	**$ 23,085**	**$2,432,549**	**$ 10,803,401**	**$ (984,621)**	**$ 9,818,780**

Eliminations include interest income and expense for a borrowing by Oriental Overseas, which is included in the Treasury Segment with its corresponding interest expense, to fund its operations, from the Bank, which is included in the Banking Segment with its corresponding interest income, with an unpaid principal balance of $470.2 million and $262.9 million at December 31, 2022 and 2021, respectively, and is eliminated in the consolidation. Interest income is accrued on the unpaid principal balance. The increase in interest income and interest expense from previous year was mainly as a result of FRB interest rate increases and higher average borrowing balance.

	Year Ended December 31, 2021					
	Banking	Wealth Management	Treasury	Total	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 432,375	$ 30	$ 17,072	$ 449,477	$ (278)	**$ 449,199**
Interest expense	(38,711)	—	(3,396)	(42,107)	278	**(41,829)**
Net interest income	393,664	30	13,676	407,370	—	**407,370**
Provision for (recapture of) credit losses	1,342	—	(1,121)	221	—	**221**
Non-interest income	98,950	35,625	(1,365)	133,210	—	**133,210**
Non-interest expenses	(300,568)	(20,941)	(4,247)	(325,756)	—	**(325,756)**
Intersegment revenue	2,355	—	—	2,355	(2,355)	**—**
Intersegment expenses	—	(1,269)	(1,086)	(2,355)	2,355	**—**
Income before income taxes	$ 193,059	$ 13,445	$ 8,099	$ 214,603	$ —	**$ 214,603**
Income tax expense	68,409	—	43	68,452	—	**68,452**
Net income	**$ 124,650**	**$ 13,445**	**$ 8,056**	**$ 146,151**	**$ —**	**$ 146,151**
Total assets	**$ 8,041,725**	**$ 32,082**	**$2,894,612**	**$ 10,968,419**	**$ (1,068,699)**	**$ 9,899,720**

Business Segments

OFG segregates its businesses into the following 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 OFG's organization, nature of its products, distribution channels and economic characteristics of its services were also considered in the determination of the reportable segments. OFG 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. OFG'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 2022 and 2021.

Comparison of years ended December 31, 2022 and 2021

Banking

OFG's banking segment net income before taxes decreased by $6.5 million from $193.1 million to $186.6 million, mainly reflecting:

- Increase in provision for credit losses by $22.8 million. The provision for credit losses for 2022 increased mainly as a result of growth in loan balances and commercial-specific loan reserves due to certain commercial loans placed in non-accrual status. The provision for credit losses for 2021 reflected improvements in macro-economic scenarios and continued improvement in asset quality trends as the Covid-19 pandemic conditions improved.

- Increase in non-interest expenses by $22.6 million, mainly due to higher compensation and employee benefits by $9.8 million from salary increases and added technology staffing, higher compliance related professional expenses and electronic banking charges by $4.7 million and $2.4 million, respectively, due to greater levels of business activity, as well as $2.8 million higher technology expenses related to digital transformation, and $1.6 million in climate event expenses from Hurricane Fiona.

The decreases in the banking segment's net income were partially offset by:

- Increase of $32.8 million in interest income from loans, driven by increased yields on higher loan balances; and

- Lower interest expense on deposits by $6.8 million, mainly related to both, lower average balances and reduced costs of core deposits.

Wealth Management

Wealth management segment revenue consists of commissions and fees from fiduciary activities, securities brokerage and insurance activities. Net income before taxes from this segment decreased by $646 thousand reflecting a decrease of $1.4 million in broker-dealer revenues, a $1.3 million decrease in trust division fees from lower balances in assets under management, and a $1.2 million decrease in contingent commissions due to Hurricane Fiona-related claims, partially offset by a $1.5 million increase in income from the reinsurance business and lower claims and settlement expenses by $1.7 million.

Treasury

Treasury segment net income before taxes increased by $36.6 million, mainly reflecting:

- Increase in interest income by $39.9 million, reflecting the purchase of agency mortgage-backed securities and U.S. Treasury securities during the current year and higher yield in lower balances of interest-bearing cash and money market investments related to the increase in federal fund rates; and

- Increase in interest expense by $4.8 million, reflecting higher expense in inter-segment borrowing by $6.2 million as a result of higher average balance and federal funds rate increases during 2022, offset by the cancellation of $33.1 million of FHLB advances during 2021 and the early redemption of $36.1 million subordinated capital notes during 2022.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At December 31, 2022, OFG's total assets amounted to $9.819 billion, a decrease of $80.9 million, when compared to $9.900 billion at December 31, 2021.

The investment portfolio increased by $1.076 billion, or 120.1%, primarily related to purchases of available-for-sale agency mortgage-backed securities and US Treasury securities with face value amounting to $843 million and $550 million, respectively, and held-to-maturity US Treasury securities with face value amounting to $200 million during 2022. This increase was partially offset by the sale of available-for-sale US Treasury securities amounting to $242.4 million, net of discounts. OFG's strategy is to invest its liquidity in highly liquid securities and designate them as available-for-sale or held-to-maturity after taking into account the investment's characteristics with respect to yield and term and the current market environment.

OFG's loan portfolio is comprised of residential mortgage loans, commercial loans secured by real estate, other commercial and industrial loans, consumer loans, and auto loans and leases. At December 31, 2022, OFG's net loan portfolio increased by $393.9 million, or 6.2%, reflecting increases in auto, commercial and consumer loans, partially offset by $84.4 million PPP loans forgiven by the Small Business Administration and the sale of loans held for sale amounting to $25.2 million, including $21.9 million of past due mortgage loans and a $3.3 million commercial loan.

Cash and due from banks of $546.1 million decreased by $1.468 billion, reflecting cash used to purchase agency mortgage-backed securities and US Treasury securities, disbursements for loans originated during 2022, the redemption of $36.1 million in 3.23% variable rate subordinated notes, and lower deposit account balances for commercial and retail accounts.

Financial Assets Managed

At December 31, 2022 OFG's financial assets include those managed by OFG's trust division and assets gathered by its securities broker-dealer and insurance agency subsidiaries. OFG's trust division offers various types of individual retirement accounts ("IRAs") and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts. At December 31, 2022, the total assets managed by OFG's trust division amounted to $2.335 billion. At December 31, 2021 the total assets managed by OFG's trust division and retirement plan administration subsidiary amounted to $3.759 billion. This decrease reflects the sale of the retirement plan administration business managed by OPC during 2022. OFG's broker-dealer subsidiary offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At December 31, 2022, total assets gathered by the securities broker-dealer and insurance agency subsidiaries from their customers' investment accounts amounted to $2.172 billion, compared to $2.466 billion at December 31, 2021. Changes in trust and broker-dealer related assets also reflect changes in portfolio balances and differences in market value resulting from the increase in interest rates.

Goodwill

OFG's goodwill 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, OFG determines that the existence of events and circumstances indicates that it is more likely than not that goodwill is not impaired. OFG completes its annual goodwill impairment test as of October 31 of each year. OFG 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.

As of December 31, 2022, OFG had $84.2 million of goodwill allocated as follows: $84.1 million to the banking segment and $0.1 million to the wealth management segment. As of December 31, 2021, OFG had $86.1 million of goodwill allocated as follows: $84.1 million to the banking segment and $2.0 million to the wealth management segment. On December 30, 2022, OFG sold its retirement plan administration business, which resulted in a decrease in goodwill by $1.8 million. This goodwill was allocated to the wealth management segment. Please refer to "Note 12 – Goodwill and other intangibles" to our consolidated financial statements for more information on the annual goodwill impairment test.

TABLE 5 - ASSETS SUMMARY AND COMPOSITION

	December 31,		Variance
	2022	2021	%
	(In thousands)		
Investments:			
FNMA and FHLMC certificates	$ 1,105,551	$ 550,809	100.7 %
Obligations of US government-sponsored agencies	—	1,183	-100.0 %
US Treasury securities	506,768	10,825	4,581.5 %
CMOs issued by US government-sponsored agencies	14,851	24,430	-39.2 %
GNMA certificates	319,534	288,578	10.7 %
Equity securities	23,667	17,578	34.6 %
Other debt securities	1,142	2,395	-52.3 %
Trading securities	9	20	-55.0 %
Total investments	**1,971,522**	**895,818**	**120.1%**
Loans, net	**6,723,236**	**6,329,311**	**6.2%**
Total investments and loans	**8,694,758**	**7,225,129**	**20.3%**
Other assets:			
Cash and due from banks (including restricted cash)	546,303	2,014,698	-72.9 %
Money market investments	4,161	8,952	-53.5 %
Foreclosed real estate	11,214	15,039	-25.4 %
Accrued interest receivable	62,402	56,560	10.3 %
Deferred tax asset, net	55,485	99,063	-44.0 %
Premises and equipment, net	106,820	92,124	16.0 %
Servicing assets	50,921	48,973	4.0 %
Goodwill	84,241	86,069	-2.1 %
Other intangible assets	27,593	36,093	-23.6 %
Right of use assets	25,363	28,846	-12.1 %
Other assets and customers' liability on acceptances	149,519	188,174	-20.5 %
Total other assets	**1,124,022**	**2,674,591**	**-58.0%**
Total assets	**$ 9,818,780**	**$ 9,899,720**	**-0.8%**
Investment portfolio composition:			
FNMA and FHLMC certificates	56.0 %	61.5 %	
Obligations of US government-sponsored agencies	0.0 %	0.1 %	
US Treasury securities	25.7 %	1.2 %	
CMOs issued by US government-sponsored agencies	0.8 %	2.7 %	
GNMA certificates	16.2 %	32.2 %	
Equity securities	1.2 %	2.0 %	
Other debt securities and trading securities	0.1 %	0.3 %	
	100.0%	**100.0%**	

TABLE 6 - LOAN PORTFOLIO COMPOSITION

	December 31, 2022	December 31, 2021	Variance %
	(In thousands)		
Loans held for investment:			
Commercial	$ 2,629,929	$ 2,379,330	10.5 %
Mortgage	1,704,221	1,907,271	(10.6) %
Consumer	537,257	409,675	31.1 %
Auto loans and leases	1,963,915	1,706,310	15.1 %
	6,835,322	**6,402,586**	**6.8 %**
Allowance for credit losses	(152,673)	(155,937)	(2.1) %
Total loans held for investment	6,682,649	6,246,649	7.0 %
Mortgage loans held for sale	19,499	51,096	(61.8) %
Other loans held for sale	21,088	31,566	(33.2) %
Total loans, net	**$ 6,723,236**	**$ 6,329,311**	**6.2 %**

OFG's loan portfolio is composed of mortgage, commercial, consumer, and auto loans and leases. As shown in Table 6 above, total loans, net, amounted to $6.723 billion at December 31, 2022 and $6.329 billion at December 31, 2021. OFG's loans held-for-investment portfolio composition and trends were as follows:

- Commercial loan portfolio amounted to $2.630 billion (38.5% of the gross loan portfolio) compared to $2.379 billion (37.2% of the gross loan portfolio) at December 31, 2021.

  Commercial loan production, excluding PPP loans, decreased by 3.7%, or $38.1 million, to $990.3 million in 2022 from $1.028 billion in 2021.

  During 2021, OFG originated $159.0 million of PPP loans. There were no originations of PPP loans during 2022, as the program concluded in 2021.

- Mortgage loan portfolio amounted to $1.704 billion (24.9% of the gross loan portfolio) compared to $1.907 billion (29.8% of the gross originated loan portfolio) at December 31, 2021. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $32.6 million and $14.5 million at December 31, 2022 and December 31, 2021, respectively. Under the GNMA program, issuers such as OFG have the option but not the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected (rebooked) on our financial statements with an offsetting liability.

  Mortgage loan production totaled $200.9 million in 2022, which represents a decrease of 44.8% from $364.2 million in 2021. The housing market in Puerto Rico has been greatly impacted by the FRB interest rate increases during 2022, in contrast with 2021 where there was a sudden increase in housing originations as a result of higher liquidity from government funding from Hurricane Maria, earthquakes and Covid-19 pandemic in the Puerto Rico economy combined with low interest rates.

  OFG 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, OFG has never been active in negative amortization loans or offered adjustable-rate mortgage loans with teaser rates.

- Consumer loan portfolio amounted to $537.3 million (7.9% of the gross loan portfolio) compared to $409.7 million (6.4% of the gross loan portfolio) at December 31, 2021. Consumer loan production increased 69.8% to $334.2 million in 2022 from $196.8 million in 2021.

- Auto loans and leasing portfolio amounted to $1.964 billion (28.7% of the gross loan portfolio) compared to $1.706 billion (26.6% of the gross originated loan portfolio) at December 31, 2021. Auto loans production increased by 26.6% to $812.6 million in 2022 compared to $641.7 million in 2021.

The following table presents the loans held for investment portfolio as of December 31, 2022 by maturities and interest rates:

TABLE 7 - MATURITY DISTRIBUTION OF LOANS HELD FOR INVESTMENT

		Maturities							
			After One to Five Years		After Five Years To 15 Years		After 15 Years		
	Balance Outstanding at December 31, 2022	One Year or Less	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates	Variable Interest Rates
			(In thousands)					
Non-PCD								
Mortgage	$ 675,793	$ 21,991	$ 7,472	$ 320	$ 226,492	$ 851	$ 405,314	$ 13,353
Commercial	2,470,777	638,415	668,384	713,888	174,736	211,581	35,099	28,674
Consumer	536,619	68,638	248,271	—	201,070	—	18,640	—
Auto loans and leases	1,958,257	35,051	923,838	—	999,368	—	—	—
Total	**$ 5,641,446**	**$ 764,095**	**$ 1,847,965**	**$ 714,208**	**$ 1,601,666**	**$ 212,432**	**$ 459,053**	**$ 42,027**
PCD								
Mortgage	$ 1,028,428	$ 4,002	$ 13,788	$ 405	$ 414,364	$ 772	$ 581,566	$ 13,531
Commercial	159,152	44,607	96,252	5,004	955	12,251	83	—
Consumer	638	325	41	—	2	—	270	—
Auto loans and leases	5,658	1,498	4,084	—	76	—	—	—
Total	**$ 1,193,876**	**$ 50,432**	**$ 114,165**	**$ 5,409**	**$ 415,397**	**$ 13,023**	**$ 581,919**	**$ 13,531**
Total loans	**$ 6,835,322**	**$ 814,527**	**$ 1,962,130**	**$ 719,617**	**$ 2,017,063**	**$ 225,455**	**$ 1,040,972**	**$ 55,558**

The following table includes the maturities of OFG's lending exposure to the Puerto Rico government amounting to $73.7 million, which is limited solely to loans to municipalities secured by ad valorem property taxes, 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. Deposits from the Puerto Rico government totaled $284.2 million at December 31, 2022.

TABLE 8 - PUERTO RICO GOVERNMENT RELATED LOANS

December 31, 2022				
		Maturity		
	Carrying Value	Less than 1 Year	1 to 3 Years	More than 3 Years
Loans:	(In thousands)			
Municipalities	$ 73,686	$ 8,460	$ 24,157	$ 41,069

At December 31, 2022, OFG has $73.7 million of direct credit exposure to the Puerto Rico government, a $13.6 million decrease from December 31, 2021. At December 31, 2021, total loan exposure to the Puerto Rico government included a $1.1 million PCD loan granted to a public corporation classified as non-accrual, which was repaid during 2022.

Credit Risk Management

Allowance for Credit Losses

OFG measures its allowance for credit losses based on management's best estimate of future expected credit losses inherent in OFG's relevant financial assets.

Tables 9 through 12 set forth an analysis of activity in the allowance for credit losses and present selected credit loss statistics for 2022 and 2021 and as of December 31, 2022 and December 31, 2021. In addition, Table 6 sets forth the composition of the loan portfolio.

Please refer to the "Provision for Credit Losses" and "Critical Accounting Policies and Estimates" sections in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this annual report on Form 10-K and "Note 7 – Allowance for Credit Losses" of the accompanying consolidated financial statements for a more detailed analysis of provisions and allowance for credit losses.

Non-performing Assets

OFG's non-performing assets include non-performing loans, foreclosed real estate, and other repossessed assets (see Tables 13 and 15). At December 31, 2022, OFG had $89.6 million of non-accrual loans held for investment, including $9.2 million PCD loans, compared to $101.9 million at December 31, 2021, reflecting decreases of $6.8 million, $6.1 million and $216 thousand in commercial, mortgage and auto loan portfolios, respectively, partially offset by an increase of $825 thousand in the consumer loan portfolio. At December 31, 2022 and 2021, total commercial non-accrual loans excludes $16.4 million and $9.9 million, respectively, of non-accrual commercial loans held for sale.

At December 31, 2022 and December 31, 2021, loans whose terms have been extended and which were classified as troubled-debt restructurings that were not included in non-accrual loans amounted to $145.2 million and $125.9 million, respectively, as they were performing under their modified terms.

Delinquent residential mortgage loans insured or guaranteed under applicable Federal Housing Administration ("FHA") and United States Department of Veterans Affairs ("VA") programs are classified as non-performing loans when they become 90 days or more past due but are not placed in non-accrual status until they become 12 months or more past due, since they are insured loans. Therefore, those loans are included as non-performing loans but excluded from non-accrual loans.

At December 31, 2022, OFG's non-performing assets decreased by 10.3% to $115.7 million (1.18% total assets) from $129.0 million (1.30% of total assets) at December 31, 2021.

Foreclosed real estate decreased from $15.0 million at December 31, 2021 to $11.2 million at December 31, 2022 and other repossessed assets increased from $1.9 million at December 31, 2021 to $4.6 million at December 31, 2022, both recorded at fair value. OFG does not expect non-performing loans to result in significantly higher losses. At December 31, 2022, the allowance coverage ratio to non-performing loans was 152.9% (139.2% at December 31, 2021).

Upon adoption of the current expected credit losses ("CECL") methodology, OFG elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. As such, for PCD loans the determination of nonaccrual or accrual status is made at the pool level, not the individual loan level. Upon adoption of CECL, the allowance for credit losses was determined for each pool and added to the pool's carrying amount to establish a new amortized cost basis. The difference between the unpaid principal balance of the pool and the new amortized cost basis is the non-credit premium or discount which will be amortized interest income over the remaining life of the pool. On a quarterly basis, management will monitor the composition and behavior of the pools to assess the ability for cash flow estimation and timing. If based on the analysis performed the pool is classified as non-accrual, the accretion/amortization of the non-credit (discount) premium will cease.

The following items comprise non-performing loans held for investment, including Non-PCD and PCDs:

Commercial loans - At December 31, 2022, OFG's non-performing commercial loans amounted to $43.4 million (43.4% of OFG's non-performing loans), a 13.5% decrease from $50.1 million at December 31, 2021 (44.8% of OFG's non-performing loans). Non-PCD 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.

Mortgage loans - At December 31, 2022, OFG's non-performing mortgage loans totaled $33.8 million (33.8% of OFG's non-performing loans), a 15.0% decrease from $39.7 million (35.5% of OFG's non-performing loans) at December 31, 2021. During 2022, OFG sold $21.9 million of past due mortgage loans, $4.0 million were included as non-performing assets at December 31, 2021. Non-PCD mortgage loans are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 12 months or more past due.

Consumer loans - At December 31, 2022, OFG's non-performing consumer loans amounted to $3.1 million (3.1% of OFG's non-performing loans), an 35.8% increase from $2.3 million at December 31, 2021 (2.1% of OFG's non-performing loans), which reflect higher balances in the portfolio. Non-PCD 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.

Auto loans and leasing - At December 31, 2022, OFG's non-performing auto loans and leases amounted to $19.6 million (19.7% of OFG's total non-performing loans), a decrease of 1.1% from $19.8 million at December 31, 2021 (17.6% of OFG's total non-performing loans), which reflect higher balances in the portfolio. Non-PCD 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.

OFG has two mortgage loan modification programs. These are the Loss Mitigation Program and the Non-Conforming Mortgage Loan Program. Both programs are intended to help responsible homeowners to remain in their homes and avoid foreclosure, while also reducing OFG'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, USDA Rural Development (RURAL), Puerto Rico Housing Finance Authority (PRHFA), conventional loans guaranteed by Mortgage Guaranty Insurance Corporation (MGIC), conventional loans sold to FNMA and FHLMC, and conventional loans retained by OFG. The program offers diversified alternatives such as regular or reduced payment plans, payment moratorium, mortgage loan modification, partial claims (only FHA), short sale, and deed in lieu of foreclosure.

The Non-Conforming Mortgage Loan Program is for non-conforming mortgages, including balloon payment, interest-only/interest first, variable interest rate, adjustable interest rate and other qualified loans. Non-conforming mortgage loan portfolios are segregated into the following categories: performing loans that meet secondary market requirement and are refinanced under the credit underwriting guidelines of FHA/VA/FNMA/ FHLMC, and performing loans not meeting secondary market guidelines processed pursuant OFG's current credit and underwriting guidelines. OFG 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 our loan modification programs, if the borrower is active in Chapter 13 bankruptcy, it must request an authorization from the bankruptcy trustee to allow for the loan modification. Borrowers with discharged Chapter 7 bankruptcies may also apply. Loans in these programs are evaluated by designated credit underwriters for troubled-debt restructuring classification if OFG grants a concession for legal or economic reasons due to the debtor's financial difficulties.

As a result of the effects of Hurricane Fiona and Puerto Rico being declared a disaster zone by local and federal authorities during 2022, OFG granted loan payment accommodations to certain qualified borrowers in order to provide them with flexibility to address the hurricane's immediate impact. In addition, for its business banking segment, OFG granted loans up to $50,000 with three months of interest-only payments followed by up to thirty-three payments of principal and interest. At December 31, 2022, the total loans outstanding under the payment accommodations program amounted to $33.1 million.

TABLE 9 - ALLOWANCE FOR CREDIT LOSSES BREAKDOWN

	December 31, 2022	December 31, 2021	Variance %
	(In thousands)		
Allowance for credit losses:			
Non-PCD			
Commercial	$ 39,158	$ 32,262	21.4 %
Mortgage	9,571	15,299	-37.4 %
Consumer	23,264	19,141	21.5 %
Auto loans and leases	69,848	65,363	6.9 %
Total allowance for credit losses	**$ 141,841**	**$ 132,065**	**7.4%**
PCD			
Commercial	$ 1,388	$ 4,508	-69.2 %
Mortgage	9,359	19,018	-50.8 %
Consumer	14	34	-58.8 %
Auto loans and leases	71	312	-77.2 %
Total allowance for credit losses	**$ 10,832**	**$ 23,872**	**-54.6%**
Allowance for credit losses summary			
Commercial	$ 40,546	$ 36,770	10.3 %
Mortgage	18,930	34,317	-44.8 %
Consumer	23,278	19,175	21.4 %
Auto loans and leases	69,919	65,675	6.5 %
Total allowance for credit losses	**$ 152,673**	**$ 155,937**	**-2.1%**
Allowance composition:			
Commercial	26.6 %	23.6 %	
Mortgage	12.4 %	22.0 %	
Consumer	15.2 %	12.3 %	
Auto loans and leases	45.8 %	42.1 %	
	100.0 %	**100.0 %**	
Allowance coverage ratio at end of year:			
Commercial	1.5 %	1.6 %	-0.6 %
Mortgage	1.1 %	1.8 %	-38.3 %
Consumer	4.3 %	4.7 %	-7.5 %
Auto loans and leases	3.6 %	3.9 %	-7.5 %
	2.2 %	**2.4 %**	**-8.6%**
Allowance coverage ratio to non-performing loans:			
Commercial	93.5 %	73.3 %	27.5 %
Mortgage	56.1 %	86.4 %	-35.1 %
Consumer	744.2 %	832.6 %	-10.6 %
Auto loans and leases	356.5 %	331.2 %	7.6 %
	152.9 %	**139.2 %**	**9.8%**

TABLE 10 - ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES

	December 31,			
	2022		2021	
	Amount of ACL	Percent of loans in each category of total loans [1]	Amount of ACL	Percent of loans in each category of total loans [1]
Commercial	$ 40,546	38.5 %	$ 36,770	37.2 %
Mortgage	18,930	24.9 %	34,317	29.8 %
Consumer	23,278	7.9 %	19,175	6.4 %
Auto loans and leases	69,919	28.7 %	65,675	26.6 %
Total	**$ 152,673**	**100.0 %**	**$ 155,937**	**100.0 %**

[1] Total loans in this table refers to total loans held for investment.

TABLE 11 - ALLOWANCE FOR CREDIT LOSSES SUMMARY

	Year Ended December 31,		
	2022	2021	Variance %
	(Dollars in thousands)		
Allowance for credit losses:			
Balance at beginning of year	$ 155,937	$ 204,809	-23.9 %
Provision for credit losses	24,408	883	2,664.2 %
Charge-offs	(63,774)	(86,546)	-26.3 %
Recoveries	36,102	36,791	-1.9 %
Balance at end of year	**$ 152,673**	**$ 155,937**	**-2.1%**

TABLE 12 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES

	Year Ended December 31,		
	2022	2021	Variance %
	(Dollars in thousands)		
Non-PCD			
Mortgage			
Charge-offs	$ (284)	$ (5,789)	-95.1 %
Recoveries	3,314	1,643	101.7 %
Total	**3,030**	**(4,146)**	**-173.1 %**
Commercial			
Charge-offs	(13,380)	(8,788)	52.3 %
Recoveries	1,200	2,401	-50.0 %
Total	**(12,180)**	**(6,387)**	**90.7 %**
Consumer			
Charge-offs	(15,198)	(11,880)	27.9 %
Recoveries	3,237	2,900	11.6 %
Total	**(11,961)**	**(8,980)**	**33.2 %**
Auto loans and leases			
Charge-offs	(32,662)	(26,530)	23.1 %
Recoveries	21,131	23,970	-11.8 %
Total	**(11,531)**	**(2,560)**	**350.4 %**
PCD Loans:			
Mortgage			
Charge-offs	$ (1,695)	$ (20,350)	(91.7)%
Recoveries	2,665	1,423	87.3 %
Total	**970**	**(18,927)**	**(105.1)%**
Commercial			
Charge-offs	(69)	(12,241)	(99.4)%
Recoveries	3,804	2,929	29.9 %
Total	**3,735**	**(9,312)**	**(140.1)%**
Consumer			
Charge-offs	(176)	(22)	700.0 %
Recoveries	94	316	(70.3)%
Total	**(82)**	**294**	**(127.9)%**
Auto loans and leases			
Charge-offs	(310)	(946)	(67.2)%
Recoveries	657	1,209	(45.7)%
Total	**347**	**263**	**31.9 %**
Total charge-offs	(63,774)	(86,546)	(26.3)%
Total recoveries	36,102	36,791	(1.9)%
Net credit losses	**$ (27,672)**	**$ (49,755)**	**(44.4)%**

TABLE 12 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES (CONTINUED)

	Year Ended December 31,		
	2022	**2021**	**Variance %**
	(Dollars in thousands)		
Net credit losses to average loans outstanding:			
Mortgage	(0.22) %	1.10 %	-120.39 %
Commercial	0.33 %	0.66 %	-49.3%
Consumer	2.33 %	2.12 %	9.7%
Auto loans and leases	0.62 %	0.14 %	338.3%
Total	**0.42 %**	**0.76 %**	**-45.4%**
Recoveries to charge-offs	**56.61 %**	**42.51 %**	**33.2%**
Average Loans Held for Investment			
Mortgage	$ 1,787,476	$ 2,102,215	-15.0 %
Commercial	2,538,720	2,392,625	6.1 %
Consumer	516,883	408,995	26.4 %
Auto loans and leases	1,814,681	1,633,653	11.1 %
Total	**$ 6,657,760**	**$ 6,537,488**	**1.8%**

Net charge-offs for 2022 amounted to $27.7 million, decreasing $22.1 million when compared to $49.8 million in 2021. Net charge-offs variances were as follows:

Residential mortgage loans net recoveries amounted to $4.0 million in 2022, decreasing $27.1 million when compared to net charge-offs of $23.1 million in 2021. The change reflects the effect in 2021 of charge-offs amounting to $30.1 million associated with OFG's decision to sell past due mortgage loans during the fourth quarter of 2021 and recoveries of $1.1 million associated with the final settlement, during the first quarter of 2022, of the aforementioned transfer of loans to held for sale.

Commercial loans net charge-offs amounted to $8.4 million in 2022, decreasing $7.3 million when compared to net charge-offs of $15.7 million in 2021. The 2022 net charge-offs included $12.3 million charge-offs previously reserved for four commercial loans, two of them were sold during 2022. In addition, the 2022 net charge-offs included a $2.8 million recovery from a Puerto Rico government public corporation PCD commercial loan repaid during the first quarter of 2022.

Consumer loans net charge-offs amounted to $12.0 million in 2022, increasing $3.4 million when compared to net charge-offs of $8.7 million in 2021. The increase in net-charge offs during 2022 was driven by an increase in business volumes and change in the delinquency trend. During 2021, borrowers received several federal incentives which facilitated the stabilization of delinquency trends.

Auto loans net charge-offs amounted to $11.2 million, increasing $8.9 million when compared to $2.3 million for 2021. The increase in net-charge offs during 2022 was driven by an increase in business volumes and the stabilization of delinquency trends. During 2021, borrowers received several federal incentives which facilitated the stabilization of delinquency trends

TABLE 13 — NON-PERFORMING ASSETS

	December 31, 2022	December 31, 2021	Variance %
	(Dollars in thousands)		
Non-performing assets:			
Non-PCD			
Non-accruing loans			
Troubled-Debt Restructuring loans	$ 20,329	$ 24,539	-17.2 %
Other loans	60,083	64,465	-6.8 %
Accruing loans			
Troubled-Debt Restructuring loans	8,978	9,087	-1.2 %
Other loans	1,295	1,038	24.8 %
Total	$ 90,685	$ 99,129	-8.5 %
PCD	9,186	12,879	-28.7 %
Total non-performing loans	$ 99,871	$ 112,008	-10.8 %
Foreclosed real estate	11,214	15,039	-25.4 %
Other repossessed assets	4,617	1,945	137.4 %
	$ 115,702	**$ 128,992**	**-10.3%**
Non-performing assets to total assets	**1.18 %**	**1.30 %**	**-9.2%**
Non-performing assets to total capital	**11.10 %**	**12.06 %**	**-8.0%**

TABLE 14 — NON-ACCRUAL LOANS

	December 31, 2022	December 31, 2021	Variance %
	(Dollars in thousands)		
Non-accrual loans			
Non-PCD			
Commercial	$ 34,432	$ 37,603	-8.4 %
Mortgage	23,241	29,269	-20.6 %
Consumer	3,128	2,303	35.8 %
Auto loans and leases	19,613	19,829	-1.1 %
Total	**$ 80,414**	**$ 89,004**	**-9.7%**
PCD			
Commercial	**$ 8,927**	$ 12,545	-28.8 %
Mortgage	**259**	334	-22.5 %
Total	**$ 9,186**	**$ 12,879**	**-28.7%**
Total non-accrual loans	**$ 89,600**	**$ 101,883**	**-12.1%**
Non-accruals loans composition percentages:			
Commercial	48.4 %	49.2 %	
Mortgage	26.2 %	29.1 %	
Consumer	3.5 %	2.3 %	
Auto loans and leases	21.9 %	19.4 %	
	100.0 %	**100.0 %**	
Non-accrual loans ratios:			
Non-accrual loans to total loans	**1.31 %**	**1.59 %**	-17.61 %
Allowance for credit losses to non-accrual loans	**170.39 %**	**153.05 %**	11.33 %

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(In thousands)	
Interest that would have been recorded in the year if the loans had not been classified as non-accruing loans	$ 1,420	$ 1,467

TABLE 15 - NON-PERFORMING LOANS

	December 31,		Variance
	2022	2021	%
	(Dollars in thousands)		
Non-performing loans			
Non-PCD			
Commercial	$ 34,432	$ 37,603	-8.4 %
Mortgage	33,512	39,394	-14.9 %
Consumer	3,128	2,303	35.8 %
Auto loans and leases	19,613	19,829	-1.1 %
Total	**$ 90,685**	**$ 99,129**	**-8.5%**
PCD			
Commercial	$ 8,927	$ 12,545	-28.8 %
Mortgage	259	334	-22.5 %
Total	**$ 9,186**	**$ 12,879**	**-28.7%**
Total non-performing loans	**$ 99,871**	**$ 112,008**	**-10.8%**
Non-performing loans composition percentages:			
Commercial	43.4 %	44.8 %	
Mortgage	33.8 %	35.5 %	
Consumer	3.1 %	2.1 %	
Auto loans and leases	19.7 %	17.6 %	
	100.0 %	**100.0 %**	
Non-performing loans to:			
Total loans held for investment gross	**1.46 %**	**1.75 %**	-16.57 %
Total assets	**1.02 %**	**1.13 %**	-9.7 %
Total capital	**9.58 %**	**10.48 %**	-8.6 %
Non-performing loans with partial charge-offs to:			
Total loans held for investment gross	**0.40 %**	**0.46 %**	-13.0 %
Non-performing loans	**27.27 %**	**26.53 %**	2.8 %
Other non-performing loans ratios:			
Charge-off rate on non-performing loans to non-performing loans on which charge-offs have been taken	**99.57 %**	**170.31 %**	-41.5 %
Allowance for credit losses to non-performing loans on which no charge-offs have been taken	**210.18 %**	**189.49 %**	10.9 %

TABLE 16 - LIABILITIES SUMMARY AND COMPOSITION

	December 31, 2022	December 31, 2021	Variance %
	(Dollars in thousands)		
Deposits:			
Non-interest-bearing deposits	$ 2,630,458	$ 2,501,644	5.1 %
NOW accounts	2,546,245	2,702,636	-5.8 %
Savings and money market accounts	2,227,963	2,177,779	2.3 %
Time deposits	1,162,959	1,220,262	-4.7 %
Total deposits	**8,567,625**	**8,602,321**	**-0.4%**
Accrued interest payable	739	797	-7.3 %
Total deposits and accrued interest payable	**8,568,364**	**8,603,118**	**-0.4%**
Borrowings:			
Advances from FHLB	26,716	28,488	-6.2 %
Subordinated capital notes	—	36,083	-100.0 %
Other borrowings	318	—	100.0 %
Total borrowings	**27,034**	**64,571**	**-58.1%**
Total deposits and borrowings	**8,595,398**	**8,667,689**	**-0.8%**
Other Liabilities:			
Derivative liabilities	—	804	-100.0 %
Acceptances outstanding	28,607	35,329	-19.0 %
Lease liability	27,370	30,498	-10.3 %
Other liabilities	124,999	96,240	29.9 %
Total liabilities	**$ 8,776,374**	**$ 8,830,560**	**-0.6%**
Deposits portfolio composition percentages:			
Non-interest-bearing deposits	30.7 %	29.1 %	
NOW accounts	29.7 %	31.4 %	
Savings and money market accounts	26.0 %	25.3 %	
Time deposits	13.6 %	14.2 %	
	100.0 %	**100.0 %**	
Borrowings portfolio composition percentages:			
Advances from FHLB	98.8 %	44.1 %	
Subordinated capital notes	0.0 %	55.9 %	
Other borrowings	1.2 %	— %	
	100.0 %	**100.0 %**	

Liabilities and Funding Sources

As shown in Table 16 above, at December 31, 2022, OFG's total liabilities were $8.776 billion, 0.6% lower than the $8.831 billion reported at December 31, 2021. Deposits and borrowings, OFG's funding sources, amounted to $8.595 billion at December 31, 2022 compared to $8.668 billion at December 31, 2021. Deposits, excluding accrued interest payable, decreased 0.4% reflecting a decrease of $57.4 million in time deposits from maturities, offset by an increase in commercial and personal savings deposits of $22.6 million.

As of December 31, 2022 borrowings consist of short-term FHLB advances amounting to $26.7 million. Borrowings decreased by $37.6 million, when compared to $64.6 million at December 31, 2021, reflecting the redemption of all $36.1 million variable rate subordinated capital notes before maturity during 2022.

Stockholders' Equity

At December 31, 2022, OFG's total stockholders' equity was $1.042 billion, a 3% decrease when compared to $1.069 billion at December 31, 2021. This reduction in stockholders' equity reflects a decrease of $60.6 million from treasury stock and $268 thousand in additional paid-in capital, as a result of repurchases of common stock in the aggregate amount of $64.1 million in connection with the $100 million stock buyback program announced during the first quarter of 2022. It also reflects a decrease in accumulated other comprehensive income, net of tax, of $98.6 million from changes in the market value of available-for-sale securities due to FRB interest rates increases during 2022. The decrease was offset by an increase in retained earnings of $116.4 million and legal surplus of $16.2 million, mainly due to $166.2 million in net income, partially offset by $33.6 million common stock dividends issued during 2022.

Regulatory Capital

OFG and the Bank are subject to regulatory capital requirements established by the Federal Reserve Board and the FDIC. The current risk-based capital standards applicable to OFG and the Bank ("Basel III capital rules") are based on the final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision. As of December 31, 2022, the capital ratios of OFG and the Bank continue to exceed the minimum requirements for being "well-capitalized" under the Basel III capital rules.

On January 1, 2020, OFG implemented CECL using the modified retrospective approach, with an impact to capital of $25.5 million, net of its corresponding deferred tax effect. On March 27, 2020, in response to the Covid-19 pandemic, U.S. banking regulators issued an interim final rule that OFG adopted to delay for two years the initial adoption impact of CECL on regulatory capital, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during 2020 and 2021 (i.e., a five-year transition period). During the two-year delay, OFG added back to common equity tier 1 ("CET1") capital 100% of the initial adoption impact of CECL plus 25% of the cumulative quarterly changes in the allowance for credit losses (i.e., quarterly transitional amounts). After two years, starting on January 1, 2022, the quarterly transitional amounts along with the initial adoption impact of CECL will be phased out of CET1 capital over a three-year period.

During 2022, OFG redeemed all of its $36.1 million subordinated capital notes and, as a result, OFG's tier 1 capital was reduced by the corresponding $35.0 million qualified trust preferred securities, which were previously included in tier 1 capital.

The risk-based capital ratios presented in Table 17 include common equity tier 1, tier 1 capital, total capital and leverage capital as of December 31, 2022 and 2021 and are calculated based on the Basel III capital rules related to the measurement of capital, risk-weighted assets and average assets.

The following are OFG's consolidated capital ratios under the Basel III capital rules at December 31, 2022 and 2021:

TABLE 17 — CAPITAL, DIVIDENDS AND STOCK DATA

	December 31, 2022	December 31, 2021	Variance %
	(Dollars in thousands, except per share data)		
Capital data:			
Stockholders' equity	$ 1,042,406	$ 1,069,160	(2.5)%
Regulatory Capital Ratios data:			
Common equity tier 1 capital ratio	**13.64 %**	**13.77 %**	**(0.9)%**
Minimum common equity tier 1 capital ratio required	4.50 %	4.50 %	0.0 %
Actual common equity tier 1 capital	$ 1,037,385	964,284	7.6 %
Minimum common equity tier 1 capital required	$ 342,246	315,219	8.6 %
Minimum capital conservation buffer required (2.5%)	$ 190,137	175,122	8.6 %
Excess over regulatory requirement	$ 505,002	473,943	6.6 %
Risk-weighted assets	$ 7,605,466	7,004,876	8.6 %
Tier 1 risk-based capital ratio	**13.64 %**	**14.27 %**	**(4.4)%**
Minimum tier 1 risk-based capital ratio required	6.00 %	6.00 %	0.0 %
Actual tier 1 risk-based capital	$ 1,037,385	$ 999,284	3.8 %
Minimum tier 1 risk-based capital required	$ 456,328	$ 420,293	8.6 %
Minimum capital conservation buffer required (2.5%)	$ 190,137	175,122	8.6 %
Excess over regulatory requirement	$ 390,920	$ 403,869	(3.2)%
Risk-weighted assets	$ 7,605,466	$ 7,004,876	8.6 %
Total risk-based capital ratio	**14.89 %**	**15.52 %**	**(4.1)%**
Minimum total risk-based capital ratio required	8.00 %	8.00 %	0.0 %
Actual total risk-based capital	$ 1,132,658	$ 1,086,897	4.2 %
Minimum total risk-based capital required	$ 608,437	$ 560,390	8.6 %
Minimum capital conservation buffer required (2.5%)	$ 190,137	175,122	8.6 %
Excess over regulatory requirement	$ 334,084	$ 351,385	(4.9)%
Risk-weighted assets	$ 7,605,466	$ 7,004,876	8.6 %
Leverage capital ratio	**10.36 %**	**9.69 %**	**6.9 %**
Minimum leverage capital ratio required	4.00 %	4.00 %	0.0 %
Actual tier 1 capital	$ 1,037,385	$ 999,284	3.8 %
Minimum tier 1 capital required	$ 400,445	$ 412,359	(2.9)%
Excess over regulatory requirement	$ 636,940	$ 586,925	8.5 %
Tangible common equity to total assets	**9.48 %**	**9.57 %**	**(0.9)%**
Tangible common equity to risk-weighted assets	**12.24 %**	**13.52 %**	**(9.5)%**
Total equity to total assets	**10.62 %**	**10.80 %**	**-1.7 %**
Total equity to risk-weighted assets	**13.71 %**	**15.26 %**	**(10.2)%**
Stock data:			
Outstanding common shares	47,581,375	49,636,352	(4.1)%
Book value per common share	$ 21.91	$ 21.54	1.7 %
Tangible book value per common share	$ 19.56	$ 19.08	2.5 %
Market price at end of year	$ 27.56	$ 26.56	3.8 %
Market capitalization at end of year	$ 1,311,343	$ 1,318,342	-0.5 %

From December 31, 2021 to December 31, 2022, leverage capital ratio increased from 9.69% to 10.36%, tier 1 risk-based capital ratio decreased from 14.27% to 13.64%, total risk-based capital ratio decreased from 15.52% to 14.89%, common equity tier 1 capital ratio decreased from 13.77% to 13.64%, and tangible common equity to tangible total assets decreased from 9.69% to 9.59%. The decreases in capital ratios reflected common stock repurchases of $64.1 million during 2022 and an increase in risk-weighted assets, partially offset by increase in retained earnings from net income. Risk-weighted assets increased, mainly from higher loan and investment portfolios at December 31, 2022. Also, during 2022, OFG completed the redemption and cancellation of its subordinated capital notes, further reducing tier 1 risk-based capital and total risk-based capital by $35.0 million. Tangible common equity was also affected by $98.6 million other comprehensive losses during 2022 in available-for-sale securities as a result of increases in market interest rates as a result of recent developments in the U.S. economy, particularly inflationary pressures.

	December 31,		Variance
	2022	2021	%
	(Dollars in thousands)		
Common dividend data:			
Cash dividends declared	$ 33,593	$ 20,505	63.8 %
Cash dividends declared per share	$ 0.70	$ 0.40	75.0 %
Payout ratio	20.35 %	14.19 %	43.4 %
Dividend yield	2.54 %	1.50 %	69.3 %

The following table presents a reconciliation of OFG's total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2022 and 2021:

	December 31,	
	2022	2021
	(In thousands, except share or per share information)	
Total stockholders' equity	$ 1,042,406	$ 1,069,160
Goodwill	(84,241)	(86,069)
Other intangible assets	(27,593)	(36,093)
Total tangible common equity (non-GAAP)	**$ 930,572**	**$ 946,998**
Total assets	$ 9,818,780	9,899,720
Goodwill	(84,241)	(86,069)
Core deposit intangible	(21,131)	(27,630)
Customer relationship intangible	(6,462)	(8,368)
Other intangibles	—	(95)
Total tangible assets	**$ 9,706,946**	**$ 9,777,558**
Tangible common equity to tangible assets	**9.59 %**	**9.69 %**
Common shares outstanding at end of year	47,581,375	49,636,352
Tangible book value per common share	**$ 19.56**	**$ 19.08**

The tangible common equity to tangible assets 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 to tangible assets 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 OFG 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, OFG has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

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

	December 31,		Variance
	2022	2021	%
	(Dollars in thousands)		
Risk-based capital:			
Common equity tier 1 capital	$ 1,037,385	$ 964,284	7.6 %
Additional tier 1 capital	—	35,000	(100.0) %
Tier 1 capital	**1,037,385**	**999,284**	**3.8 %**
Additional Tier 2 capital	95,273	87,613	8.7 %
Total risk-based capital	**$ 1,132,658**	**$ 1,086,897**	**4.2 %**
Risk-weighted assets:			
Balance sheet items	$ 6,976,335	$ 6,406,115	8.9 %
Off-balance sheet items	629,131	598,761	5.1 %
Total risk-weighted assets	**$ 7,605,466**	**$ 7,004,876**	**8.6 %**
Ratios:			
Common equity tier 1 capital (minimum required, including capital conservation buffer - 7%)	**13.64 %**	**13.77 %**	**(0.9)%**
Tier 1 capital (minimum required, including capital conservation buffer - 8.5%)	**13.64 %**	**14.27 %**	**(4.4)%**
Total capital (minimum required, including capital conservation buffer - 10.5%)	**14.89 %**	**15.52 %**	**(4.1)%**
Leverage ratio (minimum required - 4%)	**10.36 %**	**9.69 %**	**6.9 %**
Equity to assets	**10.62 %**	**10.80 %**	**-1.7 %**
Tangible common equity to assets	**9.48 %**	**9.57 %**	**(0.9)%**

The Bank is considered "well capitalized" under the regulatory framework for prompt corrective action. The table below shows the Bank's regulatory capital ratios at December 31, 2022 and 2021:

	December 31,		Variance
	2022	2021	%
	(Dollars in thousands)		
Oriental Bank Regulatory Capital Ratios:			
Common Equity Tier 1 Capital to Risk-Weighted Assets	**12.36%**	**13.09%**	**(5.58)%**
Actual common equity tier 1 capital	$ 933,494	$ 908,717	2.7 %
Minimum capital requirement (4.5%)	$ 339,910	$ 312,371	8.8 %
Minimum capital conservation buffer requirement (2.5%)	$ 188,839	$ 173,540	8.8 %
Minimum to be well capitalized (6.5%)	$ 490,981	$ 451,203	8.8 %
Tier 1 Capital to Risk-Weighted Assets	**12.36%**	**13.09%**	**(5.6)%**
Actual tier 1 risk-based capital	$ 933,494	$ 908,717	2.7 %
Minimum capital requirement (6%)	$ 453,214	$ 416,495	8.8 %
Minimum capital conservation buffer requirement (2.5%)	$ 188,839	$ 173,540	8.8 %
Minimum to be well capitalized (8%)	$ 604,285	$ 555,327	8.8 %
Total Capital to Risk-Weighted Assets	**13.61%**	**14.34%**	**(5.1)%**
Actual total risk-based capital	$ 1,028,126	$ 995,549	3.3 %
Minimum capital requirement (8%)	$ 604,285	$ 555,327	8.8 %
Minimum capital conservation buffer requirement (2.5%)	$ 188,839	$ 173,540	8.8 %
Minimum to be well capitalized (10%)	$ 755,356	$ 694,159	8.8 %
Total Tier 1 Capital to Average Total Assets	**9.42%**	**8.87%**	**6.2 %**
Actual tier 1 capital	$ 933,494	$ 908,717	2.7 %
Minimum capital requirement (4%)	$ 396,525	$ 409,855	(3.3)%
Minimum to be well capitalized (5%)	$ 495,656	$ 512,319	(3.3)%

OFG's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At December 31, 2022 and December 31, 2021, OFG's market capitalization for its outstanding common stock was $1.311 billion ($27.56 per share) and $1.318 billion ($26.56 per share), respectively.

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

	Price		Cash Dividend
	High	Low	Per share
2022			
December 31, 2022	$ 28.90	$ 25.50	$ 0.20
September 30, 2022	$ 29.45	$ 24.66	$ 0.20
June 30, 2022	$ 29.22	$ 25.40	$ 0.15
March 31, 2022	$ 30.54	$ 26.21	$ 0.15
2021			
December 31, 2021	$ 27.33	$ 23.84	$ 0.12
September 30, 2021	$ 25.66	$ 20.04	$ 0.12
June 30, 2021	$ 25.14	$ 21.61	$ 0.08
March 31, 2021	$ 22.93	$ 16.48	$ 0.08
2020			
December 31, 2020	$ 18.54	$ 12.59	$ 0.07
September 30, 2020	$ 14.35	$ 12.12	$ 0.07
June 30, 2020	$ 15.10	$ 9.38	$ 0.07
March 31, 2020	$ 23.50	$ 9.32	$ 0.07

In January 2022, OFG announced the approval by the Board of Directors of a stock repurchase program to purchase $100 million of its outstanding shares of common stock. The shares of common stock repurchased are held by OFG as treasury shares. During 2022, OFG repurchased 2,351,868 shares for a total of $64.1 million at an average price of $27.26 per share. During 2021, OFG repurchased 2,052,429 shares under the $50.0 million repurchase program approved at that time for a total of $49.9 million, at an average price of $24.29 per share. OFG did not repurchase any shares of its common stock during 2022 and 2021, other than through its publicly announced stock repurchase program.

At December 31, 2022 the number of shares that may yet be purchased under the $100 million stock buyback program is estimated at 1,302,242 and was calculated by dividing the remaining balance of $35.9 million by $27.56 (closing price of OFG's common stock at December 31, 2022).

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Background

OFG's risk management policies are established by its Board of Directors (the "Board") and implemented by management through the adoption of a risk management program, which is overseen and monitored by the Chief Risk and Compliance Officer, the Board's Risk and Compliance Committee, the executive Risk and Compliance Team, the executive Credit Risk Team, and the executive Asset/Liability Team ("ALT"). OFG 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 OFG's business activities are susceptible to risk. Consequently, risk identification and monitoring are essential to risk management. As more fully discussed below, OFG'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. OFG evaluates market risk together with interest rate risk. OFG'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 OFG complies with the guidelines established by policies approved by the Board. The Board has delegated the management of this risk to the ALT which is composed of certain executive officers from the business, treasury and

finance areas. One of ALT's primary goals is to ensure that the market risk assumed by OFG is within the parameters established in such policies.

Interest Rate Risk

Interest rate risk is the exposure to decline in earnings or capital due to changes in interest rates. To actively monitor the interest rate risk, the Board of Directors has created the ALT whose principal responsibilities consist in overseeing the management of the Bank's assets and liabilities to balance its risk exposures. In executing its responsibilities, ALT considers different methods to enhance profitability while maintaining acceptable levels of interest rate risks by implementing investment, pricing and financial strategies that helps managing OFG vulnerability to changes in interest rates.

On a quarterly basis, OFG performs 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 upward and downward interest rate movements, achieved during a twelve-month period. Market scenarios that include instantaneous and parallel interest rate movements as well as other scenarios with gradual interest rate ramps, speed of interest rate changes, and changes in the slope of the yield curve are also modeled. In addition to the change in interest rates, the results of the analysis could be affected by prepayments, caps, and floors. Management exercises its best judgment in formulating assumptions regarding events that management can influence such as non-maturity deposits repricing, as well as events outside management's control such as customer behavior on loans and deposits activity and the effects that competition has on both lending and deposits pricing. These assumptions are subjective and, as a result, net interest income simulation results will differ from actual results due to the timing, magnitude and frequency of interest rate changes, changes in market conditions, customer behavior and management strategies, among other factors.

OFG uses a software application to project future movements in OFG'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.

The following table presents the results of the simulations for the most likely scenarios at December 31, 2022. The left of the table presents an analysis of our interest rate risk as measured by the estimated changes in net interest income resulting from an instantaneous and parallel shift in the yield curve over a 12-month horizon. The base case scenario assumes that the current interest rate environment is held constant throughout the forecast period for a static balance sheet and the instantaneous shocks are performed against that yield curve. The right side of the table, presents an analysis of our interest rate risk as measured by the estimated changes in net interest income resulting from parallel gradual interest rates ramps over a 12-month horizon.

	Net Interest Income Risk (one-year projection)			
	Instantaneous Changes in Interest Rates		Gradual Changes in Interest Rates	
	Amount Change	Percent Change	Amount Change	Percent Change
Change in interest rate	(Dollars in thousands)			
+ 50 Basis points	$ 8,528	1.54 %	$ 2,722	0.49 %
+ 100 Basis points	$ 18,838	3.41 %	$ 7,142	1.29 %
+ 200 Basis points	$ 39,495	7.15 %	$ 16,020	2.90 %
- 50 Basis points	$ (12,459)	-2.26 %	$ (6,990)	-1.27 %
-100 Basis points	$ (22,361)	-4.05 %	$ (11,191)	-2.03 %

The scenarios above are both instantaneous shocks and gradual interest rate ramps that assume balance sheet management will mirror the base case. Even if interest rates change in the designated amounts, there can be no assurance that our assets and liabilities would perform as anticipated. Additionally, a change in the U.S. Treasury rates in the designated amounts accompanied by a change in the shape of the U.S. Treasury yield curve would cause significantly different changes to net interest income than indicated above. OFG strategic management of the balance sheet would be adjusted to accommodate these movements. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analysis presented above. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may

lag changes in market rates. Also, the ability of many borrowers to service their debts may decrease in the event of an interest rate increase. ALT strategies consider all these factors as part of the monitoring of the exposure to interest rate risk.

Future net interest income could be affected by OFG's investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed securities, and advances from the FHLB 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 OFG's assets and liabilities, OFG has executed, in the past, certain transactions which include extending the maturity and the re-pricing frequency of the liabilities to longer terms and using hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings that only consist of short-term advances from the FHLB still outstanding as of December 31, 2022.

OFG 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. OFG'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 OFG's gains and losses on the derivative instruments that are linked to the forecasted cash flows of these hedged assets and liabilities. OFG 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 OFG's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuation is that the contractual interest income and interest expense of hedged variable-rate assets and liabilities, respectively, will increase or decrease.

Derivative instruments that are used as part of OFG's interest rate risk management strategy include interest rate swaps 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 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 OFG the right to enter into interest rate swaps and cap and floor agreements with the writer of the option.

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

Interest rate swaps and borrowings — OFG uses interest rate swaps to hedge the variability of interest cash flows of certain advances from the FHLB that are tied to a variable rate index. The interest rate swaps effectively fix OFG's interest payments on these borrowings. As of December 31, 2022, OFG had $26.6 million in interest rate swaps at an average rate of 2.42% designated as cash flow hedges for $26.7 million in advances from the FHLB that reprice or are being rolled over on a monthly basis. An asset of $406 thousand was recognized at December 31, 2022 related to the valuation of these swaps.

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 OFG is its lending activities. In Puerto Rico, OFG's principal market, we believe that recent macroeconomic conditions continue to show strength, however, as was demonstrated by Hurricane Fiona in September 2022, the January 2020 earthquakes and Hurricanes Irma and Maria in 2017, Puerto Rico is susceptible to natural disasters, which can have a disproportionate impact because of the logistical difficulties of bringing relief to an island far from the United States mainland. The effects of climate change may further increase the risk of natural disasters in the future and the correlative risk that the physical impact of such events could adversely affect our customers, operations, and business. Moreover, the Puerto Rico government's fiscal challenges and Puerto Rico's unique relationship with the United States also complicate any relief efforts after a natural disaster. These events increase credit risk as debtors may no longer be capable of operating their businesses and the collateral securing OFG's loans may suffer significant damages.

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

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

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

Liquidity Risk

Liquidity risk is the risk of OFG 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. OFG'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.

OFG's business requires continuous access to various funding sources. While OFG is able to fund its operations through deposits as well as through advances from the FHLB and other alternative sources, OFG's business may at times need to rely upon other external wholesale funding sources. OFG has selectively reduced its use of certain wholesale funding sources, such as repurchase agreements, subordinated notes and brokered deposits. As of December 31, 2022, OFG had $11.4 million in brokered deposits.

Brokered deposits are typically offered through an intermediary to small retail investors. OFG'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, OFG'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. As a result of the increase in core deposits, OFG has been limiting the offering of brokered deposits.

Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates, bear variable interest rate and may require payment of a fee. Since the commitments may expire unexercised, the total commitment amounts do not necessarily represent future cash requirements. OFG evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by OFG upon extension of credit, is based on management's credit evaluation of the customer. Loan commitments, which represent unused lines of credit, increased to $1.403 billion at December 31, 2022 ($214.7 million with maturity of one year or less and $1.188 billion with maturity over one year) compared to $1.365 billion at December 31, 2021 ($280.6 million with maturity of one year or less and $1.085 billion with maturity over one year), and standby letters of credit provided to customers decreased to $24.7 million compared to $25.2 million at December 31, 2021. Loans sold with recourse at December 31, 2022 and 2021 amounted to $110.9 million and $121.8 million, respectively.

In the case of loans serviced by OFG for FNMA, OFG is required to advance to the owners the payment of principal and interest on a scheduled basis for six months even when such payment was not collected from the borrower due to payment forbearance granted or payment delinquency. Such amounts advanced are recorded as a receivable by OFG and are expected to be collected from the borrower and/or government agency (FNMA).

At December 31, 2022 and 2021, OFG maintained other non-credit commitments amounting to $21.5 million and $8.9 million, respectively, primarily for the acquisition of other investments. These cash requirements are expected to be satisfied with OFG's unrestricted cash. In addition, as we continue to transform OFG with a focus on simplification and building a culture of excellence and customer service, we continue to invest in technology. Some of our technology investments are table stakes and required to continuously upgrade our systems. Others require us to focus our technology on investments that drive our strategy, namely digital, data analytics, cloud migration, cyber security, and our sales and service capabilities. At December 31, 2022 and 2021, OFG had commitments for capital expenditures in technology amounting to $8.6 million and $15.4 million, respectively, which are expected to be satisfied with OFG's unrestricted cash.

Our liquidity risk management practices have allowed us to effectively manage the market stress that began in the first quarter of 2020 from the Covid-19 pandemic. Requests for loan payment deferrals rose in the second quarter of 2020. Nevertheless, most payment deferrals ended in the third quarter of 2020. In September 2022, Puerto Rico was declared a disaster zone by local and federal authorities due Hurricane Fiona. OFG granted loan payment accommodations to certain qualified borrowers in order to provide them with flexibility to address the hurricane's immediate impact. Even though OFG's liquidity was impacted by loan principal and interest payment deferrals that were granted for certain customers due to the Covid-19 pandemic and Hurricane Fiona, liquidity has been growing from the federal stimulus programs Puerto Rico is receiving following Hurricane Maria in 2017, the January 2020 earthquakes, the Covid-19 pandemic and Hurricane Fiona in 2022. However, liquidity can be further affected by a number of factors such as, counterparty willingness or ability to extend credit, regulatory actions and customer preferences, some of which are beyond our control. With the current economic uncertainty resulting from inflation and the war in Ukraine, as well as potential Covid-19 variants, we continue monitoring our liquidity position, specifically cash on hand to meet customer demands.

Although OFG 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 OFG, the availability and cost of OFG's funding sources could be adversely affected. In that event, OFG's cost of funds may increase, thereby reducing its net interest income, or OFG 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. OFG'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 OFG or market-related events. In the event that such sources of funds are reduced or eliminated and OFG is not able to replace these on a cost-effective basis, OFG may be forced to curtail or cease its loan origination business and treasury activities, which would have a material adverse effect on its operations and financial condition.

As of December 31, 2022, OFG had approximately $550.3 million in unrestricted cash and cash equivalents, $1.654 billion in investment securities that are not pledged as collateral, and $628.1 million in borrowing capacity at the FHLB.

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 OFG are susceptible to operational risk.

OFG faces ongoing and emerging risk and regulatory pressure related to the activities that surround the delivery of banking and financial products and services. Coupled with external influences such as the risk of natural disasters, market conditions, security risks, and legal risks, the potential for operational and reputational loss has increased. In order to mitigate and control operational risk, OFG 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 OFG’s business operations are functioning within established limits.

OFG 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, OFG has specialized groups, such as Information Security, Enterprise Risk Management, Corporate Compliance, Information Technology, Legal and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups. All these matters are reviewed and discussed in the executive Risk and Compliance Team and the executive Consumer Compliance Team. OFG also has a Business Continuity Plan to address situations where its capacity to perform critical functions is affected. Under such circumstances, a Crisis Management Team is activated to restore such critical functions within established timeframes.

OFG is subject to extensive United States federal and Puerto Rico regulations and, OFG 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. OFG has a corporate compliance function headed by a Chief Risk and Compliance Officer who reports to the Chief Executive Officer and supervises the BSA Officer and Regulatory Compliance Officer. The Chief Risk and Compliance Officer is responsible for the oversight of regulatory compliance and implementation of a company-wide compliance program, including the Bank Secrecy Act/Anti-Money Laundering compliance program.

Concentration Risk

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

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

OFG Bancorp
FORM 10-K
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OFG Bancorp

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and stockholders of OFG Bancorp:

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

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

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

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

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

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

As called for by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of OFG's internal control over financial reporting as of December 31, 2022. Management made its assessment using the criteria set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Criteria").

Based on its assessment, management has concluded that OFG maintained effective internal control over financial reporting as of December 31, 2022 based on the COSO Criteria.

The effectiveness of OFG's internal control over financial reporting as of December 31, 2022, has been audited by KPMG LLP, OFG's independent registered public accounting firm, as stated in their report dated February 24, 2023.

By: */s/ José Rafael Fernández*
José Rafael Fernández
President and Chief Executive Officer
Date: February 24, 2023

By: */s/ Maritza Arizmendi*
Maritza Arizmendi
Chief Financial Officer
Date: February 24, 2023

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
OFG Bancorp:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial condition of OFG Bancorp and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 24, 2023 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses related to loans collectively evaluated for impairment

As discussed in Notes 1 and 7 to the consolidated financial statements, the Company's allowance for credit losses for loans was $153 million as of December 31, 2022, which includes loans evaluated on a collective basis when they share similar risk characteristics (the December 31, 2022 collective ACL). The Company uses a discounted cash flow (DCF) method to measure credit losses on most of the Non-Purchased Credit Deteriorated (Non- PCD) portfolios and undiscounted cash flow (UDCF) method for Purchased Credit Deteriorated (PCD) portfolios. The Company estimated the collective ACL using probability of default (PD), loss given default (LGD), and exposure at default (EAD). The PD and LGD incorporate consideration of economic forecast scenarios and macroeconomic assumptions based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the loan balances. After the reasonable and supportable forecast period, the Company reverts on a straight-line basis to the historical information for the remainder of the contractual term adjusted for prepayments. The Company estimates the EAD using prepayment models which projects prepayments over the life of the loans. Qualitative adjustments are made to the collective ACL to consider factors for asset-specific risk characteristics to the extent they do not exist in the historical information that have not been accounted for and are expected to impact the amount of future losses.

We identified the assessment of the December 31, 2022 collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment due to significant measurement uncertainty. Specifically, the assessment of the collective ACL methodology encompassed the evaluation of the methods and models used to estimate the PD, LGD, and prepayments and their significant assumptions, including the selection of macroeconomic forecast scenarios and the weighting of the scenarios, the reasonable and supportable forecast periods, and the historical observation periods. The assessment also included an evaluation of the conceptual soundness and performance of the PD, LGD, and prepayments models. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the collective ACL estimates, including controls over the:

- development of the collective ACL methodology, including of the DCF and UDCF methods
- continued use and appropriateness of PD, LGD, and prepayment models
- performance monitoring of the PD, LGD, and prepayment models
- identification and determination of the significant assumptions used in the PD, LGD, and prepayment models
- analysis of the collective ACL results, trends, and ratios.

We evaluated the Company's process to develop the December 31, 2022 collective ACL estimates by testing the selection of the method, certain sources of relevant data, assumptions that the Company used, and considered the relevance and reliability of such data and assumptions. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating the Company's collective ACL methodology for compliance with U.S. generally accepted accounting principles
- evaluating judgments made by the Company relative to the assessment and performance testing of the PD, LGD, and prepayment models by comparing them to relevant Company-specific metrics and trends and the applicable industry and regulatory practices
- assessing the conceptual soundness and performance testing of the PD, LGD, and prepayment models by inspecting the model documentation to determine whether the models are suitable for their intended use
- evaluating the selection of macroeconomic forecast scenarios and weighting of the scenarios by comparing it to the Company's business environment and relevant industry practices
- evaluating the length of the historical observation period and reasonable and supportable forecast periods by comparing them to specific portfolio risk characteristics and trends

We also assessed the sufficiency of the audit evidence obtained related to the December 31, 2022 collective ACL estimates by evaluating the:

- cumulative result of the audit procedures
- qualitative aspects of the Company’s accounting practices
- potential bias in the accounting estimates.

/s/ KPMG LLP

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

San Juan, Puerto Rico
February 24, 2023

Stamp No. E519748 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
OFG Bancorp:

Opinion on Internal Control Over Financial Reporting

We have audited OFG Bancorp and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated February 24, 2023 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

San Juan, Puerto Rico
February 24, 2023

Stamp No. E519749 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

OFG BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2022 AND 2021

	December 31,	
	2022	2021
	(In thousands)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 546,146	$ 2,014,523
Money market investments	4,161	8,952
Total cash and cash equivalents	**550,307**	**2,023,475**
Restricted cash	157	175
Investments:		
Trading securities, at fair value, with amortized cost of $162 (December 31, 2021 - $162)	9	20
Investment securities available-for-sale, at fair value, with amortized cost of $1,522,812 (December 31, 2021 - $503,421); no allowance for credit losses	1,412,776	510,713
Investment securities held-to-maturity, at amortized cost, with fair value of $469,186 (December 31, 2021 - $363,653); no allowance for credit losses	535,070	367,507
Equity securities	23,667	17,578
Total investments	**1,971,522**	**895,818**
Loans:		
Loans held-for-sale, at lower of cost or fair value	40,587	82,662
Loans held for investment, net of allowance for credit losses of $152,673 (December 31, 2021 - $155,937)	6,682,649	6,246,649
Total loans	**6,723,236**	**6,329,311**
Other assets:		
Foreclosed real estate	11,214	15,039
Accrued interest receivable	62,402	56,560
Deferred tax asset, net	55,485	99,063
Premises and equipment, net	106,820	92,124
Customers' liability on acceptances	28,607	35,329
Servicing assets	50,921	48,973
Goodwill	84,241	86,069
Other intangible assets	27,593	36,093
Operating lease right-of-use assets	25,363	28,846
Other assets	120,912	152,845
Total assets	**$ 9,818,780**	**$ 9,899,720**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2022 AND 2021 (CONTINUED)

	December 31,	
	2022	2021
	(In thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 5,176,758	$ 5,204,340
Savings accounts	2,227,965	2,177,780
Time deposits	1,163,641	1,220,998
Total deposits	**8,568,364**	**8,603,118**
Borrowings:		
Advances from the Federal Home Loan Bank of New York (the "FHLB")	26,716	28,488
Subordinated capital notes	—	36,083
Other borrowings	318	—
Total borrowings	**27,034**	**64,571**
Other liabilities:		
Derivative liabilities	—	804
Acceptances executed and outstanding	28,607	35,329
Operating lease liabilities	27,370	30,498
Accrued expenses and other liabilities	124,999	96,240
Total liabilities	**8,776,374**	**8,830,560**
Commitments and contingencies (See Note 25)		
Stockholders' equity:		
Common stock, $1 par value; 100,000,000 shares authorized; 59,885,234 shares issued: 47,581,375 shares outstanding (December 31, 2021 - 59,885,234 shares issued; 49,636,352 shares outstanding)	59,885	59,885
Additional paid-in capital	636,793	637,061
Legal surplus	133,901	117,677
Retained earnings	516,371	399,949
Treasury stock, at cost, 12,303,859 shares (December 31, 2021 - 10,248,882 shares)	(211,135)	(150,572)
Accumulated other comprehensive (loss) income, net of tax of $16,221 (December 31, 2021 - $1,328)	(93,409)	5,160
Total stockholders' equity	**1,042,406**	**1,069,160**
Total liabilities and stockholders' equity	**$ 9,818,780**	**$ 9,899,720**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Year Ended December 31,		
	2022	**2021**	**2020**
	(In thousands, except per share data)		
Interest income:			
Loans	$ 460,162	$ 433,788	$ 457,435
Mortgage-backed securities	31,298	11,614	7,558
Investment securities and other	24,113	3,797	8,354
Total interest income	**515,573**	**449,199**	**473,347**
Interest expense:			
Deposits	32,239	39,014	60,198
Securities sold under agreements to repurchase	—	—	1,335
Advances from FHLB and other borrowings	733	1,641	1,988
Subordinated capital notes	521	1,174	1,394
Total interest expense	**33,493**	**41,829**	**64,915**
Net interest income	**482,080**	**407,370**	**408,432**
Provision for credit losses	24,119	221	92,672
Net interest income after provision for credit losses	**457,961**	**407,149**	**315,760**
Non-interest income:			
Banking service revenue	71,161	71,706	62,579
Wealth management revenue	32,635	35,044	31,789
Mortgage banking activities	21,929	22,508	16,504
Total banking and financial service revenues	**125,725**	**129,258**	**110,872**
Net (loss) gain on:			
Sale of securities	(247)	19	4,728
Early extinguishment of debt	42	(1,481)	(63)
Bargain purchase from Scotiabank Acquisition	—	—	7,336
Other non-interest income	6,170	5,414	1,479
Total non-interest income	**131,690**	**133,210**	**124,352**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020 (CONTINUED)

	Year Ended December 31,		
	2022	2021	2020
	(In thousands, except per share data)		
Non-interest expense:			
Compensation and employee benefits	142,930	133,442	132,926
Occupancy, equipment and infrastructure costs	51,308	50,158	47,283
Electronic banking charges	39,554	37,202	34,698
Information technology expenses	21,891	18,965	20,823
Professional and service fees	24,842	20,080	17,135
Taxes, other than payroll and income taxes	12,999	13,829	13,831
Insurance	9,898	10,092	11,424
Loan servicing and clearing expenses	9,161	7,604	6,752
Advertising, business promotion, and strategic initiatives	8,240	6,999	5,851
Communication	4,296	4,555	4,067
Printing, postage, stationery and supplies	3,563	4,037	3,847
Director and investor relations	1,125	1,135	1,174
Merger and restructuring charges	—	—	16,083
Climate events expenses	1,574	—	—
Foreclosed real estate and other repossessed assets (income) expenses, net	(2,074)	(3,007)	7,767
Other	16,239	20,665	21,625
Total non-interest expense	**345,546**	**325,756**	**345,286**
Income before income taxes	**244,105**	**214,603**	**94,826**
Income tax expense	77,866	68,452	20,499
Net income	**166,239**	**146,151**	**74,327**
Less: dividends on preferred stock	—	(1,255)	(6,512)
Net income available to common shareholders	**$ 166,239**	**$ 144,896**	**$ 67,815**
Earnings per common share:			
Basic	**$ 3.46**	**$ 2.85**	**$ 1.32**
Diluted	**$ 3.44**	**$ 2.81**	**$ 1.32**
Average common shares outstanding and equivalents	**48,436**	**51,370**	**51,555**
Cash dividends per share of common stock	**$ 0.70**	**$ 0.40**	**$ 0.28**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Net income	**$ 166,239**	**$ 146,151**	**$ 74,327**
Other comprehensive (loss) income before tax:			
Unrealized (loss) gain on securities available-for-sale	(117,575)	(6,951)	19,296
Realized loss (gain) on sale of securities available-for-sale	247	(19)	(4,728)
Unrealized gain (loss) on cash flow hedges	1,210	908	(804)
Other comprehensive (loss) income before taxes	**(116,118)**	**(6,062)**	**13,764**
Income tax effect	17,549	200	(1,734)
Other comprehensive (loss) income after taxes	**(98,569)**	**(5,862)**	**12,030**
Comprehensive income	**$ 67,670**	**$ 140,289**	**$ 86,357**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Years Ended December 31,		
	2022	2021	2020
		(In thousands)	
Preferred stock:			
Balance at beginning of year	$ —	$ 92,000	$ 92,000
Redemption of preferred stock	—	(92,000)	—
Balance at end of year	**—**	**—**	**92,000**
Common stock:			
Balance at the beginning and end of year	**59,885**	**59,885**	**59,885**
Additional paid-in capital:			
Balance at beginning of year	637,061	622,652	621,515
Stock-based compensation expense	4,185	6,245	2,170
Lapsed restricted stock units	(4,453)	(1,966)	(1,033)
Redemption of preferred stock, issuance costs	—	10,130	—
Balance at end of year	**636,793**	**637,061**	**622,652**
Legal surplus:			
Balance at beginning of year	117,677	103,269	95,779
Transfer from retained earnings	16,224	14,408	7,490
Balance at end of year	**133,901**	**117,677**	**103,269**
Retained earnings:			
Balance at beginning of year	399,949	300,096	279,646
Topic 326 adoption	—	—	(25,494)
Balance at beginning of year (as adjusted for change in accounting principle)	399,949	300,096	254,152
Net income	166,239	146,151	74,327
Cash dividends declared on common stock[1]	(33,593)	(20,505)	(14,381)
Cash dividends declared on preferred stock	—	(1,255)	(6,512)
Transfer to legal surplus	(16,224)	(14,408)	(7,490)
Redemption of preferred stock, issuance costs	—	(10,130)	—
Balance at end of year	**516,371**	**399,949**	**300,096**
Treasury stock:			
Balance at beginning of year	(150,572)	(102,949)	(102,339)
Stock repurchased	(64,110)	(49,872)	(2,226)
Lapsed restricted stock units and options	3,547	2,249	1,616
Balance at end of year	**(211,135)**	**(150,572)**	**(102,949)**
Accumulated other comprehensive (loss) income, net of tax:			
Balance at beginning of year	5,160	11,022	(1,008)
Other comprehensive (loss) income, net of tax	(98,569)	(5,862)	12,030
Balance at end of year	**(93,409)**	**5,160**	**11,022**
Total stockholders' equity	**$ 1,042,406**	**$ 1,069,160**	**$ 1,085,975**

[1] Dividends declared per common share during 2022 - $0.70 (2021 - $0.40; 2020 - $0.28).

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 166,239	$ 146,151	$ 74,327
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred loan origination fees and fair value (discounts) premiums on loans	683	(10,193)	(11,061)
Amortization of fair value premiums on acquired deposits	—	—	(2,607)
Amortization of investment securities premiums, net of accretion of (discounts)	(3,628)	3,111	4,971
Amortization of other intangible assets	8,500	9,803	11,069
Net change in operating leases	360	469	455
Depreciation and amortization of premises and equipment	15,812	14,128	12,687
Deferred income tax expense, net	61,126	63,616	27,846
Provision for credit losses	24,119	221	92,672
Stock-based compensation	4,185	6,245	2,170
Bargain purchase from Scotiabank PR & USVI acquisition	—	—	(7,336)
Loss (gain) on:			
Sale of securities	247	(19)	(4,728)
Sale of loans	(1,202)	(7,292)	(4,451)
Early extinguishment of debt	(42)	1,481	63
Foreclosed real estate and other repossessed assets	(12,186)	(10,435)	2,250
Sale of other assets	(4,962)	(571)	(6)
Originations and purchases of loans held-for-sale	(185,884)	(353,685)	(236,107)
Proceeds from sale of loans held-for-sale	97,608	220,684	128,018
Net decrease (increase) in:			
Accrued interest receivable	(5,825)	9,537	(23,598)
Servicing assets	(1,948)	(1,678)	3,484
Other assets	35,371	(9,051)	(7,184)
Net increase (decrease) in:			
Accrued interest on deposits and borrowings	34	(861)	(10,538)
Accrued expenses and other liabilities	(34,151)	18,383	(17,436)
Net cash provided by operating activities	**164,456**	**100,044**	**34,960**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020 (CONTINUED)

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Cash flows from investing activities:			
Purchases of:			
Investment securities available-for-sale	(1,266,569)	(29,095)	(158,412)
Investment securities held-to-maturity	(196,742)	(380,322)	—
FHLB stock	(122)	—	—
Equity securities	(4,550)	(7,650)	(3,402)
Maturities and redemptions of:			
Investment securities available-for-sale	132,756	102,034	569,658
Investment securities held-to-maturity	29,438	12,445	—
FHLB stock	83	2,312	4,770
Proceeds from sales of:			
Investment securities available-for-sale	242,126	2,174	320,984
Foreclosed real estate and other repossessed assets, including write-offs	48,805	44,966	40,622
Loans held for investment	—	4,846	—
Premises and equipment	4,784	570	52
Other assets	1,060	—	—
Origination and purchase of loans, excluding loans held-for-sale	(2,885,018)	(2,036,516)	(1,493,854)
Principal repayment of loans	2,412,011	2,124,355	1,492,748
Additions to premises and equipment	(30,999)	(23,053)	(15,263)
Outlays for business acquisitions	—	—	(402)
Net cash (used in) provided by investing activities	**$ (1,512,937)**	**$ (182,934)**	**$ 757,501**
Cash flows from financing activities:			
Net increase (decrease) in:			
Deposits	6,906	152,699	735,830
Securities sold under agreements to repurchase	—	—	(190,063)
Subordinated capital notes	(34,958)	—	—
FHLB advances, federal funds purchased, and other borrowings	(1,547)	(39,174)	(12,872)
Exercise of stock options and restricted units lapsed, net	(906)	283	583
Purchase of treasury stock	(64,110)	(49,872)	(2,226)
Redemption of preferred stock	—	(92,000)	—
Dividends paid on preferred stock	—	(1,255)	(6,512)
Dividends paid on common stock	(30,090)	(19,718)	(14,381)
Net cash (used in) provided by financing activities	**$ (124,705)**	**$ (49,037)**	**$ 510,359**
Net change in cash, cash equivalents and restricted cash	**(1,473,186)**	**(131,927)**	**1,302,820**
Cash, cash equivalents and restricted cash at beginning of year	2,023,650	2,155,577	852,757
Cash, cash equivalents and restricted cash at end of year	**$ 550,464**	**$ 2,023,650**	**$ 2,155,577**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020 (CONTINUED)

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Statements of Financial Condition:			
Cash and due from banks	$ 546,146	$ 2,014,523	$ 2,142,294
Money market investments	4,161	8,952	11,908
Restricted cash	157	175	1,375
Total cash, cash equivalents, restricted cash and restricted cash equivalents at end of year	**$ 550,464**	**$ 2,023,650**	**$ 2,155,577**

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:			
Interest paid	$ 26,959	$ 35,338	$ 56,442
Income taxes paid	$ 5,126	$ 2,794	$ 6,255
Operating lease liabilities paid	$ 10,107	$ 10,948	$ 12,778
Mortgage loans held-for-sale securitized into mortgage-backed securities	$ 126,082	$ 149,080	$ 90,174
Transfer from loans to foreclosed real estate and other repossessed assets	$ 37,233	$ 39,547	$ 23,332
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$ 17,476	$ 54,983	$ 2,542
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$ 22,723	$ 7,053	$ —
Financed sales of foreclosed real estate	$ 1,767	$ 1,444	$ 284
Interest on loans subject to the temporary payment moratorium	$ —	$ —	$ 35,593
Delinquent loans booked under the GNMA buy-back option	$ 32,590	$ 14,511	$ 56,193
Conversion of debt security to equity security	$ 1,500	$ —	$ —

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

OFG BANCORP
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations

OFG is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. OFG operates through various subsidiaries including, a commercial bank, Oriental Bank (the "Bank"), a securities broker-dealer and investment adviser, Oriental Financial Services LLC ("Oriental Financial Services"), an insurance agency, Oriental Insurance, LLC ("Oriental Insurance"), a captive reinsurance company, OFG Reinsurance Ltd ("OFG Reinsurance"), a retirement plan administrator, Oriental Pension Consultants, Inc. ("OPC"), and OFG Ventures LLC ("OFG Ventures"), which holds investments. Through these subsidiaries and their respective divisions, OFG provides a wide range of banking and financial services such as commercial, consumer and mortgage lending, auto leasing and lending, financial planning, insurance sales, money management, investment banking and securities brokerage services, as well as corporate and individual trust services. Effective December 31, 2022, OFG sold its retirement plan administration business which was operated under the OPC subsidiary and OPC thereafter discontinued its operations. Annual results include these operations until the date of sale.

OFG conducts its business through its main office in San Juan, Puerto Rico, forty-one branches in Puerto Rico and two branches in the U.S. Virgin Islands (the "USVI"). OFG has three subsidiaries with operations in Puerto Rico: the Bank, Oriental Financial Services and Oriental Insurance; two subsidiaries in the United States, OPC and OFG Ventures; and a subsidiary in the Cayman Islands, OFG Reinsurance. OFG is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") under the U.S. Bank Holding Company Act of 1956, as amended, and the Dodd-Frank Act.

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

Oriental Financial Services is registered as a securities broker-dealer and as an investment adviser, and is subject to the supervision, examination and regulation of the Financial Industry Regulatory Authority ("FINRA"), the U.S. Securities and Exchange Commission (the "SEC"), and the OCFI. Oriental Financial Services is also a member of the Securities Investor Protection Corporation. Oriental Insurance is an insurance agency and is subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico. OFG Reinsurance is subject to regulation by the Cayman Islands Monetary Authority (the "CIMA").

OFG's mortgage banking activities are conducted through a division of the Bank. The mortgage banking activities include the origination of mortgage loans for the Bank's own portfolio, the sale of loans directly in the secondary market or the securitization of conforming loans into mortgage-backed securities, and the purchase or assumption of the right to service loans originated by others. The Bank originates Federal Housing Administration ("FHA") insured and Veterans Administration ("VA") guaranteed mortgages that are primarily securitized for issuance of Government National Mortgage Association ("GNMA") mortgage-backed securities which can be resold to individual or institutional investors in the secondary market. Conventional loans that meet the underwriting requirements for sale or exchange under certain Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC") programs are referred to as conforming mortgage loans and are also securitized for issuance of FNMA or FHLMC mortgage-backed securities. The Bank is an approved seller of FNMA mortgage loans for issuance of FNMA mortgage-backed securities.

The Bank is also an approved issuer of GNMA mortgage-backed securities. The Bank is the master servicer of the GNMA, FNMA and FHLMC pools that it issues and of its mortgage loan portfolio and up to December 31, 2022 had a subservicing arrangement with a third party for a portion of its acquired loan portfolio. This subservicing arrangement will conclude on May 1, 2023. OFG services most of its mortgage loan portfolio.

On December 31, 2019, OFG purchased from the The Bank of Nova Scotia ("BNS") all outstanding common stock of Scotiabank de Puerto Rico ("SBPR"). Immediately following the closing, OFG merged SBPR with and into the Bank, with the Bank continuing as the surviving entity. As part of this transaction, the Bank also acquired the USVI banking operations of BNS through an acquisition of certain assets (including loans, ATMs and physical branch locations) and an assumption of certain liabilities (including deposits). In addition, OFG acquired certain loans and assumed certain liabilities, from BNS's Puerto Rico branch. This transaction is referred to as the "Scotiabank Acquisition."

Principles of Consolidation

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

Business Combinations

OFG accounted for the Scotiabank Acquisition under the accounting guidance of ASC Topic No. 805, Business Combinations, which requires the use of the acquisition method of accounting. All identifiable assets and liabilities acquired were initially recorded at fair value. No allowance for credit losses related to the acquired loans was recorded on the acquisition date. Loans acquired were recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. These fair value estimates associated with the loans included estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows. The valuation of these loans required management to make subjective judgments concerning estimates about how the acquired loans would perform in the future using valuation methods, including discounted cash flow analyses and other factors as market-based and industry data related to expected changes in interest rates, assumptions related to probability and severity of credit losses, estimated timing of credit losses including the timing of foreclosure and liquidation of collateral, expected prepayment rates, and specific industry and market conditions. Refer to Note 2 – Business Combination for further discussion of the Scotiabank Acquisition.

Use of Estimates in the Preparation of Financial Statements

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

Earnings per Common Share

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

Cash Equivalents

OFG considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less.

Investment Securities

OFG classifies its investments in debt and equity securities into one of four categories:

Held-to-maturity - Securities that management has the intent and ability to hold to maturity. These securities are carried at amortized cost. Since the adoption of current expected credit losses ("CECL") on January 1, 2020, an allowance for credit losses is established for the expected credit losses over the remaining term of debt securities held to maturity. OFG's portfolio of held to maturity securities is comprised of US Treasury notes and obligations from the U.S. Government. These securities have an explicit or implicit guarantee from the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Accordingly, OFG applies a zero-credit loss assumption and no ACL for these securities has been established. OFG monitors its securities portfolio composition and credit performance on a quarterly basis to determine if any allowance is considered necessary.

Available for sale - Securities to be held for indefinite periods of time. These securities are carried at fair value. Declines in fair value below the securities' amortized cost which are not related to estimated credit losses are recorded through other comprehensive income or loss, net of taxes. If OFG intends to sell or believes it is more likely than not that it will be required to sell the debt security, it is written down to fair value through earnings. Since the adoption of CECL on January 1, 2020, credit losses relating to available-for-sale debt securities are recorded through an allowance for credit losses ("ACL"), which are limited to the difference between the amortized cost and the fair value of the asset. The ACL is established for the expected credit losses over the remaining term of debt security. OFG's portfolio of available for sale securities is comprised mainly of U.S. Treasury notes and obligations from the U.S. Government. These securities have an explicit or implicit guarantee from the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Accordingly, OFG applies a zero-credit loss assumption and no ACL for these securities has been established. OFG monitors its securities portfolio composition and credit performance on a quarterly basis to determine if any allowance is considered necessary. Debt securities available-for-sale are written-off when a portion or the entire amount is deemed uncollectible, based on the information considered to develop expected credit losses through the life of the asset. The specific identification method is used to determine realized gains and losses on debt securities available for sale, which are included in net gain (loss) on sale of securities in the Consolidated Statements of Operations.

Trading - Securities held for resale in anticipation of short-term market movements. These securities are carried at fair value, with changes in unrealized holding gains and losses included in income. Management determines the appropriate classification of securities at the time of purchase.

Equity securities - Equity securities do not have readily available fair values and are measured at cost, less any impairment. Impairment is reviewed on a quarterly basis through a qualitative assessment. Stock that is owned by OFG to comply with regulatory requirements, such as Federal Home Loan Bank ("FHLB") stock, is included in this category, and their realizable value equals their cost. Unrealized and realized gains and losses and any impairment on equity securities are included in net gain (loss) in the Consolidated Statements of Operations. Dividend income from investments in equity securities is included in interest income in the Consolidated Statements of Operations.

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

Financial Instruments

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

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

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

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

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

OFG's policy is to recognize any transfer into or out of the Levels referred to above at the date of the event or change in circumstances that caused the transfer.

Derivative Instruments and Hedging Activities

OFG uses financial derivatives, as interest rate swaps and caps, to both mitigate exposure to market (primarily interest rate) and credit risks inherent in its business activities, as well as to facilitate customer risk management activities. OFG manages these risks as part of its asset and liability management process and through credit policies and procedures.

OFG recognizes all derivative instruments at fair value as either other assets or derivative liabilities on the consolidated statement of financial condition and the related cash flows in the operating activities section of the consolidated statement of cash flows. Adjustments for counterparty credit risk are included in the determination of fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a cash flow or net investment hedging relationship. For all other derivatives, changes in fair value are recognized in earnings.

OFG utilizes a net presentation for derivative instruments on the consolidated statement of financial condition taking into consideration the effects of legally enforceable master netting agreements. Cash collateral exchanged with counterparties is also netted against the applicable derivative exposures by offsetting obligations to return, or general rights to reclaim, cash collateral against the fair values of the net derivatives being collateralized.

For those derivative instruments that are designated and qualify as accounting hedges, OFG designates the hedging instrument, based on the exposure being hedged, as a cash flow hedge. OFG formally documents the relationship between the hedging instruments and hedged items, as well as the risk management objective and strategy, before undertaking an accounting hedge.

To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge at inception of the hedge relationship. In addition, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. For accounting hedge relationships, OFG formally assesses, both at the inception of the hedge and on an ongoing basis, if the derivatives are highly effective in offsetting designated changes in the fair value or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective, hedge accounting is discontinued. OFG assesses effectiveness using statistical regression analysis. Where the critical terms of the derivative and hedged item match, effectiveness may be assessed qualitatively.

For derivatives designated as cash flow hedges (hedging the exposure to variability in expected future cash flows), the gain or loss on derivatives is reported as a component of accumulated other comprehensive (loss) income and subsequently reclassified to income in the same period or periods during which the hedged cash flows affect earnings and recorded in the same income statement line item as the hedged cash flows.

OFG discontinues hedge accounting when it is determined that the derivative no longer qualifies as an effective hedge; the derivative expires or is sold, terminated or exercised; or the derivative is de-designated as a cash flow hedge.

Mortgage Banking Activities and Mortgage Loans Held-For-Sale

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

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

OFG recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. OFG is not engaged in sales of mortgage loans and mortgage-backed securities subject to recourse provisions except for those provisions that allow for the repurchase of loans as a result of a breach of certain representations and warranties other than those related to the credit quality of the loans included in the sale transactions.

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

When OFG sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. Conforming conventional mortgage loans are combined into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or sold directly to FNMA or other private investors for cash. To the extent the loans do not meet the specified characteristics, investors are generally entitled to require OFG to repurchase such loans or indemnify the investor against losses if the assets do not meet certain guidelines. GNMA programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which OFG provides servicing. At OFG's option and without GNMA's prior authorization, OFG may repurchase such delinquent loans for an amount equal to 100% of the loan's remaining principal balance. This buy-back option is considered a conditional option until the delinquency criteria is met, at which time the option becomes unconditional. When the loans backing a GNMA security are initially securitized, OFG treats the transaction as a sale for accounting purposes because the conditional nature of the buy-back option means that OFG does not maintain effective control over the loans and, therefore, these are derecognized from the statement of financial condition. When individual loans later meet GNMA's specified delinquency criteria and are eligible for repurchase, OFG is

deemed to have regained effective control over these loans, and these must be brought back into OFG's books as assets, regardless of whether OFG intends to exercise the buy-back option. Quality review procedures are performed by OFG as required under the government agency programs to ensure that asset guideline qualifications are met. OFG has not recorded any specific contingent liability in the consolidated financial statements for these customary representation and warranties related to loans sold by OFG, and management believes that, based on historical data, the probability of payments and expected losses under these representation and warranty arrangements is not significant.

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

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights, and are updated by accruing or reversing expense (included as mortgage banking activities in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers historical and forecast loss experience. The methodology leverages the expected loss framework for mortgage loans to estimate expected future losses. The reserve for the estimated losses under the credit recourse arrangements is presented separately within other liabilities in the consolidated statements of financial condition.

Servicing Assets

OFG periodically sells or securitizes mortgage loans while retaining the obligation to perform the servicing of such loans. In addition, OFG may purchase or assume the right to service mortgage loans originated by others. Whenever OFG 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 OFG for servicing the loans. Likewise, a servicing liability would be recognized in the event that servicing fees to be received are not expected to adequately compensate OFG 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, OFG measures servicing rights at fair value at each reporting date and reports changes in the fair value of servicing asset in the statement of operations in the period in which the changes occur, and includes these changes, if any, with mortgage banking activities in the consolidated statement of operations. The fair value of servicing rights is subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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

Loans and Allowance for Credit Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees, and costs.

Loans held for investment that were not purchased with credit deterioration are referred to as Non-PCD loans, and loans that were purchased with credit deterioration are referred to as PCD loans.

OFG discontinues accrual of interest after payments become more than 90 days past due or earlier if OFG does not expect the full collection of principal or interest, except for residential mortgage loans insured or guaranteed under applicable FHA and VA programs that are not placed in non-accrual status until they become 12 months or more past due, as they are insured loans. At that time, any accrued income is reversed. The delinquency status is based on the contractual terms of the loans. Loans for which the recognition of interest income has been discontinued are designated as non-accruing. Thereafter, collections are accounted for as a cash method, until qualifying to return to accrual status. Such loans are not reinstated to accrual status until interest is received on a current basis and other factors indicative of doubtful collection cease to exist. The determination as to the ultimate collectability of the loan's balance may involve management's judgment in the evaluation of the borrower's financial condition and prospects for repayment. Interest income is based on the effective yield on the Non-PCD loans.

Purchased Credit Deteriorated (PCD) Loans: OFG has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. OFG considered the following factors as indicators that an acquired loan had evidence of deterioration in credit quality: loans that were 90 days or more past due; loans that had an internal loan grade of substandard or worse - substandard loans have a well-defined weakness that jeopardizes collection of the loan; loans that were classified as nonaccrual by the acquired bank at the time of acquisition; and loans that had been previously modified in a troubled debt restructuring. As such, our PCD loans are recorded at the purchase price plus the allowance for credit losses expected at the time of acquisition or implementation of the standard. An allowance for credit losses is determined using an undiscounted cash flow methodology.

Upon adoption of CECL, OFG elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. As such, for these loans, the determination of nonaccrual or accrual status is made at the pool level, not the individual loan level. On the adoption of CECL, the allowance for credit losses was determined for each pool and added to the pool's carrying amount to establish a new amortized cost basis. The difference between the unpaid principal balance of the pool and the new amortized cost basis is the non-credit premium or discount, which will be amortized interest income over the remaining life of the pool. On a quarterly basis, management will monitor the composition and behavior of the pools to assess the ability for cash flow estimation and timing. If, based on the analysis performed, the pool is classified as non-accrual, the accretion/amortization of the non-credit (discount) premium will cease. Changes to the allowance for credit losses are recorded through the provision expense.

Allowance for Credit Losses ("ACL") – Loans: OFG adopted CECL, which utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans at the time the financial asset is originated or acquired. The allowance for credit losses is adjusted each period for changes in expected credit losses. The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Determining the amount of the ACL is complex and requires extensive judgment by management about matters that are inherently uncertain. Re-evaluation of the ACL estimate in future periods in light of changes in the composition and characteristics of the loan portfolio, changes in the reasonable and supportable forecast, and other factors then prevailing may result in material changes in the amount of the ACL and credit loss expense in those future periods. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. OFG continues to monitor and modify the level of the ACL to ensure it is adequate.

Our methodology for estimating expected credit losses for our loan portfolios includes the following key components:

- Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include, but are not necessarily limited to, product or collateral type, internal risk rating, credit characteristics such as credit scores or collateral types, and historical or expected credit loss patterns.

- Credit losses for loans that do not share similar risk characteristics are estimated on an individual basis. Individual evaluations are typically performed for nonaccrual loans, nonaccrual modified loans classified as troubled debt restructurings, and classified loans that do not share common risk characteristics. The lifetime losses for individually measured loans are estimated based on one of several methods, including the estimated fair value of the underlying collateral, the observable market value of similar debt, or the present value of expected cash flows.

- ACL reserves are estimated over the contractual term of the financial asset adjusted for expected prepayments. As part of the calculation of the contractual term, the expected extension is generally not considered unless the option to extend the loan cannot be canceled unilaterally by OFG, and loan modifications are also not considered unless OFG has a reasonable expectation that it will execute a troubled debt restructuring ("TDR"). In the case of unconditionally cancellable accounts, such as credit cards, reserves are based on the expected life of the balance as of the evaluation date (assuming no further charges) and do not include any undrawn commitments that are unconditionally cancellable.

- The quantitative model utilizes a discounted cash flow ("DCF") or undiscounted cash flow ("UDCF") approach to estimate expected credit losses using the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). DCF method is used for most of the Non-PCD portfolio, and the UDCF method for the PCD portfolio. For the EAD, the Company uses a prepayment model which projects prepayments over the life of the loans.

- An economic forecast period based on the relationship of losses with key economic variables for each portfolio segment; OFG has elected a 2-year reasonable and supportable forecast period, with an additional 1-year to mean straight-line reversion occurring within the credit loss models based on the economic inputs. The length of the reasonable and supportable forecast is evaluated at each reporting period and adjusted if deemed necessary.

- Inclusion of qualitative adjustment to consider factors for asset-specific risk characteristics to the extent they do not exist in the historical information that has not been accounted for and could impact the amount of future losses. For example, factors that OFG considers include changes in lending policies and procedures, business conditions, the nature and size of the portfolio, portfolio concentrations, the volume and severity of past due loans and nonaccrual loans, the effect of external factors such as competition, and legal and regulatory requirements, among others.

- The estimate of credit losses includes expected recoveries of amounts previously charged off as well as consideration of expected amounts to be written off. If a loan has been charged off, the expected cash flows on the loan are not limited by the current amortized cost balance. Instead, expected cash flows can be assumed up to the unpaid principal balance immediately prior to the charge-off.

- The ACL excludes accrued interest since all our products are subject to a non-accrual and timely write-off policy, except for accrued interest receivable on loans that participated in the Covid-19 and Hurricane Fiona deferral programs with delinquency status between 30 and 89 days past due, in which a reserve is calculated by applying the corresponding loan projected loss factors to the accrued interest receivable balance. Accrued interest receivable totaled $58.1 million and $54.8 million on December 31, 2022 and 2021, respectively, reported in accrued interest receivable on the consolidated statement of financial condition. Accrued interest receivable on loans that participated in the Covid-19 and Hurricane Fiona deferral programs amounted to $21.8 million at December 31, 2022 (December 31, 2021 - $23.9 million), of which $20.7 million (December 31, 2021 - $21.5 million) corresponds to loans in current status. Allowance for credit losses for accrued interest receivable on loans that participated in the deferral programs amounted to $144 thousand and $161 thousand at December 31, 2022 and 2021, respectively.

In our loss forecasting framework, OFG incorporates forward-looking information through the use of macroeconomic scenarios. These macroeconomic scenarios include variables that have historically been key drivers of increases and decreases in credit losses. These variables include, but are not limited to, unemployment rates, employment rates, real estate prices, gross domestic product levels, gross national product levels, and retail sales. As any one economic outlook is inherently uncertain, OFG leverages multiple scenarios. The scenarios that are re-evaluated each quarter and the amount of weighting given to each scenario depend on a variety of factors including recent economic events, leading economic indicators, views of internal as well as third-party economists, and industry trends.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income through the life of the loan.

OFG has identified the following portfolio segments, commercial loans, mortgage loans, consumer loans, and auto loans and leases, and measures the allowance for credit losses using the methods described below for each.

Commercial Loans – The segmentation of commercial loans was established by business line, collateral type, size, and delinquency or risk rating/classification to assess the loans based on common risk characteristics. The segmentation aligns with OFG's current credit policies and procedures for these portfolios. The estimate of expected credit losses on commercial loans is forecasted using models that estimate credit losses over the loan's contractual life at an individual loan level. The models use the contractual terms to forecast future principal cash flows while also considering expected prepayments, considering that all our lines of credit are unconditionally cancellable. The loss forecasting model determines the probabilities of transition to different credit risk ratings or defaults at each point over the life of the asset based on the borrower's current credit risk rating and business segment. Assumptions of expected loss are conditioned to the economic outlook, and the model considers key economic variables such as the unemployment rate, gross national product ("GNP") (P.R. projections), gross domestic product (U.S. projections), and employment rates (U.S. projections).

Loans that do not share risk characteristics are evaluated on an individual basis. Individual evaluations are typically performed for nonaccrual loans, nonaccrual modified loans classified as troubled debt restructurings, and classified loans that do not share common risk characteristics. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate, as OFG elected the collateral-dependent practical expedient. For loans evaluated individually that are not collateral dependent, a discounted cash flow method is used to determine the allowance for credit losses.

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.

OFG's lending activities in the continental United States – referred to as U.S. commercial loans – are conducted through OIB and OFG USA. These activities include the purchase of middle market senior secured cash flow loan participations and the purchase of participations of loans to small and medium sized businesses.

OFG participated in the Paycheck Protection Program ("PPP"), which is a loan program that originated from the CARES Act and was subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act. The PPP was designed to provide U.S. small businesses with cash-flow assistance through loans fully guaranteed by the Small Business Administration ("SBA"). If the borrower met certain criteria and used the proceeds towards certain eligible expenses, the borrower's obligation to repay the loan can be forgiven up to the full principal amount of the loan and any accrued interest. Upon borrower forgiveness, the SBA pays OFG for the principal and accrued interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original loan terms with the 100 percent SBA guaranty remaining. As compensation for originating the loans, OFG received lender processing fees from the SBA, which are capitalized, along with the loan origination costs, and will be amortized over the loans' contractual lives and recognized as interest income. Upon forgiveness of a loan and repayment by the SBA, any unrecognized net capitalized fees and costs related to the loan will be recognized as interest income in that period.

Mortgage Loans – This segment includes traditional mortgages, non-traditional mortgages, mortgages in the loss mitigation program, residential performing TDRs, and residential non-performing TDRs. The most significant attribute in estimating OFG's lifetime expected credit losses is the vintage of the traditional mortgage segment. The estimates are based on OFG's historical experience with the loan portfolio, adjusted to reflect the economic outlook. The outlook on the housing price index and unemployment are key factors that impact the frequency and severity of loss estimates. OFG expects to collect the amortized cost basis of government insured residential loans due to the nature of the government guarantee, so the ACL is zero for these loans.

Mortgage loans are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 12 months or more past due. For loans that are more than 180 days past due, with the exception of OFG's fully insured portfolio, the outstanding balance of loans that is in excess of the estimated property value after adjusting for costs to sell is charged off. If the estimated property value decreases in periods subsequent to the initial charge-off, OFG will record additional charge-offs.

Consumer Loans – This portfolio consists of smaller retail loans such as unsecured personal loans, unsecured personal lines of credit, retail credit cards, and overdrafts. The estimates are based on the OFG's historical experience with the loan portfolios, adjusted to reflect the economic outlook. The outlook on the GNP and unemployment rate are key factors that impact the frequency and severity of loss estimates. Credit cards are revolving lines of credit without a defined maturity date. OFG elected to apply the remaining life methodology for the credit cards and overdrafts. The remaining life methodology takes projected losses based on the economic forecast for credit cards and historical losses on the overdraft segment, based on the expected remaining life of that pool. Future draws on the credit card lines are excluded from the estimated expected credit losses as they are unconditionally cancellable.

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.

Auto loans and leases - This portfolio consists of auto loans and leases. The most significant attribute in estimating OFG's expected credit losses is the FICO score. The estimates are based on OFG's historical experience with the loan portfolio, adjusted to reflect the economic outlook. The outlook on retail sales and unemployment are key factors that impact the frequency and severity of loss estimates.

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.

For the principal enhancements that management made to its methodology, refer to Note 7 – Allowance for Credit Losses.

Troubled Debt Restructuring

A TDR is the restructuring of a receivable in which OFG, as creditor, grants a concession for legal or economic reasons due to the debtor's financial difficulties. A concession is granted when, as a result of the restructuring, OFG does not expect to collect all amounts due, according to original contractual terms of the loan agreement. These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses.

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

Receivables that are restructured in a TDR are presumed to be impaired and are subject to a specific impairment-measurement method. If the repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available sources of repayment, OFG considers the current value of that collateral in determining whether the principal will be paid. For non-collateral dependent loans, the specific reserve is calculated based on the present value of expected cash flows discounted at the loan's effective interest rate.

TDR loans are classified as either accrual or nonaccrual. An accruing loan that is modified in a TDR can remain in accrual status if, based on a current, well-documented credit analysis, collection of principal and interest in accordance with the modified terms is reasonably assured, and the borrower has demonstrated sustained historical repayment performance for a reasonable period before the modification. To restore a non-accruing loan that has been modified in a TDR to accrual status, the credit officer must perform a current, well-documented credit analysis supporting a return to accrual status based on the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the TDR must remain in nonaccrual status. The analysis must consider the borrower's sustained historical repayment performance for a reasonable period prior to the return-to-accrual date but may take into account payments made for a reasonable period prior to the restructuring if the payments are consistent with the modified terms. A sustained period of repayment performance generally would be a minimum of six consecutive payments and would involve payments in the form of cash or cash equivalents.

OFG implemented various consumer and commercial loan modification programs to provide its borrowers relief from the economic impacts of Covid-19. The majority of OFG's Covid-19 related loan modifications have not been considered TDRs as they represent short-term delay of payments or other insignificant modifications, whether under OFG's regular loan modification assessments or the Interagency Statement guidance; or OFG has elected to apply the option to suspend the application of accounting guidance for TDRs as provided under Section 4013 of the CARES Act. To the extent that certain modifications do not meet any of the above criteria, OFG accounts for them as TDRs. For loan modifications that include a payment deferral and are not TDRs, the borrower's past due and nonaccrual status will not be impacted during the deferral period. These loans are not considered past due until after the deferral period is over and scheduled payments resume. Accrued interest on these Covid-19 modified loans is due when the deferral period ends. The credit quality of these loans is re-evaluated after the deferral period ends. Loans are generally placed on a nonaccrual basis when they become 90 days past due or when there are otherwise serious doubts about the collectability of principal or interest within the existing terms of the loan. OFG's policy is to write-off all accrued interest on loans when they are placed on nonaccrual status.

Foreclosed Real Estate and Other Repossessed Assets

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

Goodwill and Other Intangible Assets

Goodwill is recognized when the purchase price is higher than the fair value of net assets acquired in business combinations under the purchase method of accounting. OFG's goodwill is not amortized to expense but is tested for impairment at least annually, and on a more frequent basis, if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a reporting unit.

A quantitative annual impairment test is not required if, based on a qualitative analysis, OFG determines that the existence of events and circumstances indicates that it is more likely than not that goodwill is not impaired. OFG performs an annual goodwill impairment test as of October 31 and monitors for interim triggering events on an ongoing basis. OFG tests for impairment based on the allocation of goodwill and other assets and liabilities, as necessary, to defined reporting segments. A fair value is then determined for each reporting segment. If the fair values of the reporting segments 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 segment 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 segments, 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 segments 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 segment below its carrying amount, an interim impairment test is required.

Other identifiable intangible assets with a finite useful life, mainly core deposits and customer relationships, are amortized using various methods over the periods benefited, which range from 3 to 10 years. These intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments on intangible assets with a finite useful life are evaluated under the guidance for impairment or disposal of long-lived assets.

Premises and Equipment

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

Impairment of Long-Lived Assets

OFG periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an estimate of the future cash flows expected to result from the use of the asset and its eventual disposition is made. If the sum of the future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, an impairment loss is recognized. The amount of the impairment is the excess of the carrying amount over the fair value of the asset. As of December 31, 2022 and 2021, there was no indication of impairment as a result of such review.

Off-Balance Sheet Instruments

In the ordinary course of business, OFG enters into off-balance sheet instruments consisting of commitments to extend credit, further discussed in Note 25 – Commitments and Contingencies hereto. Such financial instruments are recorded in the financial statements when these are funded or related fees are incurred or received. OFG periodically evaluates the credit risks inherent in these commitments and establishes reserves for such risks if and when these are deemed necessary.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

OFG estimates the expected credit losses related to unfunded lending commitments such as letters of credit, financial guarantees, unfunded banker's acceptances, and binding loan commitments. Reserves are estimated for the unfunded exposure using the same factors as the funded exposure and are reported as reserves for unfunded lending commitments. Net adjustments to the reserve for unfunded commitments are included in the provision for credit losses in the Consolidated Statements of Operations.

Income Taxes

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

On June 30, 2020, OFS made the election to be treated as a partnership for income tax purposes which was effective on January 1, 2020. As such, OFS is currently a pass-through entity not subject to income taxes at the company level, and the parent will be subject to Puerto Rico income taxes on its distributable share of OFS taxable income under the partnership provisions of the PR Code. At the date of the election all tax attributes of OFS were also transferred to the parent. The same tax treatment applies to Oriental Insurance since its tax election to be treated as a partnership effective on January 1, 2016. Pursuant to these elections OFG is required to pay income taxes on its distributable share of earnings and profits of both entities. In the case of losses reported by any of the entities, such losses may be offset with the taxable income of the other entity. However, OFG is not permitted to use its operating losses to offset the taxable income of its partnerships.

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

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

In addition to valuation allowances, OFG establishes accruals for uncertain tax positions when, despite the belief that OFG's tax return positions are fully supported, OFG believes that certain positions are likely to be challenged. The accruals for uncertain tax positions are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law, and emerging legislation. The accruals for OFG's uncertain tax positions are reflected as income tax payable as a component of accrued expenses and other liabilities. These accruals are reduced upon expiration of the applicable statute of limitations.
OFG follows a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

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

OFG is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years 2018 to 2021, until the applicable statute of limitations expires. In addition, OFG's US subsidiaries are potentially subject to income tax audits by the IRS for taxable years 2019 to 2021. Tax audits by their nature are often complex and can require several years to complete.

Revenue Recognition

ASC 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, derivatives and investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures.

Revenue-generating activities that are within the scope of ASC 606, which are presented in OFG's statement of operations as components of non-interest income are described in Note 29 – Banking and Financial Service Revenues.

Stock-Based Compensation Plan

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

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

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

The expected term of stock options granted represents the period of time that such options are expected to be outstanding. Expected volatilities are based on historical volatility of OFG's shares of common stock over the most recent period equal to the expected term of the stock options. For stock options issued during 2015, the expected volatilities are based on both historical and implied volatility of OFG's shares of common stock.

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

Comprehensive Income

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

Commitments and Contingencies

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

Lease Accounting

Right of use assets and lease liabilities are recognized at the commencement of an arrangement where it is determined at inception that a lease exists. Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using our incremental borrowing rate. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. The right-of-use asset is measured at the amount of the lease liability adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term, any unamortized initial direct costs, and any impairment of the right-of-use-asset.

Operating lease expense consists of a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis, and any impairment of the right-of-use asset. Variable lease payments are generally expensed as incurred and include certain non-lease components, such as maintenance and other services provided by the lessor, and other charges included in the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and the expense for these short-term leases and for operating leases is recognized on a straight-line basis over the lease term.

OFG's leases do not contain residual value guarantees or material variable lease payments. All leases are classified as operating leases.

Subsequent Events

OFG has evaluated other events subsequent to the balance sheet date and prior to the filing of this annual report on Form 10-K for 2022, and has adjusted and disclosed those events that have occurred that would require adjustment or disclosure in the consolidated financial statements.

New Accounting Updates Not Yet Adopted

Fair Value Measurements—Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions Disclosures. In June 2022, the FASB issued ASU 2022-03 to clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction and requires certain disclosures for equity securities subject to contractual restrictions. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Entities are permitted to early adopt these amendments, including adoption in any interim period. The amendments should be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. Upon adoption of this ASU, OFG will consider this guidance for equity securities subject to contractual sale restrictions.

Financial Instruments—Credit Losses Troubled Debt Restructurings and Vintage Disclosures. In March 2022, the FASB issued ASU 2022-02 to address the accounting guidance on troubled debt restructurings ("TDRs") for creditors in ASC 310-402 and amend the guidance on vintage disclosures to require disclosure of current-period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancing and restructurings for borrowers experiencing financial difficulty. The amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Entities are permitted to early adopt these amendments, including adoption in any interim period, provided that the amendments are adopted as of the beginning of the annual reporting period that includes the interim period of adoption. In addition, entities are permitted to elect to early adopt the amendments related to TDR accounting and related disclosure enhancements separately from the amendments related to the vintage disclosures. We will adopt this guidance when it becomes effective, in the first quarter of 2023 on a prospective basis, and the impact on our financial statements and disclosures is not expected to be material.

NOTE 2 – BUSINESS COMBINATIONS

The assets acquired and liabilities assumed in the Scotiabank Acquisition as of December 31, 2019 were presented at their estimated fair value. The fair values initially assigned to the assets acquired and liabilities assumed were preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values became available. During 2020, OFG finalized its fair value analysis of the acquired assets and liabilities assumed and recorded remeasurement adjustments of approximately $7.3 million to the preliminary estimated fair values of certain accrued interest receivables, deferred tax asset, and accounts receivables to reflect new information obtained during the measurement period (as defined by ASC Topic 805), about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements.

Merger and Restructuring Charges

Merger and restructuring charges incurred during 2020 were recorded in the consolidated statement of operations and included incremental costs to integrate the operations of OFG and its most recent acquisition. These charges represent costs associated with these activities and do not represent ongoing costs of the fully integrated combined organization.

The following table presents severance and employee charges, systems integrations charges, branch consolidation, and other merger and restructuring charges related to the Scotiabank Acquisition, for 2020:

	December 31, 2020
	thousands)
Severance and employee-related charges	$ 220
Professional services and system integrations	9,973
Branch consolidation	3,707
Other	2,183
Total merger and restructuring charges	**$ 16,083**

Restructuring Reserve

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

The following table presents the changes in restructuring reserves for 2021 and 2020:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Balance at the beginning of the year	$ 15,129	$ 17,491
Merger and restructuring charges	—	16,083
Cash payments	(15,129)	(18,445)
Balance at the end of the year	**$ —**	**$ 15,129**

Payments under merger and restructuring reserves associated with the Scotiabank Acquisition continued into 2021 but they were not material and were accounted under applicable accounting guidance to the cost being incurred.

NOTE 3 – RESTRICTED CASH

OFG has a contract with FNMA which requires collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At December 31, 2022 and 2021, OFG delivered as collateral cash amounting to approximately $157 thousand and $175 thousand, respectively.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover demand deposits. The amount of those minimum average reserve balances for the week that covered December 31, 2022 was $482.9 million (December 31, 2021 - $456.5 million). At December 31, 2022 and 2021, the Bank complied with this requirement. Cash and due from bank, as well as other short-term highly liquid securities, are used to cover the required average reserve balances.

NOTE 4 – INVESTMENT SECURITIES

Money Market Investments

OFG considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At December 31, 2022 and 2021, money market instruments included as part of cash and cash equivalents amounted to $4.2 million and $9.0 million, respectively.

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, weighted average yield and contractual maturities of the securities owned by OFG at December 31, 2022 and 2021 were as follows:

	December 31, 2022				
	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					
Due from 1 to 5 years	$ 10,155	$ —	$ 550	$ 9,605	1.76 %
Due from 5 to 10 years	59,167	—	3,764	55,403	2.00 %
Due after 10 years	768,381	59	65,332	703,108	2.87 %
Total FNMA and FHLMC certificates	837,703	59	69,646	768,116	2.79 %
GNMA Securities					
Due from 1 to 5 years	12,505	—	632	11,873	1.66 %
Due from 5 to 10 years	24,575	14	1,585	23,004	2.13 %
Due after 10 years	320,417	892	36,652	284,657	2.90 %
Total GNMA certificates	357,497	906	38,869	319,534	2.80 %
CMOs issued by US government-sponsored agencies					
Due from 1 to 5 years	14,190	—	755	13,435	1.78 %
Due from 5 to 10 years	485	—	10	475	2.14 %
Due after 10 years	959	—	18	941	5.06 %
Total CMOs issued by US government-sponsored agencies	15,634	—	783	14,851	1.99 %
Total mortgage-backed securities	**1,210,834**	**965**	**109,298**	**1,102,501**	**2.79 %**
Investment securities					
US Treasury securities					
Due less than 1 year	310,862	—	1,729	309,133	3.34 %
Other debt securities					
Due from 1 to 5 years	1,116	30	4	1,142	4.45 %
Total investment securities	**311,978**	**30**	**1,733**	**310,275**	**3.35 %**
Total securities available for sale	**$ 1,522,812**	**$ 995**	**$ 111,031**	**$ 1,412,776**	**2.90 %**

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
			(In thousands)		
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates					
Due after 10 years	$ 337,435	$ —	$ 62,358	$ 275,077	1.71 %
Investment securities					
US Treasury securities					
Due from 1 to 5 years	197,635	—	3,526	194,109	3.36 %
Total securities held-to-maturity	**$ 535,070**	**$ —**	**$ 65,884**	**$ 469,186**	**2.30 %**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2021				
	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					
Due from 5 to 10 years	$ 90,560	2,502	$ —	$ 93,062	1.94 %
Due after 10 years	93,440	—	3,200	90,240	1.37 %
Total FNMA and FHLMC certificates	184,000	2,502	3,200	183,302	1.65 %
GNMA Securities					
Due from 1 to 5 years	10,536	233	1	10,768	1.66 %
Due from 5 to 10 years	26,419	556	—	26,975	1.80 %
Due after 10 years	244,106	6,927	198	250,835	2.40 %
Total GNMA certificates	281,061	7,716	199	288,578	2.32 %
CMOs issued by US government-sponsored agencies					
Due from 1 to 5 years	1,788	22	—	1,810	1.70 %
Due from 5 to 10 years	20,705	299	—	21,004	1.81 %
Due after 10 years	1,601	16	1	1,616	4.24 %
Total CMOs issued by US government-sponsored agencies	24,094	337	1	24,430	1.96 %
Total mortgage-backed securities	**489,155**	**10,555**	**3,400**	**496,310**	**2.05 %**
Investment securities					
US Treasury securities					
Due less than 1 year	10,737	88	—	10,825	1.48 %
Obligations of US government-sponsored agencies					
Due less than 1 year	1,182	1	—	1,183	1.40 %
Other debt securities					
Due less than 1 year	500	—	—	500	0.57 %
Due from 1 to 5 years	1,847	48	—	1,895	5.43 %
Total other debt securities	2,347	48	—	2,395	4.39 %
Total investment securities	**14,266**	**137**	**—**	**14,403**	**1.95 %**
Total securities available for sale	**$ 503,421**	**$ 10,692**	**$ 3,400**	**$ 510,713**	**2.05 %**

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
			(In thousands)		
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates					
Due after 10 years	**$ 367,507**	**$ —**	**$ 3,854**	**$ 363,653**	1.71 %

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.

The weighted average yield on debt securities available-for-sale is based on amortized cost and does not give effect to changes in fair value. Weighted average yields on tax-exempt obligations have been computed on a fully taxable equivalent basis.

At December 31, 2022 and 2021, most securities held by OFG are issued by U.S. government entities and government-sponsored agencies that have a zero-credit loss assumption.

Investment securities at December 31, 2022 include $294.2 million pledged to secure government deposits, derivatives, and regulatory collateral that the secured parties are not permitted to sell or repledge, of which $293.7 million serve as collateral for public funds. Investment securities as of December 31, 2021 include $145.6 million pledged to secure government deposits, derivatives, and regulatory collateral that the secured parties are not permitted to sell or repledge, of which $143.8 million serve as collateral for public funds.

At both December 31, 2022 and 2021, the Bank's international banking entities held short-term US Treasury securities in the amount of $305 thousand and $325 thousand, respectively, as the legal reserve required for international banking entities under Puerto Rico law. These instruments cannot be withdrawn or transferred without the prior written approval of the Office of the Commissioner of Financial Institutions of Puerto Rico ("OCFI").

During 2022, 2021 and 2020, OFG retained securitized GNMA pools totaling $112.4 million, $149.1 million, and $90.1 million amortized cost, respectively, at a yield of 3.90%, 2.45%, and 2.48%, respectively, from its own originations. Also, during 2022, OFG retained FNMA pools totaling $13.7 million, at a yield of 4.97%, from its own originations. OFG did not retain FNMA pools during 2021 and 2020.

During 2022, OFG purchased $550 million of available for sale US Treasury securities and $200 million of held to maturity US Treasury securities. During 2021, OFG did not purchase US Treasury securities. During 2020, OFG purchased $75 million of available for sale short-term US Treasury securities that matured before year end. US Treasury securities are exempt of income taxes.

During 2022, OFG sold $242.4 million of available for sale US Treasury securities and recognized a $247 thousand loss in the sale. During 2021 and 2020, OFG sold $2.2 million and $316.3 million, respectively, of available-for-sale mortgage-backed securities and recognized gains of $19 thousand and $4.7 million, respectively. These losses and gains are included in the consolidated statements of operations.

	Year Ended December 31, 2022			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
	(In thousands)			
Sale of securities available-for-sale				
Investment securities				
US Treasury securities	$ 242,126	$ 242,373	$ —	$ 247

	Year Ended December 31, 2021			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
	(In thousands)			
Sale of securities available-for-sale				
Mortgage-backed securities				
GNMA certificates	$ 2,175	$ 2,156	$ 19	$ —

Description	Year Ended December 31, 2020			
	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	$ 229,571	$ 227,213	$ 2,358	$ —
GNMA certificates	91,413	89,043	2,370	—
Total mortgage-backed securities	**$ 320,984**	**$ 316,256**	**$ 4,728**	**$ —**

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The following table shows OFG's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity at December 31, 2022 and 2021, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2022		
	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	337	7	330
FNMA and FHLMC certificates	$ 88,600	$ 18,989	$ 69,611
GNMA certificates	82,074	14,031	68,043
	$ 171,011	**$ 33,027**	**$ 137,984**
Held-to-maturity			
FNMA and FHLMC certificates	**$ 337,435**	**$ 62,358**	**$ 275,077**

	December 31, 2022		
	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 15,297	$ 776	$ 14,521
FNMA and FHLMC certificates	745,566	50,657	694,909
GNMA certificates	251,835	24,838	226,997
US Treasury securities	310,862	1,729	309,133
Other debt securities	240	4	236
	$ 1,323,800	**$ 78,004**	**$ 1,245,796**
Held-to-maturity			
FNMA and FHLMC certificates	$ —	**$ —**	$ —
US Treasury securities	197,635	**3,526**	194,109
	$ 197,635	**$ 3,526**	**$ 194,109**

	December 31, 2022		
	Total		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 15,634	$ 783	$ 14,851
FNMA and FHLMC certificates	834,166	69,646	764,520
GNMA certificates	333,909	38,869	295,040
US Treasury securities	310,862	1,729	309,133
Other debt securities	240	4	236
	$ 1,494,811	**$ 111,031**	**$ 1,383,780**
Held-to-maturity			
FNMA and FHLMC certificates	$ 337,435	$ 62,358	$ 275,077
US Treasury securities	197,635	3,526	194,109
	$ 535,070	**$ 65,884**	**$ 469,186**

	December 31, 2021		
	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 500	$ 1	$ 499
FNMA and FHLMC certificates	93,440	3,200	90,240
GNMA certificates	5,022	199	4,823
	$ 98,962	**$ 3,400**	**$ 95,562**
Held-to-maturity			
FNMA and FHLMC certificates	**$ 367,507**	**$ 3,854**	**$ 363,653**

OFG had no investment securities in a continuous loss position for 12 months or more at December 31, 2021.

NOTE 5 - PLEDGED ASSETS

The following table shows a summary of pledged and not pledged assets at December 31, 2022 and 2021. Investment securities available for sale are presented at fair value, and investment securities held to maturity, residential mortgage loans, commercial loans and leases are presented at amortized cost:

	December 31,	
	2022	2021
	(In thousands)	
Pledged investment securities to secure:		
Derivatives	$ 443	$ 1,679
Bond for the Bank's trust operations	104	105
Puerto Rico public fund deposits	293,650	143,775
Total pledged investment securities	**294,197**	**145,559**
Pledged residential mortgage loans to secure:		
Advances from the Federal Home Loan Bank	**473,600**	**550,209**
Pledged commercial loans to secure:		
Advances from the Federal Home Loan Bank	477,516	398,754
Federal Reserve Bank Credit Facility	49,117	47,239
Puerto Rico public fund deposits	73,617	85,148
	600,250	**531,141**
Pledged auto loans and leases to secure:		
Federal Reserve Bank Credit Facility	**1,160,678**	**1,138,126**
Total pledged assets	**$ 2,528,725**	**$ 2,365,035**
Financial assets not pledged:		
Investment securities	$ 1,653,649	$ 732,661
Residential mortgage loans	1,250,120	1,408,158
Commercial loans	2,050,767	1,879,755
Consumer loans	537,257	409,675
Auto loans and leases	803,237	568,184
Total assets not pledged	**$ 6,295,030**	**$ 4,998,433**

NOTE 6 - LOANS

OFG's loan portfolio is composed of four segments: commercial, mortgage, consumer, and auto loans and leases. Loans are further segregated into classes which OFG uses when assessing and monitoring the risk and performance of the portfolio.

The composition of the amortized cost basis of OFG's loan portfolio at December 31, 2022 and 2021 was as follows:

	December 31, 2022			December 31, 2021		
	Non-PCD	PCD	Total	Non-PCD	PCD	Total
	(In thousands)					
Commercial loans:						
Commercial secured by real estate	$ 974,202	$ 138,678	$ 1,112,880	$ 883,994	$ 176,186	$ 1,060,180
Other commercial and industrial	847,740	20,474	868,214	759,172	28,149	787,321
Other commercial and industrial - Paycheck Protection Program (PPP Loans)	6,702	—	6,702	86,889	—	86,889
US commercial loans	642,133	—	642,133	444,940	—	444,940
	2,470,777	**159,152**	**2,629,929**	**2,174,995**	**204,335**	**2,379,330**
Mortgage	**675,793**	**1,028,428**	**1,704,221**	**718,848**	**1,188,423**	**1,907,271**
Consumer:						
Personal loans	480,620	338	480,958	346,859	546	347,405
Credit lines	12,826	300	13,126	14,775	370	15,145
Credit cards	42,872	—	42,872	46,795	—	46,795
Overdraft	301	—	301	330	—	330
	536,619	**638**	**537,257**	**408,759**	**916**	**409,675**
Auto loans and leases	**1,958,257**	**5,658**	**1,963,915**	**1,693,029**	**13,281**	**1,706,310**
	5,641,446	**1,193,876**	**6,835,322**	**4,995,631**	**1,406,955**	**6,402,586**
Allowance for credit losses	(141,841)	(10,832)	(152,673)	(132,065)	(23,872)	(155,937)
Total loans held for investment, net	**5,499,605**	**1,183,044**	**6,682,649**	**4,863,566**	**1,383,083**	**6,246,649**
Mortgage loans held for sale	19,499	—	19,499	51,096	—	51,096
Other loans held for sale	21,088	—	21,088	31,566	—	31,566
Total loans held for sale	**40,587**	**—**	**40,587**	**82,662**	**—**	**82,662**
Total loans, net	**$ 5,540,192**	**$ 1,183,044**	**$ 6,723,236**	**$ 4,946,228**	**$ 1,383,083**	**$ 6,329,311**

During 2022, OFG transferred to held for sale two commercial loans amounting to $9.7 million, net of $8.8 million charge-offs, one of them was sold during the fourth quarter of 2022. In addition, during 2022, OFG sold $21.9 million of past due mortgage loans held for sale. These mortgage loans were transferred to held for sale during the fourth quarter of 2021.

At December 31, 2022 and 2021, OFG had carrying balances of $73.7 million and $87.3 million, respectively, in loans held for investment granted to the Puerto Rico government, including its municipalities and public corporations, as part of the commercial loan segment. The Bank's loans to the Puerto Rico government amounting to $73.7 million and $86.2 million at December 31, 2022 and 2021, respectively, were general obligations of municipalities secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities in current status. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations. At December 31, 2021, total loan exposure to the Puerto Rico government included a $1.1 million PCD loan granted to a public corporation classified as non-accrual, which was repaid during 2022.

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The tables below present the aging of the amortized cost of loans held for investment at December 31, 2022 and 2021, by class of loans. Mortgage loans past due include $32.6 million and $14.5 million of delinquent loans in the GNMA buy-back option program at December 31, 2022 and 2021, 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.

	December 31, 2022						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate	$ 923	$ 164	$ 6,147	$ 7,234	$ 966,968	$ 974,202	$ —
Other commercial and industrial	943	720	3,225	4,888	849,554	854,442	—
US commercial loans	—	—	—	—	642,133	642,133	—
	1,866	**884**	**9,372**	**12,122**	**2,458,655**	**2,470,777**	**—**
Mortgage	**9,267**	**5,848**	**56,714**	**71,829**	**603,964**	**675,793**	**3,856**
Consumer							
Personal loans	4,263	2,669	2,314	9,246	471,374	480,620	—
Credit lines	500	154	117	771	12,055	12,826	—
Credit cards	730	486	682	1,898	40,974	42,872	—
Overdraft	91	2	—	93	208	301	—
	5,584	**3,311**	**3,113**	**12,008**	**524,611**	**536,619**	**—**
Auto loans and leases	**75,237**	**36,954**	**19,613**	**131,804**	**1,826,453**	**1,958,257**	**—**
Total loans	**$ 91,954**	**$ 46,997**	**$ 88,812**	**$ 227,763**	**$ 5,413,683**	**$ 5,641,446**	**$ 3,856**

As of December 31, 2022, total past due loans exclude $21.1 million of past due commercial loans held for sale.

	December 31, 2021						
	30-59 Day Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate	$ 2,210	$ 102	$ 8,446	$ 10,758	$ 873,236	$ 883,994	$ —
Other commercial and industrial	1,886	538	946	3,370	842,691	846,061	—
US commercial loans	—	—	—	—	444,940	444,940	—
	4,096	**640**	**9,392**	**14,128**	**2,160,867**	**2,174,995**	**—**
Mortgage	**8,704**	**7,855**	**43,468**	**60,027**	**658,821**	**718,848**	**2,346**
Consumer							
Personal loans	2,382	1,131	1,116	4,629	342,230	346,859	—
Credit lines	531	141	227	899	13,876	14,775	—
Credit cards	610	336	631	1,577	45,218	46,795	—
Overdraft	130	14	—	144	186	330	—
	3,653	**1,622**	**1,974**	**7,249**	**401,510**	**408,759**	**—**
Auto loans and leases	**60,038**	**30,234**	**13,461**	**103,733**	**1,589,296**	**1,693,029**	**—**
Total loans	**$ 76,491**	**$ 40,351**	**$ 68,295**	**$185,137**	**$ 4,810,494**	**$ 4,995,631**	**$ 2,346**

As of December 31, 2021, total past due loans excludes $4.7 million of past due commercial loans held for sale.

Upon adoption of the CECL methodology, OFG elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. As such, PCD loans are not included in the tables above.

Non-accrual Loans

The following table presents the amortized cost basis of loans held for investment on nonaccrual status as of December 31, 2022 and 2021:

	December 31, 2022			December 31, 2021		
	Non-accrual with Allowance for Credit Loss	Non-accrual with no Allowance for Credit Loss	Total	Non-accrual with Allowance for Credit Loss	Non-accrual with no Allowance for Credit Loss	Total
	(In thousands)			(In thousands)		
Non-PCD:						
Commercial						
Commercial secured by real estate	$ 4,091	$ 17,098	$ 21,189	$ 16,299	$ 19,538	$ 35,837
Other commercial and industrial	2,769	885	3,654	1,283	483	1,766
US commercial loans	9,589	—	9,589	—	—	—
	16,449	**17,983**	**34,432**	**17,582**	**20,021**	**37,603**
Mortgage	**11,719**	**11,522**	**23,241**	**16,429**	**12,840**	**29,269**
Consumer						
Personal loans	1,950	379	2,329	1,143	302	1,445
Personal lines of credit	116	—	116	226	—	226
Credit cards	683	—	683	632	—	632
	2,749	**379**	**3,128**	**2,001**	**302**	**2,303**
Auto loans and leases	**19,612**	**1**	**19,613**	**19,827**	**2**	**19,829**
Total	**$ 50,529**	**$ 29,885**	**$ 80,414**	**$ 55,839**	**$ 33,165**	**$ 89,004**
PCD:						
Commercial						
Commercial secured by real estate	$ 2,807	$ 6,084	$ 8,891	$ 5,205	$ 6,198	$ 11,403
Other commercial and industrial	—	36	36	1,102	40	1,142
	2,807	**6,120**	**8,927**	**6,307**	**6,238**	**12,545**
Mortgage	**259**	**—**	**259**	**334**	**—**	**334**
Total	**$ 3,066**	**$ 6,120**	**$ 9,186**	**$ 6,641**	**$ 6,238**	**$ 12,879**
Total non-accrual loans	**$ 53,595**	**$ 36,005**	**$ 89,600**	**$ 62,480**	**$ 39,403**	**$ 101,883**

The determination of nonaccrual or accrual status of PCD loans is made at the pool level, not the individual loan level.

As of December 31, 2022 and 2021, total commercial non-accrual loans excludes $16.4 million and $9.9 million of non-accrual commercial loans held for sale, respectively.

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

At December 31, 2022 and 2021, loans whose terms have been extended and which were classified as troubled-debt restructurings that were not included in non-accrual loans amounted to $145.2 million and $125.9 million, respectively, as they were performing under their modified terms.

Modifications

OFG offers various types of concessions when modifying a loan. Concessions made to the original contractual terms of the loan typically consists of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. In these cases, the principal balance on the TDR had matured and/or was in default at the time of restructure. The amount of outstanding commitments to lend additional funds to commercial borrowers whose terms have been modified in TDRs amounted to $3.2 million and $3.7 million at December 31, 2022 and 2021, respectively.

The following table presents the troubled-debt restructurings in all loan portfolios as of December 31, 2022 and 2021.

	December 31, 2022				December 31, 2021			
	Accruing	Non-accruing	Total	Related Allowance	Accruing	Non-accruing	Total	Related Allowance
	(In thousands)				(In thousands)			
Commercial loans:								
Commercial secured by real estate	$ 31,437	$ 13,187	$ 44,624	$ 181	$ 10,981	$ 14,444	$ 25,425	$ 202
Other commercial and industrial	2,272	354	2,626	42	2,785	473	3,258	41
US commercial loans	7,132	—	7,132	89	7,156	—	7,156	126
	40,841	**13,541**	**54,382**	**312**	**20,922**	**14,917**	**35,839**	**369**
Mortgage	**102,387**	**6,773**	**109,160**	**2,495**	**101,487**	**9,475**	**110,962**	**3,867**
Consumer:								
Personal loans	**1,850**	**15**	**1,865**	**73**	**3,275**	**139**	**3,414**	**159**
Auto loans and leases	**77**	**—**	**77**	**3**	**203**	**8**	**211**	**11**
Total loans	**$ 145,155**	**$ 20,329**	**$ 165,484**	**$ 2,883**	**$ 125,887**	**$ 24,539**	**$ 150,426**	**$ 4,406**

The following tables present the troubled-debt restructurings by loan portfolios and modification type as of December 31, 2022 and 2021:

	December 31, 2022				
	Reduction in interest rate	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forbearance	Total
			(In thousands)		
Commercial loans:					
Commercial secured by real estate	$ 7,746	$ 29,454	$ 7,424	$ —	$ 44,624
Other commercial and industrial	785	1,367	474	—	2,626
US commercial loans	7,132	—	—	—	7,132
	15,663	**30,821**	**7,898**	**—**	**54,382**
Mortgage	**31,709**	**8,020**	**35,194**	**34,237**	**109,160**
Consumer:					
Personal loans	**825**	**176**	**793**	**71**	**1,865**
Auto loans and leases	**39**	**—**	**20**	**18**	**77**
Total loans	**$ 48,236**	**$ 39,017**	**$ 43,905**	**$ 34,326**	**$ 165,484**

	December 31, 2021				
	Reduction in interest rate	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forbearance	Total
			(In thousands)		
Commercial loans:					
Commercial secured by real estate	$ 8,461	$ 1,227	$ 12,401	$ 3,336	$ 25,425
Other commercial and industrial	723	1,985	522	28	3,258
US commercial loans	7,156	—	—	—	7,156
	16,340	**3,212**	**12,923**	**3,364**	**35,839**
Mortgage	**37,307**	**6,796**	**32,456**	**34,403**	**110,962**
Consumer:					
Personal loans	**1,496**	**287**	**1,430**	**201**	**3,414**
Auto loans and leases	**74**	**—**	**28**	**109**	**211**
Total loans	**$ 55,217**	**$ 10,295**	**$ 46,837**	**$ 38,077**	**$ 150,426**

TDRs disclosed above were not related to Covid-19 modifications. Section 4013 of CARES Act and the "*Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)"* provided banks an option to elect to not account for certain loan modifications related to Covid-19 as TDRs as long as the borrowers were not more than 30 days past due as of December 31, 2019 and at the time of implementation of the modification program, and the borrowers meet other applicable criteria. At December 31, 2021, there were $28.0 million loans deferred from the Covid-19 pandemic that were not classified as a TDR, which consisted of FHA and VA insured mortgage loans. There were no deferred loans from the COVID-19 pandemic at December 31, 2022.

At December 31, 2022 and 2021, TDR mortgage loans include $43.5 million and $40.8 million, respectively, of government-guaranteed loans (*e.g.* FHA/VA).

Upon adoption of CECL, OFG elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. As such, PCD loans are not included in the TDR tables.

Loan modifications that are considered TDR loans completed during 2022, 2021 and 2020 were as follows:

	Year Ended December 31, 2022						
	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	103	$ 12,580	4.63 %	258	$ 13,199	3.79 %	342
Commercial	5	38,873	3.57 %	131	38,729	3.64 %	184
Consumer	4	77	13.42 %	74	77	10.41 %	70

	Year Ended December 31, 2021						
	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	160	$ 20,077	4.33 %	323	$ 20,241	3.47 %	345
Commercial	7	10,093	5.50 %	86	9,979	4.48 %	60
Consumer	17	294	13.72 %	69	295	10.12 %	78
Auto loans and leases	9	148	8.70 %	72	148	9.35 %	49

	Year Ended December 31, 2020						
	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	88	$ 11,081	4.70 %	332	$ 10,151	4.13 %	327
Commercial	8	14,896	5.45 %	63	14,896	4.36 %	77
Consumer	23	349	14.11 %	64	391	10.57 %	76
Auto loans and leases	31	217	10.88 %	74	219	11.02 %	71

The following table presents troubled-debt restructurings for which there was a payment default during 2022, 2021 and 2020:

	Year Ended December 31,					
	2022		2021		2020	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)					
Mortgage	13	$ 1,701	19	$ 2,488	9	$ 1,345
Commercial	1	$ 633	—	$ —	—	$ —
Consumer	1	$ 40	6	$ 76	1	$ 2
Auto loans and leases	—	$ —	1	$ 10	—	$ —

As of December 31, 2022 and 2021, the recorded investment on residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure amounted to $14.9 million and $16.9 million, respectively. OFG commences the foreclosure process on residential real estate loans when a borrower becomes 120 days delinquent. Puerto Rico and the USVI require the foreclosure to be processed through the respective territory's courts. Foreclosure timelines vary according to local law and investor guidelines. Occasionally, foreclosures may be delayed due to, among other reasons, mandatory mediation, bankruptcy, court delays and title issues.

As a result of the effects of Hurricane Fiona and Puerto Rico being declared a disaster zone by local and federal authorities during 2022, OFG granted loan payment accommodations to certain qualified borrowers in order to provide them with flexibility to address the hurricane's immediate impact. In addition, for its business banking segment, OFG granted loans up to $50,000 with three months of interest-only payments followed by up to thirty-three payments of principal and interest. At December 31, 2022, the total loans outstanding under the payment accommodations program amounted to $33.1 million.

The table below presents the amortized cost of collateral-dependent loans held for investment at December 31, 2022 and 2021, by class of loans.

	December 31,	
	2022	2021
	(In thousands)	
Commercial secured by real estate	**$ 8,805**	**$ 10,233**

PCD loans, except for single pooled loans, are not included in the table above as their unit of account is the loan pool.

Credit Quality Indicators

OFG categorizes its loans into loan grades based on relevant information about the ability of borrowers to service their debts, such as economic conditions, portfolio risk characteristics, prior loss experience, and the results of periodic credit reviews of individual loans.

OFG uses the following definitions for loan grades:

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 process described above are considered to be pass loans.

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of December 31, 2022 and 2021 and based on the most recent analysis performed, the risk category of loans held for investment subject to risk rating by class of loans is as follows.

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2022	2021	2020	2019	2018	Prior		
	(In thousands)							
Commercial:								
Commercial secured by real estate:								
Loan grade:								
Pass	$220,035	$177,775	$110,809	$118,518	$ 50,454	$159,721	$ 69,523	$ 906,835
Special Mention	1,899	—	6,007	17,004	2,095	13,934	439	41,378
Substandard	103	8,410	345	405	473	14,722	1,185	25,643
Doubtful	—	—	—	—	—	15	331	346
Loss	—	—	—	—	—	—	—	—
Total commercial secured by real estate	222,037	186,185	117,161	135,927	53,022	188,392	71,478	974,202
Other commercial and industrial:								
Loan grade:								
Pass	123,659	198,776	67,147	35,678	13,807	7,863	397,944	844,874
Special Mention	3	60	31	654	1,819	21	3,823	6,411
Substandard	112	—	260	472	280	74	1,920	3,118
Doubtful	—	—	—	—	—	—	39	39
Loss	—	—	—	—	—	—	—	—
Total other commercial and industrial:	123,774	198,836	67,438	36,804	15,906	7,958	403,726	854,442
US commercial loans:								
Loan grade:								
Pass	81,155	92,688	43,965	33,827	49,356	—	308,183	609,174
Special Mention	6,346	—	—	—	—	—	1,122	7,468
Substandard	3,363	—	8,090	—	4,449	—	9,589	25,491
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total US commercial loans:	90,864	92,688	52,055	33,827	53,805	—	318,894	642,133
Total commercial loans	**$436,675**	**$477,709**	**$236,654**	**$206,558**	**$122,733**	**$196,350**	**$ 794,098**	**$ 2,470,777**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2021	2020	2019	2018	2017	Prior		
	(In thousands)							
Commercial:								
Commercial secured by real estate:								
Loan grade:								
Pass	$183,820	$120,855	$114,208	$ 94,864	$ 52,439	$183,026	$ 45,178	$ 794,390
Special Mention	654	628	32,578	4,581	4,053	5,102	643	48,239
Substandard	8,415	10,694	58	849	1,357	17,555	1,671	40,599
Doubtful	—	—	—	—	—	22	744	766
Loss	—	—	—	—	—	—	—	—
Total commercial secured by real estate	192,889	132,177	146,844	100,294	57,849	205,705	48,236	883,994
Other commercial and industrial:								
Loan grade:								
Pass	276,165	93,809	45,976	57,989	6,106	6,004	330,072	816,121
Special Mention	78	23	8,076	2,213	3,525	—	13,642	27,557
Substandard	112	48	155	394	81	28	1,513	2,331
Doubtful	—	—	—	—	—	—	52	52
Loss	—	—	—	—	—	—	—	—
Total other commercial and industrial:	276,355	93,880	54,207	60,596	9,712	6,032	345,279	846,061
US commercial loans:								
Loan grade:								
Pass	85,394	61,098	41,924	47,179	—	—	171,928	407,523
Special Mention	—	—	1,515	19,095	—	—	—	20,610
Substandard	—	7,156	—	9,651	—	—	—	16,807
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total US commercial loans:	85,394	68,254	43,439	75,925	—	—	171,928	444,940
Total commercial loans	**$554,638**	**$294,311**	**$244,490**	**$236,815**	**$ 67,561**	**$211,737**	**$ 565,443**	**$ 2,174,995**

At December 31, 2022 and 2021, the balance of revolving loans converted to term loans was $78.0 million and $37.5 million, respectively.

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

OFG considers the performance of the loan portfolio and its impact on the allowance for credit losses. For mortgage and consumer loan classes, OFG also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following tables present the amortized cost in mortgage and consumer loans held for investment based on payment activity as of December 31, 2022 and 2021:

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2022	2021	2020	2019	2018	Prior		
	(In thousands)							
Mortgage:								
Payment performance:								
Performing	$ 18,700	$ 25,274	$ 16,175	$ 15,457	$ 16,790	$549,885	$ —	$ 642,281
Nonperforming	—	—	110	574	241	32,587	—	33,512
Total mortgage loans:	18,700	25,274	16,285	16,031	17,031	582,472	—	675,793
Consumer:								
Personal loans:								
Payment performance:								
Performing	284,183	112,591	31,876	31,850	12,022	5,768	—	478,290
Nonperforming	831	661	111	300	81	346	—	2,330
Total personal loans	285,014	113,252	31,987	32,150	12,103	6,114	—	480,620
Credit lines:								
Payment performance:								
Performing	—	—	—	—	—	—	12,710	12,710
Nonperforming	—	—	—	—	—	—	116	116
Total credit lines	—	—	—	—	—	—	12,826	12,826
Credit cards:								
Payment performance:								
Performing	—	—	—	—	—	—	42,189	42,189
Nonperforming	—	—	—	—	—	—	683	683
Total credit cards	—	—	—	—	—	—	42,872	42,872
Overdrafts:								
Payment performance:								
Performing	—	—	—	—	—	—	301	301
Nonperforming	—	—	—	—	—	—	—	—
Total overdrafts	—	—	—	—	—	—	301	301
Total consumer loans	285,014	113,252	31,987	32,150	12,103	6,114	55,999	536,619
Total mortgage and consumer loans	$303,714	$138,526	$ 48,272	$ 48,181	$ 29,134	$588,586	$ 55,999	$1,212,412

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2021	2020	2019	2018	2017	Prior		
	(In thousands)							
Mortgage:								
Payment performance:								
Performing	$ 18,486	$ 16,585	$ 15,461	$ 19,261	$ 24,872	$ 584,792	$ —	$ 679,457
Nonperforming	—	126	129	510	1,830	36,796	—	39,391
Total mortgage loans:	18,486	16,711	15,590	19,771	26,702	621,588	—	718,848
Consumer:								
Personal loans:								
Payment performance:								
Performing	175,273	55,960	65,425	29,808	12,287	6,661	—	345,414
Nonperforming	296	239	411	143	20	336	—	1,445
Total personal loans	175,569	56,199	65,836	29,951	12,307	6,997	—	346,859
Credit lines:								
Payment performance:								
Performing	—	—	—	—	—	—	14,549	14,549
Nonperforming	—	—	—	—	—	—	226	226
Total credit lines	—	—	—	—	—	—	14,775	14,775
Credit cards:								
Payment performance:								
Performing	—	—	—	—	—	—	46,163	46,163
Nonperforming	—	—	—	—	—	—	632	632
Total credit cards	—	—	—	—	—	—	46,795	46,795
Overdrafts:								
Payment performance:								
Performing	—	—	—	—	—	—	330	330
Nonperforming	—	—	—	—	—	—	—	—
Total overdrafts	—	—	—	—	—	—	330	330
Total consumer loans	175,569	56,199	65,836	29,951	12,307	6,997	61,900	408,759
Total mortgage and consumer loans	$194,055	$ 72,910	$ 81,426	$ 49,722	$ 39,009	$ 628,585	$ 61,900	$ 1,127,607

At December 31, 2022 and 2021, there were no revolving loans that converted to term loans.

OFG evaluates credit quality for auto loans and leases based on FICO score. The following tables present the amortized cost in auto loans and leases held for investment based on their most recent FICO score as of December 31, 2022 and 2021:

	Term Loans Amortized Cost Basis by Origination Year						
	2022	2021	2020	2019	2018	Prior	Total
	(In thousands)						
Auto loans and leases:							
FICO score:							
1-660	178,426	143,926	72,148	58,069	44,156	31,980	528,705
661-699	171,723	93,359	42,388	31,033	21,283	13,518	373,304
700+	375,845	235,743	144,783	135,517	88,597	47,499	1,027,984
No FICO	7,766	6,553	3,741	5,873	3,008	1,323	28,264
Total auto loans and leases:	**$ 733,760**	**$ 479,581**	**$ 263,060**	**$ 230,492**	**$ 157,044**	**$ 94,320**	**$ 1,958,257**

	Term Loans Amortized Cost Basis by Origination Year						
	2021	2020	2019	2018	2017	Prior	Total
	(In thousands)						
Auto loans and leases:							
FICO score:							
1-660	161,534	90,402	80,745	65,681	38,001	23,171	459,534
661-699	134,507	68,422	48,173	33,854	16,761	10,534	312,251
700+	245,148	180,737	184,307	133,098	63,229	38,474	844,993
No FICO	26,759	13,580	17,062	10,119	5,515	3,216	76,251
Total auto loans and leases:	**$ 567,948**	**$ 353,141**	**$ 330,287**	**$ 242,752**	**$ 123,506**	**$ 75,395**	**$ 1,693,029**

Upon adoption of CECL, OFG elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. As such, PCD loans are not included in the tables above.

NOTE 7 – ALLOWANCE FOR CREDIT LOSSES

On January 1, 2020, OFG adopted the accounting standard that requires the measurement of the allowance for credit losses to be based on management's best estimate of lifetime expected credit losses inherent in OFG's relevant financial assets.

The ACL is estimated using quantitative methods that consider a variety of factors such as historical loss experience, the current credit quality of the portfolio, and an economic outlook over the life of the loan. Also included in the ACL are qualitative reserves to cover losses that are expected but, in OFG's assessment, may not be adequately represented in the quantitative methods or the economic assumptions. In its loss forecasting framework, OFG incorporates forward-looking information through the use of macroeconomic scenarios applied over the forecasted life of the assets. The scenarios that are chosen each quarter and the amount of weighting given to each scenario depend on a variety of factors, including recent economic events, leading economic indicators, views of internal as well as third-party economists and industry trends. For more information on OFG's credit loss accounting policies, including the allowance for credit losses, see Note 1 - Summary of Significant Accounting Policies.

At December 31, 2022, OFG used an economic probability weighted scenario approach consisting of the baseline and moderate recession scenarios, giving more weight to the baseline scenario, except for the US loan segment that used the same level of probability in both economic scenarios. In addition, the ACL at December 31, 2022 continues to include qualitative reserves for certain segments that OFG views as higher risk that may not be fully recognized through its quantitative models, such as the evolution of risk ratings applied to the commercial loans and consumer retail portfolios. There are still many unknown variables including the results of the government's fiscal and monetary actions resulting from the effect of inflation and geopolitical tension from the military conflict between Ukraine and Russia.

As of December 31, 2022, the allowance for credit losses decreased by $3.3 million when compared to December 31, 2021. The provision for credit losses for 2022 reflected a provision of $25.9 million related to the growth in loan balances, a provision of $11.8 million related to commercial-specific loan reserves due to certain commercial loans placed in non-accrual status, and a provision of $1.9 million for changes in the economic and loss rate models, offset by a $15.2 million release associated with qualitative adjustment due to improvement in the performance of the portfolios and in Puerto Rico's labor market.

The net charge-offs for 2022, amounted to $27.7 million, a decrease of $22.1 million when compared to 2021. The decrease is mainly due to reductions of $27.1 million in mortgage loans and $7.3 million in commercial loans, offset by increases of $8.9 million in auto loans and leases, and $3.4 million in consumer loans. During 2021, OFG recognized $30.1 million net charge-offs related to the decision to sell $65.5 million past due loans, which were subsequently sold during 2022.

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables present the activity in OFG's allowance for credit losses by segment for 2022, 2021 and 2020:

	Year Ended December 31, 2022				
	Commercial	Mortgage	Consumer	Auto loans and leases	Total
	(In thousands)				
Non-PCD:					
Balance at beginning of year	$ 32,262	$ 15,299	$ 19,141	$ 65,363	$ 132,065
Provision for (recapture of) credit losses	19,076	(8,758)	16,084	16,016	42,418
Charge-offs	(13,380)	(284)	(15,198)	(32,662)	(61,524)
Recoveries	1,200	3,314	3,237	21,131	28,882
Balance at end of year	**$ 39,158**	**$ 9,571**	**$ 23,264**	**$ 69,848**	**$ 141,841**
PCD:					
Balance at beginning of year	$ 4,508	$ 19,018	$ 34	$ 312	$ 23,872
(Recapture) provision of credit losses	(6,855)	(10,629)	62	(588)	(18,010)
Charge-offs	(69)	(1,695)	(176)	(310)	(2,250)
Recoveries	3,804	2,665	94	657	7,220
Balance at end of year	**$ 1,388**	**$ 9,359**	**$ 14**	**$ 71**	**$ 10,832**
Total allowance for credit losses at end of year	**$ 40,546**	**$ 18,930**	**$ 23,278**	**$ 69,919**	**$ 152,673**

Total commercial charge-offs for 2022 included $12.3 million charge-offs that were previously reserved for four commercial loans, two of them were sold during 2022.

Total recoveries for 2022 included a $2.8 million recovery from a Puerto Rico government public corporation PCD commercial loan repaid during the first quarter of 2022 and $1.1 million recoveries associated with the final settlement of the past due mortgage loans transferred to held for sale during the fourth quarter of 2021 and subsequently sold during the first quarter of 2022.

	Year Ended December 31, 2021				
	Commercial	Mortgage	Consumer	Auto loans and leases	Total
	(In thousands)				
Non-PCD:					
Balance at beginning of year	$ 45,779	$ 19,687	$ 25,253	$ 70,296	$ 161,015
(Recapture of) provision for credit losses	(7,130)	(242)	2,868	(2,373)	(6,877)
Charge-offs	(8,788)	(5,789)	(11,880)	(26,530)	(52,987)
Recoveries	2,401	1,643	2,900	23,970	30,914
Balance at end of year	**$ 32,262**	**$ 15,299**	**$ 19,141**	**$ 65,363**	**$ 132,065**
PCD:					
Balance at beginning of year	$ 16,405	$ 26,389	$ 57	$ 943	$ 43,794
(Recapture of) provision for credit losses	(2,585)	11,556	(317)	(894)	7,760
Charge-offs	(12,241)	(20,350)	(22)	(946)	(33,559)
Recoveries	2,929	1,423	316	1,209	5,877
Balance at end of year	**$ 4,508**	**$ 19,018**	**$ 34**	**$ 312**	**$ 23,872**
Total allowance for credit losses at end of year	**$ 36,770**	**$ 34,317**	**$ 19,175**	**$ 65,675**	**$ 155,937**

As a result of the decision to sell mortgage and commercial loans during 2021, OFG recognized $30.1 million in net charge-offs and an additional provision of $9.7 million, decreasing the allowance for credit losses by $20.4 million.

	Year Ended December 31, 2020				
	Commercial	Mortgage	Consumer	Auto loans and leases	Total
	(In thousands)				
Non-PCD:					
Balance at beginning of year	$ 25,993	$ 8,727	$ 18,446	$ 31,878	$ 85,044
Impact of ASC 326 adoption	3,562	10,980	8,418	16,238	39,198
Provision for credit losses	18,462	258	16,579	51,233	86,532
Charge-offs	(4,979)	(884)	(21,772)	(48,547)	(76,182)
Recoveries	2,741	606	3,582	19,494	26,423
Balance at end of year	**$ 45,779**	**$ 19,687**	**$ 25,253**	**$ 70,296**	**$ 161,015**
PCD:					
Balance at beginning of year	$ 8,893	$ 21,655	$ —	$ 947	$ 31,495
Impact of ASC 326 adoption	42,143	7,830	181	368	50,522
Provision for credit losses	480	6,392	126	187	7,185
Charge-offs	(36,097)	(10,342)	(542)	(2,023)	(49,004)
Recoveries	986	854	292	1,464	3,596
Balance at end of year	**$ 16,405**	**$ 26,389**	**$ 57**	**$ 943**	**$ 43,794**
Total allowance for credit losses at end of year	**$ 62,184**	**$ 46,076**	**$ 25,310**	**$ 71,239**	**$ 204,809**

The allowance for credit losses for 2020 included a $39.9 million provision to incorporate changes in the macro-economic scenario and qualitative adjustments as a result of the Covid-19 pandemic.

NOTE 8 — FORECLOSED REAL ESTATE

The following table presents the activity related to foreclosed real estate for 2022, 2021 and 2020:

	Year Ended December 31,		
	2022	2021	2020
	(In thousands)		
Balance at beginning of year	**$ 15,039**	**$ 11,596**	**$ 29,909**
Additions	7,872	18,221	3,654
Sales	(16,855)	(14,758)	(18,521)
Decline in value	(1,256)	(1,450)	(2,489)
Other adjustments	6,414	1,430	(957)
Balance at end of year	**$ 11,214**	**$ 15,039**	**$ 11,596**

NOTE 9 — PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2022 and 2021 are stated at cost less accumulated depreciation and amortization as follows:

	Useful Life (Years)	December 31,	
		2022	2021
		(In thousands)	
Land	—	$ 4,031	$ 4,080
Buildings and improvements	20 — 40	74,349	77,988
Leasehold improvements	1 — 10	17,901	20,929
Furniture and fixtures	3 — 10	23,460	19,378
Information technology and other	3 — 7	59,130	43,156
		178,871	165,531
Less: accumulated depreciation and amortization		(72,051)	(73,407)
		$ 106,820	**$ 92,124**

Depreciation and amortization of premises and equipment totaled $15.8 million, $14.1 million and $12.7 million for 2022, 2021 and 2020, respectively. These are included in the consolidated statements of operations as part of occupancy and equipment expenses.

NOTE 10 - SERVICING ASSETS

At December 31, 2022, the fair value of mortgage servicing rights was $50.9 million ($49.0 million — December 31, 2021).

The following table presents the changes in servicing rights measured using the fair value method for 2022, 2021 and 2020:

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Fair value at beginning of year	**$ 48,973**	**$ 47,295**	**$ 50,779**
Servicing from mortgage securitization or asset transfers	3,998	6,089	2,394
Changes due to payments on loans	(5,312)	(6,738)	(4,067)
Changes in fair value due to changes in valuation model inputs or assumptions	3,262	2,327	(1,811)
Fair value at end of year	**$ 50,921**	**$ 48,973**	**$ 47,295**

The following table presents key economic assumption ranges used in measuring the mortgage-related servicing asset fair value as of December 31, 2022, 2021 and 2020:

	Year Ended December 31,		
	2022	2021	2020
Constant prepayment rate	3.43% - 21.20%	3.90% - 24.48%	5.02% - 35.22%
Discount rate	10.00% - 15.50%	10.00% - 15.50%	10.00% - 15.50%

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

	December 31,	
	2022	2021
	(In thousands)	
Mortgage-related servicing asset		
Carrying value of mortgage servicing asset	$ 50,921	$ 48,973
Weighted average life (in years)	7.8	7.8
Constant prepayment rate		
Decrease in fair value due to 10% adverse change	$ (956)	$ (1,020)
Decrease in fair value due to 20% adverse change	$ (1,880)	$ (2,004)
Discount rate		
Decrease in fair value due to 10% adverse change	$ (2,265)	$ (2,175)
Decrease in fair value due to 20% adverse change	$ (4,356)	$ (4,183)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% 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 2022, 2021 and 2020 totaled $20.3 million, $21.4 million and $17.2 million, respectively.

NOTE 11 — DERIVATIVES

OFG's overall interest rate risk-management strategy incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. Derivative instruments that are used as part of OFG's interest rate risk-management strategy include interest rate swaps and caps.

As of December 31, 2022 and 2021, the notional amount of derivative contracts outstanding was $26.6 million and $28.5 million respectively. The gross fair value of derivative asset was $406 thousand and $1 thousand, respectively, and the gross fair value of derivatives liabilities was zero and $804 thousand, respectively. The impact of master netting agreements was not material. As of December 31, 2022 and 2021, derivative and hedging activities were not material.

NOTE 12 — GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill attributable to operating segments are reflected in the table below. The activity during 2022 reflects the sale on December 31, 2022 of OFG's retirement plan administration business. Refer to Note 28 – Business Segments for additional information on OFG's reportable business segments.

	Banking	Wealth Management	Treasury	Total
		(In thousands)		
December 31, 2021	$ 84,063	$ 2,006	$ —	$ 86,069
Goodwill written off related to sale of business unit	—	(1,828)	—	(1,828)
December 31, 2022	**$ 84,063**	**$ 178**	**$ —**	**$ 84,241**

There were no changes in the carrying amount of goodwill as of December 31, 2021 and 2020. There were no accumulated impairment losses during 2022, 2021 and 2020.

Relevant events and circumstances for evaluating whether it is more likely than not that the fair value of a reporting segment is less than its carrying amount may include macroeconomic conditions (such as 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, natural disasters, or similar events.

OFG performed its annual impairment review of goodwill during the fourth quarter of 2022 and 2021 using October 31, 2022 and 2021, respectively, as the annual evaluation date and concluded that there was no impairment at December 31, 2022 and 2021.

The following table reflects the components of other intangible assets subject to amortization at December 31, 2022 and 2021:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
		(In thousands)	
December 31, 2022			
Core deposit intangibles	$ 41,507	$ 20,376	$ 21,131
Customer relationship intangibles	12,693	6,231	6,462
Total other intangible assets	**$ 54,200**	**$ 26,607**	**$ 27,593**
December 31, 2021			
Core deposit intangibles	$ 51,402	$ 23,772	$ 27,630
Customer relationship intangibles	17,753	9,385	8,368
Other intangibles	567	472	95
Total other intangible assets	**$ 69,722**	**$ 33,629**	**$ 36,093**

In connection with previous acquisitions, OFG recorded a core deposit intangible representing the value of checking and savings deposits acquired. In addition, OFG recorded a customer relationship intangible representing the value of customer relationships acquired with the acquisitions of insurance agencies. During 2022, the core deposit intangible and customer relationship intangible recorded during the BBVAPR acquisition was fully amortized.

Other intangible assets have a definite useful life. Amortization of other intangible assets for 2022, 2021 and 2020 was $8.5 million, $9.8 million, and $11.1 million, respectively.

The following table presents the estimated amortization of other intangible assets for each of the following periods.

Year Ending December 31,	(In thousands)
2023	$ 6,898
2024	5,913
2025	4,927
2026	3,942
2027	2,956
Thereafter	2,957

NOTE 13 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at December 31, 2022 and 2021 consists of the following:

	December 31,	
	2022	2021
	(In thousands)	
Loans	$ 58,144	$ 54,794
Investments	4,258	1,766
	$ 62,402	**$ 56,560**

Accrued interest receivable on loans that participated in the Hurricane Fiona and Covid-19 deferral programs amounted to $21.8 million at December 31, 2022, of which $20.7 million corresponds to loans in current status. Accrued interest receivable on loans that participated in the Covid-19 deferral program amounted to $23.9 million at December 31, 2021, of which $21.5 million corresponds to loans in current status. OFG estimates expected credit losses on accrued interest receivable for loans that participated in moratorium programs. An allowance has been established for loans with delinquency status in 30 to 89 days past due and is calculated by applying the corresponding loan projected loss factors to the accrued interest receivable balance. At December 31, 2022 and 2021, the allowance for credit losses for accrued interest receivable for loans that participated in moratorium programs amounted to $144 thousand and $161 thousand, respectively, and is included in accrued interest receivable in the statement of financial condition.

Other assets at December 31, 2022 and 2021 consist of the following:

	December 31,	
	2022	2021
	(In thousands)	
Prepaid expenses	$ 54,875	$ 61,061
Other repossessed assets	4,617	1,945
Investment in Statutory Trust	—	1,083
Accounts receivable and other assets	61,420	88,756
	$ 120,912	**$ 152,845**

Prepaid expenses amounting to $54.9 million at December 31, 2022, include prepaid municipal, property and income taxes aggregating to $47.2 million. At December 31, 2021 prepaid expenses amounted to $61.1 million, including prepaid municipal, property and income taxes aggregating to $54.6 million.

Other repossessed assets totaled $4.6 million and $1.9 million at December 31, 2022 and 2021, respectively, and consist of repossessed automobiles, which are recorded at their net realizable value.

NOTE 14— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of December 31, 2022 and 2021 consist of the following:

	December 31,	
	2022	2021
	(In thousands)	
Non-interest-bearing demand deposits	$ 2,630,458	$ 2,501,644
Interest-bearing savings and demand deposits	4,774,265	4,880,476
Retail certificates of deposit	979,545	1,007,577
Institutional certificates of deposit	172,725	202,050
Total core deposits	**8,556,993**	**8,591,747**
Brokered deposits	11,371	11,371
Total deposits	**$ 8,568,364**	**$ 8,603,118**

At December 31, 2022 and 2021, the aggregate amount of uninsured deposits was $3.498 billion and $3.270 billion, respectively.

The weighted average interest rate of OFG's deposits was 0.41% and 0.49%, respectively, at December 31, 2022 and 2021. Interest expense for 2022, 2021 and 2020 was as follows:

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Demand and savings deposits	$ 24,261	$ 23,713	$ 25,798
Certificates of deposit	7,978	15,301	34,400
	$ 32,239	**$ 39,014**	**$ 60,198**

At December 31, 2022 and 2021, time deposits in denominations of $250 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $384.4 million and $360.8 million, respectively.

At December 31, 2022 and 2021, total public fund deposits from various Puerto Rico government municipalities, agencies and corporations amounted to $284.2 million and $183.8 million, respectively. These public funds were collateralized with commercial loans and securities amounting to $367.3 million and $228.9 million at December 31, 2022 and 2021, respectively.

Excluding accrued interest of approximately $682 thousand and $736 thousand, the scheduled maturities of certificates of deposit at December 31, 2022 and 2021 are as follows:

December 31, 2022

	Year-end amount	Uninsured amount
	(In thousands)	
Within one year:		
Three months or less	$ 238,776	$ 29,503
Over 3 months through 6 months	152,940	18,238
Over 6 months through 1 year	262,976	59,093
	654,692	**106,834**
Over 1 through 2 years	279,034	64,109
Over 2 through 3 years	136,732	26,481
Over 3 through 4 years	51,505	8,276
Over 4 through 5 years	39,888	2,230
Over 5 years	1,108	—
	$ 1,162,959	**$ 207,930**

December 31, 2021

	Year-end amount	Uninsured amount
	(In thousands)	
Within one year:		
Three months or less	$ 252,513	25,003
Over 3 months through 6 months	147,400	12,113
Over 6 months through 1 year	239,830	45,280
	639,743	**82,396**
Over 1 through 2 years	328,177	60,108
Over 2 through 3 years	114,403	18,578
Over 3 through 4 years	77,604	22,536
Over 4 through 5 years	58,918	8,505
Over 5 years	1,417	—
	$ 1,220,262	**$ 192,123**

The tables 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 $495 thousand and $491 thousand as of December 31, 2022 and 2021, respectively.

NOTE 15— BORROWINGS AND RELATED INTEREST

Advances from the Federal Home Loan Bank of New York

Advances are received from the FHLB under an agreement whereby OFG is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At December 31, 2022 and 2021, these advances were secured by mortgage and commercial loans amounting to $951.1 million and $949.0 million, respectively. Also, at December 31, 2022 and 2021, OFG had an additional borrowing capacity with the FHLB of $628.1 million and $697.3 million, respectively. At December 31, 2022 and 2021, the weighted average remaining maturity of FHLB's advances was 3 days. The original term of the outstanding advance at December 31, 2022 is 1 month.

The following table shows a summary of the advances and their terms, excluding accrued interest in the amount of $103 thousand and $8 thousand at December 31, 2022 and 2021, respectively:

	December 31,	
	2022	2021
	(In thousands)	
Short-term fixed-rate advances from FHLB, with a weighted average interest rate of 4.46% (December 31, 2021 - 0.35%)	$ 26,613	$ 28,480

Advances from FHLB mature as follows:

	December 31,	
	2022	2021
	(In thousands)	
Under 90 days	$ 26,613	$ 28,480

Subordinated Capital Notes

In August 2003, the Statutory Trust II, a special purpose entity of OFG, was formed for the purpose of issuing trust redeemable preferred securities. In September 2003, $35.0 million of trust redeemable preferred securities were issued by the Statutory Trust II as part of a pooled underwriting transaction. The proceeds from this issuance were used by the Statutory Trust II to purchase a like amount of a floating rate junior subordinated deferrable interest debenture issued by OFG with a par value of $36.1 million.

During 2022, OFG redeemed all outstanding $36.1 million subordinated capital notes before maturity, and as a result, it wrote off $405 thousand in unamortized issuance costs, included as interest expense in the consolidated statements of operations. OFG also recorded a gain on early debt extinguishment of $42 thousand included in other non-interest income in the consolidated statements of operations. Prior to redemption, such subordinated capital notes carried an interest rate of 3.23% based on 3-month LIBOR plus 295 basis points and were schedule to mature on September 17, 2033. Following the redemption of the subordinated capital notes, the Statutory Trust II was dissolved.

At December 31, 2021, the $35.0 million trust redeemable preferred securities were treated as Tier 1 capital for regulatory purposes.

NOTE 16 — EMPLOYEE BENEFIT PLAN

OFG has a profit-sharing plan containing a cash or deferred arrangement qualified under Sections 1081.01(a) and 1081.01(d) of the Puerto Rico Internal Revenue Code of 2011, as amended, (the "PR Code"), and Sections 401(a) and 401(k) of the United States Internal Revenue Code of 1986, as amended (the "US Code"). The plan is subject to the provisions of Title I of the Employee Retirement Income Security Act of 1976, as amended ("ERISA"). This plan covers all full-time employees of OFG who are age 21 or older. Under this plan, participants may contribute each year up to $20,500. OFG's matching contribution is 50 cents for each dollar contributed by an employee, up to 4% of such employee's base salary. It is invested in accordance with the employee's decision among the available investment alternatives provided by the plan. This plan is entitled to acquire and hold qualifying employer securities as part of its investment of the trust assets pursuant to ERISA Section 407. OFG contributed $2.4 million in cash during 2022 and $2.3 million during both 2021 and 2020. OFG's contribution becomes 100% vested once the employee completes three years of

service. In December 2020, all the balances related to the Retirement Plan for SBPR employee accounts were merged into the plan.

Also, OFG offers to its senior management a non-qualified deferred compensation plan, whereby participants can defer taxable income. Both the employer and the employee have flexibility because non-qualified plans may not be subject to ERISA and the PR Code and the US Code contribution limits and discrimination tests in terms of who must be included in the plan. Under this plan, the employee's current taxable income is reduced by the amount being deferred. Generally, funds deposited in a deferred compensation plan can accumulate without current income tax to the individual. Income taxes are due when the funds are withdrawn.

NOTE 17 — RELATED PARTY TRANSACTIONS

OFG grants loans to its directors and executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. The activity and balance of these loans for 2022, 2021, and 2020 was as follows:

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Balance at the beginning of year	$ 25,915	$ 21,112	$ 22,312
New loans and disbursements	9,706	8,233	17,896
Repayments	(2,829)	(3,430)	(19,096)
Balance at the end of year	**$ 32,792**	**$ 25,915**	**$ 21,112**

OFG also hired professional services amounting to $4.3 million, $5.0 million and $3.2 million for 2022, 2021, and 2020, respectively, from a related party.

OFG, through its banking subsidiary, entered into a commitment to make an equity investment in a limited partnership classified as a small business investment company. The partnership is managed by a Puerto Rico limited liability company, as general partner, which is led by a group of investment professionals, including a person related to a member of OFG's Board of Directors. OFG, as limited partner, committed to the partnership $3.0 million. At December 31, 2022 and 2021, OFG's investment in the partnership amounted to $2.4 million and $1.8 million, respectively.

NOTE 18 — INCOME TAXES

OFG is subject to the provisions of the PR Code. The PR Code imposed a maximum statutory corporate tax rate of 37.5%. OFG has operations in the mainland United States through its wholly owned subsidiaries OPC, OFG Ventures and OFG USA LLC ("OFG USA"), which is a direct subsidiary of the Bank, and has two branches in the USVI. The United States subsidiaries are subject to federal income taxes at the corporate level, while the USVI branches are subject to federal income taxes under a mirror system and a 10% surtax included in the maximum tax rate. OPC is subject to Florida state taxes, OFG USA is subject to North Carolina state taxes, and current investments in OFG Ventures are subject to state taxes in Missouri. In addition, during 2021, OFG incorporated in Grand Cayman, as a foreign wholly owned subsidiary, OFG Reinsurance. OFG Reinsurance is tax exempt in Grand Cayman. Effective December 30, 2022, OFG sold its pension plan administration operations in OPC and thereafter OPC discontinued its operations.

Under the PR Code, all companies are treated as separate taxable entities and are not entitled to file consolidated tax returns. OFG and its subsidiaries organized under the laws of Puerto Rico are subject to Puerto Rico regular income tax or the alternative minimum tax ("AMT") on income earned from all sources. OFG's subsidiaries organized outside of Puerto Rico are taxed in Puerto Rico only with respect to income from Puerto Rico sources or effectively connected to a Puerto Rico trade or business. The AMT is payable if it exceeds regular income tax. The excess of AMT over regular income tax paid in any one year may be used to offset regular income tax in future years, subject to certain limitations.

The components of income tax expense for 2022, 2021, and 2020 were as follows:

	Year Ended December 31,		
	2022	2021	2020
	(In thousands)		
Current income tax expense (benefit)	$ 16,740	$ 4,836	$ (7,347)
Deferred income tax expense	61,126	63,616	27,846
Total income tax expense	**$ 77,866**	**$ 68,452**	**$ 20,499**

In relation to the exempt income level, the Bank's investment securities portfolio and loans portfolio generated net tax-exempt interest income of $26.3 million, $14.4 million and $15.2 million during 2022, 2021 and 2020, respectively. OIB generated exempt income of $4.4 million, $9.5 million and $4.1 million for 2022, 2021, and 2020, respectively.

OFG maintained an effective tax rate lower than statutory rate for 2022, mainly related to an increase in US Treasury securities and other exempt investments.

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

	Year Ended December 31,					
	2022		2021		2020	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)					
Income tax expense at statutory rates	$ 91,539	37.50 %	$ 80,476	37.50 %	$ 35,567	37.50 %
Tax of exempt income, net	(11,523)	-4.72 %	(9,489)	-4.42 %	(7,272)	-7.67 %
Disallowed net operating loss carryover	(267)	-0.11 %	(179)	(0.08) %	202	0.21 %
Change in valuation allowance	(502)	-0.21 %	803	0.37 %	2,267	2.39 %
Unrecognized tax benefits, net	69	0.03 %	70	0.03 %	(1,941)	-2.05 %
Capital gain at preferential rate	(787)	-0.32 %	(3)	— %	(450)	-0.47 %
Tax rate difference (ordinary vs capital)	(247)	-0.10 %	(480)	-0.22 %	(4,218)	-4.45 %
Bargain purchase gain	—	— %	—	— %	(2,751)	-2.90 %
Return to provision adjustments	(407)	-0.17 %	(933)	-0.43 %	(1,099)	-1.16 %
Foreign tax credit	—	— %	187	0.09 %	361	0.38 %
Other items, net	(9)	— %	(2,000)	-0.94 %	(167)	-0.16 %
Income tax expense	**$ 77,866**	**31.90 %**	**$ 68,452**	**31.90 %**	**$ 20,499**	**21.62 %**

OFG's effective tax rate for 2022 and 2021 was 31.90%. For 2020, the effective tax rate was 21.62%, and it was mainly affected by several items pertaining to the year 2020 that were not expected to reoccur on future years, such as the bargain purchase gain and tax rate differentials.

OFG classifies unrecognized tax benefits in other liabilities. These gross unrecognized tax benefits would affect the effective tax rate if realized. At December 31, 2022, the amount of unrecognized tax benefits was $867 thousand (December 31, 2021 - $798 thousand). OFG had accrued $69 thousand at December 31, 2022 (December 31, 2021 - $70 thousand) for the payment of interest and penalties related to unrecognized tax benefits.

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents a reconciliation of unrecognized tax benefits:

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Balance at beginning of year	$ 798	$ 728	$ 2,668
Additions for tax positions of prior years	69	70	50
Reduction for tax positions as a result of lapse of statute of limitations or new information resulting in a change in assessment	—	—	(1,990)
Balance at end of year	**$ 867**	**$ 798**	**$ 728**

OFG follows a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals of litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The amount of unrecognized tax benefits may increase or decrease in the future due to new or current tax year positions, expiration of open income tax returns, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity. For 2022, there was a net increase in unrecognized tax benefit of $69 thousand.

The statute of limitations under the PR Code is four years and the statute of limitations for federal tax purposes is three years, after a tax return is due or filed, whichever is later. OFG is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years 2018 to 2021, until the applicable statute of limitations expires. In addition, OFG's US subsidiaries are potentially subject to income tax audits by the IRS for taxable years 2019 to 2021. Tax audits by their nature are often complex and can require several years to complete.

The determination of the deferred tax expense or benefit is generally based on changes in the carrying amounts of assets and liabilities that generate temporary differences. The carrying value of OFG's net deferred tax assets assumes that OFG will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change in the future, OFG may be required to record valuation allowances against its deferred tax assets resulting in additional income tax expense in the consolidated statements of operations. Significant components of OFG's deferred tax assets and liabilities as of December 31, 2022, and 2021 were as follows:

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31,	
	2022	2021
	(In thousands)	
Deferred tax asset:		
Allowance for credit losses and other reserves	$ 57,273	$ 61,009
Scotiabank PR discount	1,453	$ 2,053
Loans and other real estate valuation adjustment	2,313	3,660
Deferred loan charge-offs	72,376	115,661
Net operating loss carry forwards	9,022	8,460
Alternative minimum tax	14,467	15,385
Unrealized net loss included in other comprehensive income	—	301
Unrealized net loss on available-for-sale securities	16,422	—
Goodwill	10,252	16,961
Acquired portfolio	45,761	53,687
Other assets allowances	1,538	929
Other deferred tax assets	16,570	20,291
Total gross deferred tax asset	247,447	298,397
Less: valuation allowance	(9,143)	(9,645)
Net gross deferred tax assets	238,304	288,752
Deferred tax liability:		
Acquired loans tax basis	(137,195)	(137,402)
FDIC-assisted Eurobank acquisition, net	(5,760)	(6,636)
Customer deposit and customer relationship intangibles	(7,314)	(10,324)
Building valuation adjustment	(6,540)	(6,976)
Unrealized net gain on available-for-sale securities	—	(1,572)
Unrealized net gain included in other comprehensive income	(152)	—
Servicing asset	(16,041)	(15,311)
Other deferred tax liabilities	(9,817)	(11,468)
Total gross deferred tax liabilities	(182,819)	(189,689)
Net deferred tax asset	**$ 55,485**	**$ 99,063**

As of December 31, 2022 and 2021, OFG's net deferred tax asset, net of a valuation allowance of $9.1 million and $9.6 million, respectively, amounted to $55.5 million and $99.1 million, respectively. The decrease in valuation allowance of $502 thousand was mainly related to additional taxable income in OFG's operations. In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future income, and tax planning strategies in making this assessment. Based upon the assessment of positive and negative evidence, the level of historical taxable income, projections for future taxable income over the periods in which the deferred tax asset are deductible, and provisions of certain closing agreements, management believes it is more likely than not that OFG will realize the benefits of these deductible differences, net of the existing valuation allowances, at December 31, 2022. The amount of the deferred tax asset that is considered realizable could be reduced in the near term if there are changes in estimates of future taxable income.

NOTE 19 — REGULATORY CAPITAL REQUIREMENTS

Regulatory Capital Requirements

OFG (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 OFG's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, OFG 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.

The risk-based capital standards applicable to OFG and the Bank ("Basel III capital rules") are based on the final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision. Pursuant to the Basel III capital rules, OFG and the Bank are required to maintain the following:

- A minimum ratio of Common equity Tier 1 capital ("CET1") to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" that is composed entirely of CET1 capital (resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%).
- A minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%).
- A minimum ratio of total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (resulting in a minimum total capital ratio of 10.5%).
- A minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

The federal banking regulatory agencies adopted a final rule, pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996 that simplifies for banking organizations following non-advanced approaches the regulatory capital treatment for mortgage servicing assets ("MSAs") and certain deferred tax assets arising from temporary differences (temporary difference DTAs). It increased CET1 capital threshold deductions from 10% to 25% and removed the aggregate 15% CET1 threshold deduction. However, it retained the 250% risk weight applicable to non-deducted amounts of MSAs and temporary difference DTAs. OFG implemented the simplifications to the capital rule on January 1, 2020.

On January 1, 2020, OFG adopted CECL with the initial implementation adjustment to Non-PCD loans and off-balance sheet instruments against retained earnings. On March 27, 2020, in response to the Covid-19 pandemic, U.S. banking regulators issued an interim final rule that OFG adopted to delay for two years the initial adoption impact of CECL on regulatory capital, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during 2021 and 2022 (i.e., a five-year transition period). During the two-year delay, OFG added back to CET1 capital 100 percent of the initial adoption impact of CECL plus 25 percent of the cumulative quarterly changes in the allowance for credit losses (i.e., quarterly transitional amounts). After two years, starting on January 1, 2022, the quarterly transitional amounts along with the initial adoption impact of CECL will be phased out of CET1 capital over the three-year period.

As of December 31, 2022 and 2021, OFG and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2022 and 2021, OFG and the Bank are "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the tables presented below.

OFG's and the Bank's actual capital amounts and ratios as of December 31, 2022 and 2021 are as follows:

	Actual		Minimum Capital Requirement (including capital conservation buffer)		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
OFG Bancorp Ratios						
As of December 31, 2022						
Total capital to risk-weighted assets	$ 1,132,658	**14.89 %**	$ 798,574	**10.50 %**	$ 760,547	**10.00 %**
Tier 1 capital to risk-weighted assets	$ 1,037,385	**13.64 %**	$ 646,465	**8.50 %**	$ 608,437	**8.00 %**
Common equity tier 1 capital to risk-weighted assets	$ 1,037,385	**13.64 %**	$ 532,383	**7.00 %**	$ 494,355	**6.50 %**
Tier 1 capital to average total assets	$ 1,037,385	**10.36 %**	$ 400,445	**4.00 %**	$ 500,557	**5.00 %**
As of December 31, 2021						
Total capital to risk-weighted assets	$ 1,086,897	**15.52 %**	$ 735,512	**10.50 %**	$ 700,488	**10.00 %**
Tier 1 capital to risk-weighted assets	$ 999,284	**14.27 %**	$ 595,414	**8.50 %**	$ 560,390	**8.00 %**
Common equity tier 1 capital to risk-weighted assets	$ 964,284	**13.77 %**	$ 490,341	**7.00 %**	$ 455,317	**6.50 %**
Tier 1 capital to average total assets	$ 999,284	**9.69 %**	$ 412,359	**4.00 %**	$ 515,449	**5.00 %**

	Actual		Minimum Capital Requirement (including capital conservation buffer)		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Bank Ratios						
As of December 31, 2022						
Total capital to risk-weighted assets	$ 1,028,126	**13.61 %**	$ 793,124	**10.50 %**	$ 755,356	**10.00 %**
Tier 1 capital to risk-weighted assets	$ 933,494	**12.36 %**	$ 642,053	**8.50 %**	$ 604,285	**8.00 %**
Common equity tier 1 capital to risk-weighted assets	$ 933,494	**12.36 %**	$ 528,749	**7.00 %**	$ 490,981	**6.50 %**
Tier 1 capital to average total assets	$ 933,494	**9.42 %**	$ 396,525	**4.00 %**	$ 495,656	**5.00 %**
As of December 31, 2021						
Total capital to risk-weighted assets	$ 995,549	**14.34 %**	$ 728,867	**10.50 %**	$ 694,159	**10.00 %**
Tier 1 capital to risk-weighted assets	$ 908,717	**13.09 %**	$ 590,035	**8.50 %**	$ 555,327	**8.00 %**
Common equity tier 1 capital to risk-weighted assets	$ 908,717	**13.09 %**	$ 485,911	**7.00 %**	$ 451,203	**6.50 %**
Tier 1 capital to average total assets	$ 908,717	**8.87 %**	$ 409,855	**4.00 %**	$ 512,319	**5.00 %**

NOTE 20 – EQUITY-BASED COMPENSATION PLAN

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

The activity in outstanding options for 2022, 2021, and 2020 is set forth below:

	Year Ended December 31,					
	2022		2021		2020	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Beginning of year	338,494	$ 15.76	481,444	$ 15.10	634,294	$ 14.60
Options exercised	(103,544)	14.34	(140,850)	13.51	(119,500)	12.36
Options forfeited	—	—	(2,100)	16.55	(33,350)	15.42
End of year	**234,950**	**$ 16.38**	**338,494**	**$ 15.76**	**481,444**	**$ 15.10**

The following table summarizes the range of exercise prices and the weighted average remaining contractual life of the options outstanding at December 31, 2022:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Contract Life Remaining (Years)	Number of Options	Weighted Average Exercise Price
14.09 to 16.90	139,700	15.66	1.1	139,700	15.66
16.91 to 19.71	95,250	17.44	1.6	95,250	17.44
	234,950	**$ 16.38**	**1.3**	**234,950**	**$ 16.38**
Aggregate Intrinsic Value	**$ 2,626,986**			**$ 2,626,986**	

There were no options granted during 2022, 2021 and 2020. The average fair value of each option granted would have been estimated at the date of the grant using the Black-Scholes option pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no restrictions and are fully transferable and negotiable in a free trading market. Black-Scholes does not consider the employment, transfer or vesting restrictions that are inherent in OFG's stock options. Use of an option valuation model, as required by GAAP, includes highly subjective assumptions based on long-term predictions, including the expected stock price volatility and average life of each option grant.

The following table summarizes the activity in restricted units under the Omnibus Plan for 2022, 2021 and 2020:

	Year Ended December 31,					
	2022		2021		2020	
	Restricted Units	Weighted Average Grant Date Fair Value	Restricted Units	Weighted Average Grant Date Fair Value	Restricted Units	Weighted Average Grant Date Fair Value
Beginning of year	511,740	$ 19.35	529,770	$ 15.58	379,150	$ 15.32
Restricted units granted	178,281	27.89	205,440	18.76	257,850	16.82
Restricted units lapsed	(277,866)	17.08	(218,188)	13.85	(102,525)	14.74
Restricted units forfeited	(3,323)	22.89	(5,282)	19.38	(4,705)	15.93
End of year	**408,832**	**$ 22.27**	**511,740**	**$ 19.35**	**529,770**	**$ 15.58**

The total unrecognized compensation cost related to non-vested restricted units to members of management at December 31, 2022 was $4.8 million and is expected to be recognized over a weighted-average period of 1.7 years.

NOTE 21 – STOCKHOLDERS' EQUITY

Preferred Stock and Common Stock

During 2021, OFG redeemed all of its outstanding $92.0 million (in the aggregate) Series A, Series B, and Series D preferred stock at a redemption price of $25.00 per share. As a result of such redemptions, OFG no longer has any outstanding preferred stock. At both December 31, 2022 and December 31, 2021, common stock amounted to $59.9 million.

Additional Paid-in Capital

Additional paid-in capital represents contributed capital in excess of par value of common stock, net of the costs of issuance. At both December 31, 2022 and 2021, accumulated common stock issuance costs charged against additional paid-in capital amounted to $13.6 million.

Legal Surplus

The Puerto Rico Banking Act requires that a minimum of 10% of the Bank's net income for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid-in capital on common and preferred stock. At December 31, 2022 and 2021, the Bank's legal surplus amounted to $133.9 million and $117.7 million, respectively. During 2022 and 2021, OFG transferred $16.2 million and $14.4 million to the legal surplus account. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

Treasury Stock

In January 2022, OFG announced the approval by the Board of Directors of a stock repurchase program to purchase $100 million of its outstanding shares of common stock. The shares of common stock repurchased are held by OFG as treasury shares. During 2022, OFG repurchased 2,351,868 shares for a total of $64.1 million at an average price of $27.26 per share. During 2021, OFG repurchased 2,052,429 shares under the $50.0 million repurchase program approved at that time for a total of $49.9 million, at an average price of $24.29 per share. During 2020, OFG repurchased 175,000 shares under the $70.0 million repurchase program approved at that time for a total of $2.2 million, at an average price of $12.69 per share.

At December 31, 2022 the number of shares that may yet be purchased under the $100 million program is estimated at 1,302,242 and was calculated by dividing the remaining balance of $35.9 million by $27.56 (closing price of OFG's common stock at December 31, 2022).

OFG did not repurchase any shares of its common stock during 2022, 2021 and 2020, other than through its publicly announced stock repurchase program.

The activity in connection with common shares held in treasury by OFG for 2022, 2021 and 2020 is set forth below:

	Year Ended December 31,					
	2022		2021		2020	
	Shares	Dollar Amount	Shares	Dollar Amount	Shares	Dollar Amount
	(In thousands, except shares data)					
Beginning of year	10,248,882	$ 150,572	8,498,163	$ 102,949	8,486,278	$ 102,339
Common shares used upon lapse of restricted stock units and options	(296,891)	(3,547)	(301,710)	(2,249)	(163,115)	(1,616)
Common shares repurchased as part of the stock repurchase programs	2,351,868	64,110	2,052,429	49,872	175,000	2,226
End of year	**12,303,859**	**$ 211,135**	**10,248,882**	**$ 150,572**	**8,498,163**	**$ 102,949**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 22 - ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated other comprehensive (loss) income, net of income taxes, as of December 31, 2022 and 2021 consisted of:

	December 31,	
	2022	2021
	(In thousands)	
Unrealized (loss) gain on securities available-for-sale	$ (110,036)	$ 7,292
Income tax effect of unrealized loss (gain) on securities available-for-sale	16,373	(1,629)
Net unrealized (loss) gain on securities available-for-sale	(93,663)	5,663
Unrealized gain (loss) on cash flow hedges	406	(804)
Income tax effect of unrealized (gain) loss on cash flow hedges	(152)	301
Net unrealized gain (loss) on cash flow hedges	254	(503)
Accumulated other comprehensive (loss) income, net of income taxes	**$ (93,409)**	**$ 5,160**

The following table presents changes in accumulated other comprehensive (loss) income by component, net of taxes, for 2022, 2021 and 2020:

	Year Ended December 31, 2022		
	Net unrealized loss on securities available-for-sale	Net unrealized gain on cash flow hedges	Accumulated other comprehensive (loss) income
	(In thousands)		
Beginning balance	$ 5,663	$ (503)	$ 5,160
Other comprehensive (loss) income before reclassifications	(99,087)	24	(99,063)
Amounts reclassified out of accumulated other comprehensive (loss) income	(239)	733	494
Other comprehensive (loss) income	(99,326)	757	(98,569)
Ending balance	**$ (93,663)**	**$ 254**	**$ (93,409)**

	Year Ended December 31, 2021		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income
	(In thousands)		
Beginning balance	$ 12,092	$ (1,070)	$ 11,022
Other comprehensive (loss) income before reclassifications	(6,454)	(1,074)	(7,528)
Amounts reclassified out of accumulated other comprehensive income	25	1,641	1,666
Other comprehensive (loss) income	(6,429)	567	(5,862)
Ending balance	**$ 5,663**	**$ (503)**	**$ 5,160**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Year Ended December 31, 2020		
	Net unrealized gains on Securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive (loss) income
	(In thousands)		
Beginning balance	$ (441)	$ (567)	$ (1,008)
Other comprehensive income (loss) before reclassifications	7,803	(2,491)	5,312
Amounts reclassified out of accumulated other comprehensive income	4,730	1,988	6,718
Other comprehensive income (loss)	12,533	(503)	12,030
Ending balance	**$ 12,092**	**$ (1,070)**	**$ 11,022**

The following table presents reclassifications out of accumulated other comprehensive (loss) income for 2022, 2021 and 2020:

	Amount reclassified out of accumulated other comprehensive (loss) income Year Ended December 31,			Affected Line Item in Consolidated Statement of Operations
	2022	2021	2020	
	(In thousands)			
Cash flow hedges:				
Interest-rate contracts	$ 733	$ 1,641	$ 1,988	Net interest expense
Available-for-sale securities:				
Gain on sale of investments	(247)	19	4,728	Net gain on sale of securities
Tax effect from changes in tax rates	8	6	2	Income tax expense
	$ 494	**$ 1,666**	**$ 6,718**	

NOTE 23 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for 2022, 2021 and 2020 is as follows:

	Year Ended December 31,		
	2022	2021	2020
	(In thousands, except per share data)		
Net income	$ 166,239	$ 146,151	$ 74,327
Less: Dividends on preferred stock			
Non-convertible preferred stock (Series A, B, and D)	—	(1,255)	(6,512)
Income available to common shareholders	**$ 166,239**	**$ 144,896**	**$ 67,815**
Average common shares outstanding	48,033	50,956	51,358
Effect of dilutive securities:			
Average potential common shares-options	403	414	197
Total weighted average common shares outstanding and equivalents	**48,436**	**51,370**	**51,555**
Earnings per common share - basic	**$ 3.46**	**$ 2.85**	**$ 1.32**
Earnings per common share - diluted	**$ 3.44**	**$ 2.81**	**$ 1.32**

For 2022, 2021 and 2020, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 1,279, 3,175 and 7,481, respectively.

During 2022, OFG increased its quarterly common stock cash dividend to $0.20 per share from $0.12 per share at December 31, 2021.

NOTE 24 – GUARANTEES

At December 31, 2022 and 2021, the notional amount of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $24.7 million and $25.2 million, respectively.

OFG has a liability for residential mortgage loans sold subject to credit recourse pursuant to GNMA's and FNMA's residential mortgage loan sales and securitization programs. At December 31, 2022 and 2021, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $110.9 million and $121.8 million, respectively.

The following table shows the changes in OFG's liability for estimated losses from these credit recourse agreements, included in the consolidated statements of financial condition during 2022, 2021 and 2020:

	Year Ended December 31,		
	2022	2021	2020
	(In thousands)		
Balance at beginning of year	$ 294	$ 218	$ 985
Net recoveries (charge-offs/terminations)	(147)	76	(767)
Balance at end of year	**$ 147**	**$ 294**	**$ 218**

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 OFG is obligated to repurchase the loan.

If a borrower defaults, pursuant to the credit recourse provided, OFG is required to repurchase the loan or reimburse the third-party investor for the incurred loss. The maximum potential amount of future payments that OFG 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 2022, 2021 and 2020, OFG repurchased $1.5 million, $3.1 million and $481 thousand, respectively, in such mortgage loans. If a borrower defaults, OFG has rights to the underlying collateral securing the mortgage loan. OFG suffers losses on these mortgage loans when the proceeds from a foreclosure sale of the collateral property are less than the outstanding principal balance of the loan, any uncollected interest advanced, and the costs of holding and disposing the related property. At December 31, 2022, OFG's liability for estimated credit losses related to loans sold with credit recourse amounted to $147 thousand (December 31, 2021– $294 thousand).

When OFG sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. OFG's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under such mortgage-backed securities programs, quality review procedures are performed by OFG to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, OFG may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. During 2022, OFG repurchased $24.2 million (December 31, 2021 – $38.9 million) of unpaid principal balance in mortgage loans, excluding mortgage loans subject to such credit recourse provision. At December 31, 2022 and 2021, OFG had a $1.4 million and a $3.4 million liability, respectively, for the estimated credit losses related to these loans.

During 2022, 2021 and 2020, OFG recognized $148 thousand in gains, $157 thousand in losses and $658 thousand in gains, respectively, from the repurchase of residential mortgage loans sold subject to credit recourse, and $281 thousand, $4.3 million and $2.2 million, respectively, in losses from the repurchase of residential mortgage loans as a result of breaches of customary representations and warranties.

At December 31, 2022, OFG serviced $5.8 billion (December 31, 2021 - $5.7 billion) in mortgage loans for third parties. Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including the FHLMC, require OFG to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. OFG 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, OFG must absorb the cost of the funds it advances during the time the advance is outstanding. OFG 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 OFG would not receive any future servicing income with respect to that loan. At December 31, 2022, the outstanding balance of funds advanced by OFG under such mortgage loan servicing agreements was approximately $7.8 million (December 31, 2021 - $12.9 million). To the extent the mortgage loans underlying OFG's servicing portfolio experience increased delinquencies, OFG 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 25— COMMITMENTS AND CONTINGENCIES

Commitments

In the normal course of business, OFG 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 OFG's involvement in particular types of financial instruments.

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

Credit-related financial instruments at December 31, 2022 and 2021 were as follows:

	December 31,	
	2022	2021
	(In thousands)	
Commitments to extend credit	$ 1,403,118	$ 1,365,273
Commercial letters of credit	1,082	48,196

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

At December 31, 2022 and 2021, 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.

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

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, at December 31, 2022 and 2021, is as follows:

	December 31,	
	2022	2021
	(In thousands)	
Standby letters of credit and financial guarantees	$ 24,749	$ 25,203
Loans sold with recourse	110,891	121,778

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

At December 31, 2022 and 2021, the allowance for credit losses for off-balance sheet credit exposures corresponding to commitments to extend credit and standby letters of credit amounted to $734 thousand and $1.0 million, respectively, and is included in other liabilities in the statement of financial condition.

At December 31, 2022 and 2021, OFG maintained other non-credit commitments amounting to $21.5 million and $8.9 million, respectively, primarily for the acquisition of equity securities. In addition, as we continue to transform OFG with a focus on simplification and building a culture of excellence and customer service, we continue to invest in technology. Some of our technology investments are table stakes and required to continuously upgrade our systems. Others require us to focus our technology on investments that drive our strategy, namely digital, data analytics, cloud migration, cyber security, and our sales and service capabilities. At December 31, 2022 and 2021, OFG had commitments for capital expenditures in technology amounting to $8.6 million and $15.4 million, respectively.

Contingencies

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

OFG seeks to resolve all arbitration, litigation and regulatory matters in the manner management believes is in the best interests of OFG 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.

In accordance with applicable accounting guidance, OFG establishes an accrued liability when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. As a matter develops, OFG, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. Once the loss contingency is deemed to be both probable and estimable, OFG will establish an accrued liability and record a corresponding amount of expense. At December 31, 2022 and 2021, this accrued liability amounted to $2.4 million and $7.0 million, respectively. OFG continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established.

Subject to the accounting and disclosure framework under the provisions of ASC 450, it is the opinion of OFG'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 OFG. 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 OFG's consolidated results of operations or cash flows in particular quarterly or annual periods. OFG has evaluated all arbitration, litigation and regulatory matters where the likelihood of a potential loss is deemed reasonably possible. OFG has determined that the estimate of the reasonably possible loss is not significant.

NOTE 26— OPERATING LEASES

Substantially all leases in which OFG is the lessee are comprised of real estate property for branches, ATM locations, and office space with terms extending through 2038. OFG's leases do not contain residual value guarantees or material variable lease payments. All leases are classified as operating leases and are included on the consolidated statements of financial condition as a right-of-use asset and a corresponding lease liability. OFG leases to others certain space in its principal offices for terms extending through 2024; all are operating leases.

Operating Lease Cost

	Year Ended December 31,			Statement of Operations Classification
	2022	2021	2020	
	(In thousands)			
Lease costs	$ 10,467	$ 11,417	$ 13,233	Occupancy and equipment
Variable lease costs	1,529	1,881	2,133	Occupancy and equipment
Short-term lease cost	565	859	800	Occupancy and equipment
Lease income	(226)	(442)	(499)	Occupancy and equipment
Total lease cost	$ 12,335	$ 13,715	$ 15,667	

Operating Lease Assets and Liabilities

	December 31,		Statement of Financial Condition Classification
	2022	2021	
	(In thousands)		
Right-of-use assets	$ 25,363	$ 28,846	Operating lease right-of-use assets
Lease Liabilities	$ 27,370	$ 30,498	Operating leases liabilities

	December 31,	
	2022	2021
	(In thousands)	
Weighted-average remaining lease term	5.1 years	5.6 years
Weighted-average discount rate	6.8 %	6.6 %

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2022 were as follows:

As of December 31, 2022	Minimum Rent (In thousands)
2023	$ 9,326
2024	7,134
2025	5,127
2026	3,106
2027	2,290
Thereafter	5,773
Total lease payments	**$ 32,756**
Less imputed interest	5,386
Present value of lease liabilities	**$ 27,370**

OFG, as lessor, leases and subleases real property to lessee tenants under operating leases. As of December 31, 2022, no material lease concessions have been granted to lessees. As of December 31, 2022, OFG, as lessee, has not requested any lease concessions.

NOTE 27 - FAIR VALUE OF FINANCIAL INSTRUMENTS

OFG follows the fair value measurement framework under U.S. Generally Accepted Accounting Principles ("GAAP").

Fair Value Measurement

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

Money market investments

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

Investment securities

The fair value of investment securities is based on valuations obtained from an independent pricing provider, ICE Data Pricing (formerly known as IDC). ICE is a well-recognized pricing company and an established leader in financial information. Such securities are classified as Level 1 or Level 2 depending on the basis for determining fair value. OFG holds one security categorized as other debt that is classified as Level 3. The estimated fair value of this security is determined by using an adjusted third-party model to calculate the present value of projected future cash flows. The assumptions are highly uncertain and include primarily market discount rates and current spread. The assumptions used are drawn from similar securities that are actively traded in the market and have similar risk characteristics. The valuation is performed on a quarterly basis.

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 (or its fallback benchmark when applicable), and also applying yield curves that account for the industry sector and the credit rating of the counterparty and/or OFG. 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.

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.

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

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

	December 31, 2022			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ 309,133	$ 1,103,237	$ 406	$ 1,412,776
Trading securities	—	9	—	9
Money market investments	4,161	—	—	4,161
Derivative assets	—	406	—	406
Servicing assets	—	—	50,921	50,921
	$ 313,294	**$ 1,103,652**	**$ 51,327**	**$ 1,468,273**
Non-recurring fair value measurements:				
Collateral dependent loans	$ —	$ —	$ 8,805	$ 8,805
Foreclosed real estate	—	—	11,214	11,214
Other repossessed assets	—	—	4,617	4,617
Mortgage loans held for sale	—	—	19,499	19,499
Other loans held for sale	$ —	$ —	$ 21,088	21,088
	$ —	**$ —**	**$ 65,223**	**$ 65,223**

	December 31, 2021			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ 10,825	$ 498,358	$ 1,530	$ 510,713
Trading securities	—	20	—	20
Money market investments	8,952	—	—	8,952
Derivative assets	—	1	—	1
Servicing assets	—	—	48,973	48,973
Derivative liabilities	—	(804)	—	(804)
	$ 19,777	**$ 497,575**	**$ 50,503**	**$ 567,855**
Non-recurring fair value measurements:				
Collateral dependent loans	$ —	$ —	$ 10,233	$ 10,233
Foreclosed real estate	—	—	15,039	15,039
Other repossessed assets	—	—	1,945	1,945
Mortgage loans held for sale	—	—	51,096	51,096
Other loans held for sale	$ —	$ —	$ 31,566	31,566
	$ —	**$ —**	**$ 109,879**	**$ 109,879**

The fair value information included in the tables above for non-recurring fair value measurements is not as of year-end. Instead, it is as of the date that the fair value measurement was recorded during 2022 and 2021, and excludes nonrecurring fair value measurements of assets no longer outstanding as of the reporting date.

The tables below present a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for 2022, 2021 and 2020:

Level 3 Instruments Only

	Year Ended December 31,						
	2022			2021			2020
	Other debt securities available for sale	Servicing Assets	Total	Other debt securities available for sale	Servicing Assets	Total	Servicing Assets
	(In thousands)						
Balance at beginning year	$ 1,530	$ 48,973	$ 50,503	$ —	$ 47,295	$ 47,295	$ 50,779
New instruments acquired	376	3,998	4,374	—	6,089	$ 6,089	2,394
Transfer from Level 2	—	—	—	1,500	—	$ 1,500	—
Principal repayments and amortization	—	(5,312)	(5,312)	—	(6,738)	$ (6,738)	(4,067)
Instrument converted to equity security	(1,581)	—	(1,581)	—	—	—	—
Gains included in earnings	—	3,262	3,262	—	2,327	$ 2,327	(1,811)
Gains included in other comprehensive income	81	—	81	30	—	$ 30	—
Balance at end of year	**$ 406**	**$ 50,921**	**$ 51,327**	**$ 1,530**	**$ 48,973**	**$ 50,503**	**$ 47,295**

During 2021, OFG transferred from level 2 to level 3 a $1.5 million convertible note classified as other debt securities. Subsequently, during 2022, this security was converted to an equity security. There were no transfers in and/or out of Level 3 for financial instruments measured at fair value on a recurring basis during 2022, and 2020.

Servicing assets gains (losses) included in earnings during 2022, 2021 and 2020 were included as mortgage servicing activities in the consolidated statements of operations. For more information on the qualitative information about Level 3 fair value measurements, see Note 10 – Servicing Assets.

During 2022, 2021 and 2020, there were purchases and sales of assets and liabilities measured at fair value on a recurring basis.

The table below presents quantitative information for all assets and liabilities measured at fair value on a recurring and non-recurring basis using significant unobservable inputs (Level 3) at December 31, 2022 and 2021:

	December 31, 2022					
	Fair Value		Valuation Technique	Unobservable Input	Range	Weighted Average
	(In thousands)					
Other debt securities available-for-sale	$	406	Cash flow valuation	Credit Rating	Baa1 - Baa3	Baa2
				Probability of Default Rate	0.15% - 2.12%	0.15 %
				Recovery Rate	34.73 %	34.73 %
Servicing assets	$	50,921	Cash flow valuation	Constant prepayment rate	3.43% - 21.20%	5.66 %
				Discount rate	10.00% - 15.50%	11.45 %
Collateral dependent loans	$	8,805	Fair value of property or collateral	Appraised value less disposition costs	10.20% - 51.20%	17.11 %
Foreclosed real estate	$	11,214	Fair value of property or collateral	Appraised value less disposition costs	10.20% - 33.20%	11.81 %
Other repossessed assets	$	4,617	Fair value of property or collateral	Estimated net realizable value less disposition costs	22.00% - 80.00%	58.49 %
Mortgage loans held for sale	$	19,499	Fair value of property	Estimated net realizable value	83.25% - 102.43%	71.86 %
Other loans held for sale	$	21,088	Bids or sales contract prices	Estimated market value	100.00% - 103.20%	74.65 %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2021					
	Fair Value		Valuation Technique	Unobservable Input	Range	Weighted Average
	(In thousands)					
Other debt securities available-for-sale	$	1,530	Cash flow valuation	Credit Rating	Baa1 - Baa3	Baa2
				Probability of Default Rate	0.16% - 2.28%	0.35 %
				Recovery Rate	33.08%	33.08 %
Servicing assets	$	48,973	Cash flow valuation	Constant prepayment rate	3.90% - 24.48%	6.17 %
				Discount rate	10.00% - 15.50%	11.47 %
Collateral dependent loans	$	10,233	Fair value of property or collateral	Appraised value less disposition costs	10.20% - 30.20%	20.20 %
Foreclosed real estate	$	15,039	Fair value of property or collateral	Appraised value less disposition costs	10.20% - 30.20%	12.54 %
Other repossessed assets	$	1,945	Fair value of property or collateral	Estimated net realizable value less disposition costs	39.00% - 80.00%	60.54 %
Mortgage loans held for sale	$	51,096	Fair value of property	Estimated net realizable value	98.43% - 106.00%	124.41%
Other loans held for sale	$	31,566	Bids or sales contract prices	Estimated market value	100.00% - 103.20%	42.54%

Information about Sensitivity to Changes in Significant Unobservable Inputs

Other debt security available for sale – The significant unobservable inputs used in the fair value measurement of one of OFG's other debt securities is a DCF methodology. DCF is a valuation method that uses the concept of the time value of money. The methodology use the future cash flows discounted through a yield to obtain a net present value. Assumptions applied in the model are obtained from Moody's Default Trends.

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

Fair Value of Financial Instruments

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

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

The estimated fair value and carrying value of OFG's financial instruments at December 31, 2022 and 2021 was as follows:

	December 31,			
	2022		2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Financial Assets:				
Level 1				
Cash and cash equivalents	$ 550,307	$ 550,307	$ 2,023,475	$ 2,023,475
Restricted cash	$ 157	$ 157	$ 175	$ 175
Investment securities available-for-sale	$ 309,133	$ 309,133	$ 10,825	$ 10,825
Level 2				
Financial Assets:				
Trading securities	$ 9	$ 9	$ 20	$ 20
Investment securities available-for-sale	$ 1,103,237	$ 1,103,237	$ 498,358	$ 498,358
Investment securities held-to-maturity	$ 469,186	$ 535,070	$ 363,653	$ 367,507
Federal Home Loan Bank (FHLB) stock	$ 6,005	$ 6,005	$ 5,966	$ 5,966
Equity securities	$ 17,662	$ 17,662	$ 11,612	$ 11,612
Derivative assets	$ 406	$ 406	$ 1	$ 1
Financial Liabilities:				
Derivative liabilities	$ —	$ —	$ 804	$ 804
Level 3				
Financial Assets:				
Investment securities available for sale	$ 406	$ 406	$ 1,530	$ 1,530
Total loans (including loans held-for-sale)	$ 6,467,878	$ 6,723,236	$ 6,197,347	$ 6,329,311
Accrued interest receivable	$ 62,402	$ 62,402	$ 56,560	$ 56,560
Servicing assets	$ 50,921	$ 50,921	$ 48,973	$ 48,973
Accounts receivable and other assets	$ 61,014	$ 61,014	$ 88,756	$ 88,756
Financial Liabilities:				
Deposits	$ 8,556,300	$ 8,568,364	$ 8,614,073	$ 8,603,118
Advances from FHLB	$ 26,716	$ 26,716	$ 28,480	$ 28,488
Other borrowings	$ 318	$ 318	$ —	$ —
Subordinated capital notes	$ —	$ —	$ 36,084	$ 36,083
Accrued expenses and other liabilities	$ 124,999	$ 124,999	$ 96,240	$ 96,240

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2022 and 2021:

- Cash and cash equivalents (including money market investments and time deposits with other banks), restricted cash, accrued interest receivable, accounts receivable and other assets, accrued expenses and other liabilities, and other borrowings 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 stock are valued at their redemption value.

- The fair value of investment securities, including trading securities, 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. Equity securities do not have readily available fair values and are measured at cost, less any impairment. The estimated fair value of the convertible note in other debt securities available for sale is determined by using an adjusted third-party cash flow valuation model to calculate the present value of projected future cash flows. The assumptions used which are highly uncertain and require a high degree of judgment, include primarily market discount rates, current spreads, duration, leverage, default, and loss rates. The assumptions used are drawn from a wide array of data sources, including the performance of the collateral underlying each deal. The valuation, which is obtained at least on a quarterly basis, is analyzed and its assumptions are evaluated and incorporated in either an internal-based valuation model, when deemed necessary, or compared to counterparties' prices and agreed by management.

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

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

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

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

NOTE 28 – BUSINESS SEGMENTS

OFG segregates its businesses into the following 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 OFG's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. OFG measures the performance of these segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated. OFG'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, auto loans and leases, 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 OFG's own portfolio. As part of its mortgage banking activities, OFG 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, OFG Reinsurance and OPC. The core operations of this segment are financial planning, money management and investment banking, securities brokerage services, investment advisory services, insurance, corporate and individual trust and retirement services, as well as retirement plan administration services up to December 30, 2022 on which date OPC sold its retirement plan administration business.

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

Following are the results of operations and the selected financial information by operating segment for 2022, 2021 and 2020:

	Year Ended December 31, 2022					
	Banking	Wealth Management	Treasury	Total	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 465,177	$ 21	$ 56,955	$ 522,153	$ (6,580)	**$ 515,573**
Interest expense	(31,926)	—	(8,147)	(40,073)	6,580	**(33,493)**
Net interest income	433,251	21	48,808	482,080	—	**482,080**
Provision for credit losses	24,111	—	8	24,119	—	**24,119**
Non-interest income	98,407	33,481	(198)	131,690	—	**131,690**
Non-interest expenses	(323,125)	(19,206)	(3,215)	(345,546)	—	**(345,546)**
Intersegment revenue	2,187	—	—	2,187	(2,187)	**—**
Intersegment expenses	—	(1,497)	(690)	(2,187)	2,187	**—**
Income before income taxes	$ 186,609	$ 12,799	$ 44,697	$ 244,105	$ —	**$ 244,105**
Income tax expense	77,731	97	38	77,866	—	**77,866**
Net income	**$ 108,878**	**$ 12,702**	**$ 44,659**	**$ 166,239**	**$ —**	**$ 166,239**
Total assets	**$ 8,347,767**	**$ 23,085**	**$ 2,432,549**	**$ 10,803,401**	**$ (984,621)**	**$ 9,818,780**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Eliminations include interest income and expense for a borrowing by Oriental Overseas, which is included in the Treasury Segment with its corresponding interest expense, to fund its operations, from the Bank, which is included in the Banking Segment with its corresponding interest income, with an unpaid principal balance of $470.2 million and $262.9 million at December 31, 2022 and 2021, respectively, and is eliminated in the consolidation. Interest income is accrued on the unpaid principal balance. The increase in interest income and interest expense from previous year was mainly as a result of FRB interest rate increases and higher average borrowing balance. At December 31, 2020 the borrowing balance was zero.

	Year Ended December 31, 2021					
	Banking	Wealth Management	Treasury	Total	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 432,375	$ 30	$ 17,072	$ 449,477	$ (278)	**$ 449,199**
Interest expense	(38,711)	—	(3,396)	(42,107)	278	**(41,829)**
Net interest income	393,664	30	13,676	407,370	—	**407,370**
Provision for (recapture of) credit losses	1,342	—	(1,121)	221	—	**221**
Non-interest income	98,950	35,625	(1,365)	133,210	—	**133,210**
Non-interest expenses	(300,568)	(20,941)	(4,247)	(325,756)	—	**(325,756)**
Intersegment revenue	2,355	—	—	2,355	(2,355)	**—**
Intersegment expenses	—	(1,269)	(1,086)	(2,355)	2,355	**—**
Income before income taxes	$ 193,059	$ 13,445	$ 8,099	$ 214,603	$ —	**$ 214,603**
Income tax expense	68,409	—	43	68,452	—	**68,452**
Net income	**$ 124,650**	**$ 13,445**	**$ 8,056**	**$ 146,151**	**$ —**	**$ 146,151**
Total assets	**$ 8,041,725**	**$ 32,082**	**$ 2,894,612**	**$ 10,968,419**	**$ (1,068,699)**	**$ 9,899,720**

	Year Ended December 31, 2020					
	Banking	Wealth Management	Treasury	Total	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 462,493	$ 59	$ 10,795	$ 473,347	$ —	**$ 473,347**
Interest expense	(57,811)	—	(7,104)	(64,915)	—	**(64,915)**
Net interest income	404,682	59	3,691	408,432	**—**	**408,432**
Provision for credit losses	92,237	—	435	92,672	—	**92,672**
Non-interest income	87,810	32,043	4,499	124,352	—	**124,352**
Non-interest expenses	(320,997)	(20,240)	(4,049)	(345,286)	—	**(345,286)**
Intersegment revenue	2,443	—	—	2,443	(2,443)	—
Intersegment expenses	—	(1,164)	(1,279)	(2,443)	2,443	—
Income before income taxes	**$ 81,701**	**$ 10,698**	**$ 2,427**	**$ 94,826**	**$ —**	**$ 94,826**
Income tax expense	15,939	4,506	54	20,499	—	**20,499**
Net income	**$ 65,762**	**$ 6,192**	**$ 2,373**	**$ 74,327**	**$ —**	**$ 74,327**
Total assets	**$ 8,478,326**	**$ 32,893**	**$ 2,436,029**	**$ 10,947,248**	**$ (1,121,237)**	**$ 9,826,011**

NOTE 29 – BANKING AND FINANCIAL SERVICE REVENUES

The following table presents the major categories of banking and financial service revenues for 2022, 2021 and 2020:

	Year Ended December 31,		
	2022	2021	2020
	(In thousands)		
Banking service revenues:			
Checking accounts fees	$ 8,933	$ 8,593	$ 8,577
Savings accounts fees	1,265	1,141	1,451
Electronic banking fees	54,639	55,968	47,542
Credit life commissions	724	469	254
Branch service commissions	1,456	1,467	1,462
Servicing and other loan fees	3,222	3,256	2,485
International fees	902	794	623
Miscellaneous income	20	18	185
Total banking service revenues	**71,161**	**71,706**	**62,579**
Wealth management revenue:			
Insurance income	15,084	14,647	13,618
Broker fees	6,793	8,213	6,828
Trust fees	10,013	11,303	10,446
Retirement plan and administration fees	745	881	897
Total wealth management revenue	**32,635**	**35,044**	**31,789**
Mortgage banking activities:			
Net servicing fees	18,258	16,818	12,120
Net gains on sale of mortgage loans and valuation	3,786	10,119	4,437
Loss on repurchased loans and other	(115)	(4,429)	(53)
Total mortgage banking activities	**21,929**	**22,508**	**16,504**
Total banking and financial service revenues	**$ 125,725**	**$ 129,258**	**$ 110,872**

OFG recognizes the revenue from banking services, wealth management and mortgage banking based on the nature and timing of revenue streams from contracts with customers:

Banking Service Revenues

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

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

Other income as credit life and branch service commissions, servicing and other loan fees, international fees, and miscellaneous income recognized as banking services revenue are out of the scope of ASC 606 – Revenue from Contracts with Customers.

Wealth Management Revenue

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

Brokers fees consist of two categories:

- Sales commissions generated by advisers for their clients' purchases and sales of securities and other investment products, which are collected once the stand-alone transactions are completed at trade date or as earned, and managed account fees which are fees charged to advisers' clients' accounts on OFG's corporate advisory platform. These revenues do not cover future services, as a result there is no need to allocate the amount received to any other service.

- Fees for providing distribution services related to mutual funds, net of compensation paid to a service provider who provides such services, as well as trailer fees (also known as 12b-1 fees). These fees are considered variable and are recognized over time, as the uncertainty of the fees to be received is resolved as the net asset value of the mutual fund is determined and investor activity occurs. Fees do not cover future services, as a result there is no need to allocate the amount received to any other service.

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

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

Mortgage Banking Activities

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

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

As a bank holding company subject to the regulations and supervisory guidance of the Federal Reserve Board, OFG Bancorp generally should inform the Federal Reserve Board and eliminate, defer or significantly reduce its dividends if: (i) its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The payment of dividends by the Bank to OFG Bancorp may also be affected by other regulatory requirements and policies, such as the maintenance of certain regulatory capital levels. During 2022, 2021, and 2020, the Bank paid $140.0 million, $197.0 million and $26.1 million, respectively, in dividends to OFG Bancorp. During 2022, 2021, and 2020, Oriental Insurance paid $9.5 million, $11.0 million, and $9.5 million, respectively, in dividends to OFG Bancorp.

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The following condensed financial information presents the financial position of the holding company only as of December 31, 2022 and 2021, and the results of its operations and its cash flows for 2022, 2021 and 2020:

	December 31,	
	2022	2021
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 82,045	$ 46,484
Investment in bank subsidiary, equity method	938,306	1,011,147
Investment in nonbank subsidiaries, equity method	32,525	35,915
Advance to investment dealers	6	17,213
Deferred tax asset, net	924	2,627
Due from bank subsidiary, net	44	50
Other assets	356	582
Total assets	**$ 1,054,206**	**$ 1,114,018**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Dividend payable	9,513	6,010
Accrued expenses and other liabilities	2,287	2,765
Subordinated capital notes	—	36,083
Total liabilities	**11,800**	**44,858**
Stockholders' equity	1,042,406	1,069,160
Total liabilities and stockholders' equity	**$ 1,054,206**	**$ 1,114,018**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Income:			
Interest income	$ 977	$ 55	$ 86
Investment trading activities, net and other	6,022	6,765	6,583
Total income	**6,999**	**6,820**	**6,669**
Expenses:			
Interest expense	521	1,174	1,394
Operating expenses	7,992	8,397	7,483
Total expenses	**8,513**	**9,571**	**8,877**
Loss before income taxes	**(1,514)**	**(2,751)**	**(2,208)**
Income tax expense (benefit)	2,782	1,813	(1,363)
Loss before earnings of subsidiaries	**(4,296)**	**(4,564)**	**(845)**
Equity in earnings from:			
Bank subsidiary	162,236	144,089	74,899
Nonbank subsidiaries	8,299	6,626	273
Net income	**$ 166,239**	**$ 146,151**	**$ 74,327**

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

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Net income	**$ 166,239**	**$ 146,151**	**$ 74,327**
Other comprehensive (loss) income before tax:			
Other comprehensive (loss) income from bank subsidiary	(98,569)	(5,862)	12,030
Other comprehensive (loss) income before taxes	**(98,569)**	**(5,862)**	**12,030**
Income tax effect	—	—	—
Other comprehensive (loss) income after taxes	**(98,569)**	**(5,862)**	**12,030**
Comprehensive income	**$ 67,670**	**$ 140,289**	**$ 86,357**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Year Ended December 31,		
	2022	2021	2020
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 166,239	$ 146,151	$ 74,327
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings from banking subsidiary	(162,236)	(144,089)	(74,899)
Equity in earnings from nonbanking subsidiaries	(8,299)	(6,626)	(273)
Gain on early extinguishment of debt	(42)	—	—
Stock-based compensation	652	940	2,170
Deferred income tax, net	1,703	10	(2,637)
Net (increase) decrease in other assets	18,829	(13,471)	12
Net increase (decrease) in accrued expenses and other liabilities	(488)	950	(486)
Dividends from banking subsidiary	140,000	197,000	26,100
Dividends from non-banking subsidiary	9,500	11,000	9,531
Net cash provided by operating activities	**165,858**	**191,865**	**33,845**
Cash flows from investing activities:			
Net increase in due from bank subsidiary, net	—	—	(1,984)
Proceeds from sales of premises and equipment	—	240	282
Capital contribution to banking subsidiary	—	—	(1,703)
Capital contribution to non-banking subsidiary	—	(9,300)	(9,013)
Additions to premises and equipment	(233)	(288)	(295)
Net cash used in investing activities	**(233)**	**(9,348)**	**(12,713)**
Cash flows from financing activities:			
Subordinated capital notes	(34,958)	—	—
Exercise of stock options and restricted units lapsed, net	(906)	283	583
Purchase of treasury stock	(64,110)	(49,872)	(2,226)
Redemption of preferred stock	—	(92,000)	—
Dividends paid	(30,090)	(20,973)	(20,892)
Net cash used in financing activities	(130,064)	(162,562)	(22,535)
Net change in cash and cash equivalents	**35,561**	**19,955**	**(1,403)**
Cash and cash equivalents at beginning of year	46,484	26,529	27,932
Cash and cash equivalents at end of year	**$ 82,045**	**$ 46,484**	**$ 26,529**

NOTE 31 – SUBSEQUENT EVENTS

On January 25, 2023, as part of OFG's capital actions for 2023, the Board of Directors approved the increase of its regular quarterly cash dividend by 10%, to $0.22 per common share from $0.20 per share, beginning the quarter ending March 31, 2023.

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

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

Disclosure Controls and Procedures

OFG’s management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2022, an evaluation was carried out under the supervision and with the participation of OFG’s management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of OFG’s disclosure controls and procedures. Based upon such evaluation, the CEO and CFO have concluded that, as of the end of the period covered by this annual report on Form 10-K, OFG’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 OFG in the reports that it files or submits under the Securities Exchange Act of 1934. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within OFG to disclose material information otherwise required to be set forth in OFG’s periodic reports.

Management’s Annual Report on Internal Control over Financial Reporting

The Management’s Annual Report on Internal Control over Financial Reporting is included in Item 8 of this annual report on Form 10-K.

Report of the Registered Public Accounting Firm

The registered public accounting firm’s report on OFG’s internal control over financial reporting is included in Item 8 of this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

There have not been any changes in OFG’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last quarter of 2022, that has materially affected, or is reasonably likely to materially affect, OFG’s internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

None.

ITEM 9C. *DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS*

Not applicable.

PART III

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

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

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

The following table shows certain information pertaining to the awards under the Omnibus Plan as of December 31, 2022:

	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding those reflected in column (a))
Plan Category			
Equity compensation plans approved by shareholders:			
Omnibus Plan	643,782 (1)	$ 5.98 (2)	$ 1,457,786
	643,782	**$ 5.98**	**$ 1,457,786**

(1) Includes 234,950 stock options and 408,832 restricted stock units.
(2) Exercise price related to stock options.

OFG recorded $4.2 million, $6.2 million and $2.2 million related to stock-based compensation expense during 2022, 2021 and 2020, respectively.

Other information required by this Item is incorporated herein by reference to OFG's definitive proxy statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this annual report on Form 10-K.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

The following financial statements are filed as part of this annual report on Form 10-K report under Item 8 — Financial Statements and Supplementary Data.

Management's Report on Internal Control Over Financial Reporting

Financial Statements:

Reports of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Consolidated Statements of Financial Condition as of December 31, 2022 and 2021

Consolidated Statements of Operations for the years ended December 31, 2022, 2021 and 2020

Consolidated Statements of Comprehensive Income for the years ended December 31, 2022, 2021 and 2020

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2022, 2021 and 2020

Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021 and 2020

Notes to the Consolidated Financial Statements

Financial Statement Schedules

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

ITEM 16. *FORM 10-K SUMMARY*

Not applicable.

Exhibits

Exhibit	Description of Document:
2.1	Stock Purchase Agreement dated June 26, 2019, between The Bank of Nova Scotia and Oriental Bank, and, solely for the purposes expressly provided therein, OFG Bancorp. (1)
2.2	Sale and Purchase Agreement (USVI) dated June 26, 2019, between The Bank of Nova Scotia and Oriental Bank, and, solely for the purposes expressly provided therein, OFG Bancorp. (2)
2.3	Sale and Purchase Agreement (PR) dated June 26, 2019, between The Bank of Nova Scotia and Oriental Bank, and, solely for the purposes expressly provided therein, OFG Bancorp. (3)
3.1	Composite Certificate of Incorporation. (4)
3.2	Amended and Restated By-Laws.(5)
4.1	Description of Registrant's Securities Registered Under Section 12 of the Securities Exchange Act of 1934, as amended (6)
4.2	Form of Common Stock Certificate (7)
10.1	Amended and Restated Change in Control Compensation Agreement dated as of July 28, 2021 between OFG and José R. Fernández.(8)
10.2	Change in Control Compensation Agreement between OFG and Ganesh Kumar (9)
10.3	Technology Outsourcing Agreement dated as of January 26, 2007, between OFG and Metavante Corporation.(10)
10.4	OFG Bancorp 2007 Omnibus Performance Incentive Plan, as amended and restated.(11)
10.5	Form of qualified stock option award and agreement (12)
10.6	Form of restricted stock award and agreement (13)
10.7	Form of restricted unit award and agreement (14)
10.8	Form of performance shares award and agreement (15)
10.9	Employment Agreement dated as of July 28, 2021 between OFG and José R. Fernández (16)
10.10	Amendment, dated as of May 31, 2018, to Technology Outsourcing Agreement between OFG and Metavante Corporation (17)
10.11	Amendment, dated as of November 30, 2020, to Technology Outsourcing Agreement between OFG and FIS.(18)
21.1	List of Subsidiaries
23.1	Consent of KPMG LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following materials from OFG's annual report on Form 10-K for the year ended December 31, 2022, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Changes in Stockholders' Equity, (iv) Consolidated Statements of Comprehensive Income, and (v) Consolidated Statements of Cash Flow.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(1) Incorporated herein by reference to Exhibit 2.1 of OFG's current report on Form 8-K filed with the SEC on July 2, 2019. Portions of this exhibit have been omitted pursuant to Item 601(b)(2)(ii) of Regulation S-K.

(2) Incorporated herein by reference to Exhibit 2.2 of OFG's current report on Form 8-K filed with the SEC on July 2, 2019. Portions of this exhibit have been omitted pursuant to Item 601(b)(2)(ii) of Regulation S-K.

(3) Incorporated herein by reference to Exhibit 2.3 of OFG's current report on Form 8-K filed with the SEC on July 2, 2019. Portions of this exhibit have been omitted pursuant to Item 601(b)(2)(ii) of Regulation S-K.

(4) Incorporated herein by reference to Exhibit 3.1 of OFG's annual report on Form 10-K filed with the SEC on February 26, 2021.

(5) Incorporated herein by reference to Exhibit 3.2 of OFG's current report on Form 8-K filed with the SEC on January 31, 2023.

(6) Incorporated herein by reference to Exhibit 4.1 of OFG's annual report on Form 10-K filed with the SEC on February 25, 2022.

(7) Incorporated herein by reference to Exhibit 4.4 of OFG's registration statement on Form S-8, as amended, filed with the SEC on October 7, 2013.

(8) Incorporated herein by reference to Exhibit 10.2 of OFG's current report on Form 8-K filed with the SEC on July 30, 2021.

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

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

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

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

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

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

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

(16) Incorporated herein by reference to Exhibit 10.1 of OFG's current report on Form 8-K filed with the SEC on July 30, 2021.

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

(18) Incorporated herein by reference to Exhibit 10.11 of OFG's annual report on Form 10-K filed with the SEC on February 26, 2021. Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

SIGNATURES

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

OFG BANCORP

By: /s/ José Rafael Fernández	Dated: February 24, 2023
José Rafael Fernández President and Chief Executive Officer	
By: /s/ Maritza Arizmendi Díaz	Dated: February 24, 2023
Maritza Arizmendi Díaz Chief Financial Officer	
By: /s/ Krisen Aguirre Torres	Dated: February 24, 2023
Krisen Aguirre Torres Director, Reporting and Accounting Control	

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

By: /s/ Julian S. Inclán	Dated: February 24, 2023
Julian S. Inclán Chairman of the Board	
By: /s/ José Rafael Fernández	Dated: February 24, 2023
José Rafael Fernández Vice Chairman of the Board	
By: /s/ Jorge Colón Gerena	Dated: February 24, 2023
Jorge Colón Gerena Director	
By: /s/ Annette Franqui	Dated: February 24, 2023
Annette Franqui Director	
By: /s/ Edwin Pérez Hernández	Dated: February 24, 2023
Edwin Pérez Hernández Director	
By: /s/ Néstor de Jesús	Dated: February 24, 2023
Néstor de Jesús Director	
By: /s/ Susan S. Harnett	Dated: February 24, 2023
Susan S. Harnett Director	
By: /s/ Rafael Vélez	Dated: February 24, 2023
Rafael Vélez Director	

EXHIBIT 21.1

LIST OF SUBSIDIARIES

A) ORIENTAL BANK – an FDIC insured non-member commercial bank organized and existing under the laws of the Commonwealth of Puerto Rico.

SUBSIDIARIES OF ORIENTAL BANK:

1. **Oriental International Bank Inc**. – a corporation and an international banking entity organized and existing under the laws of the Commonwealth of Puerto Rico.
2. **OFG USA, LLC** – a limited liability company organized and existing under the laws of the State of Delaware.

B) ORIENTAL FINANCIAL SERVICES LLC - a limited liability company and a registered securities broker dealer and investment adviser organized and existing under the laws of the Commonwealth of Puerto Rico.

C) ORIENTAL INSURANCE LLC – a limited liability company and a registered insurance agency organized and existing under the laws of the Commonwealth of Puerto Rico.

D) OFG REINSURANCE LTD – a limited liability company and a captive reinsurance company organized and existing under the laws of the Cayman Islands.

E) OFG VENTURES LLC – a limited liability company organized and existing under the laws of the State of Delaware.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements (Nos. 333-262655, 333-191603, 333-170064, 333-147727, 333-102696, 333-57052, and 333-84473) on Form S-8 of our reports dated February 24, 2023, with respect to the consolidated financial statements of OFG Bancorp and subsidiaries and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

San Juan, Puerto Rico
February 24, 2023

EXHIBIT 31.1

MANAGEMENT CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, **José Rafael Fernández**, President and Chief Executive Officer of OFG Bancorp, certify that:

1. I have reviewed this report on Form 10-K of OFG Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record,process,summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2023

By: /s/ José Rafael Fernández

José Rafael Fernández

President and Chief Executive Officer

EXHIBIT 31.2

MANAGEMENT CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, **Maritza Arizmendi**, Executive Vice President and Chief Financial Officer of OFG Bancorp, certify that:

1. I have reviewed this report on Form 10-K of OFG Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2023

By: /s/ Maritza Arizmendi
Maritza Arizmendi
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(18 U.S.C. §1350)

In connection with OFG Bancorp's report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, José Rafael Fernández, President and Chief Executive Officer of OFG Bancorp, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350), that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of OFG Bancorp.

In witness whereof, I execute this certification in San Juan, Puerto Rico, this 24th day of February 2023.

By: /s/ José Rafael Fernández
José Rafael Fernández
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(18 U.S.C. §1350)

In connection with OFG Bancorp's report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maritza Arizmendi, Executive Vice President and Chief Financial Officer of OFG Bancorp, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350), that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of OFG Bancorp.

In witness whereof, I execute this certification in San Juan, Puerto Rico, this 24th day of February 2023.

By: /s/ Maritza Arizmendi
Maritza Arizmendi
Executive Vice President and Chief Financial Officer

Executives

José Rafael Fernández
Chief Executive Officer and Vice Chairman of the Board

Ganesh Kumar
Chief Operating Officer

Ada García
Managing Director, Customer Intelligence & Operations

César A. Ortiz
Managing Director, Retail Business Development

Hugh González
General Counsel

Jennifer Zapata
Managing Director, Human Resources

José E. Cabrera
Chief Risk and Compliance Officer

Maritza Arizmendi
Chief Financial Officer

Patrick Haggarty
Managing Director, Commercial Banking

Board of Directors

Julian S. Inclán
Chair Board of Directors | Member of all Board Committees

José Rafael Fernández
Chief Executive Officer, Vice Chair

Jorge Colón Gerena
Chair - Compensation Committee; Member - Audit Commitee

Nestor De Jesús
Chair - Board Risk and Compliance Committee;
Member - Corporate Governance and Nominating Committee

Annette Franqui
Member - Compensation Committee

Sue Harnett
Chair - Corporate Governance and Nominating Committee
Member - Board Risk and Compliance Committe

Edwin Pérez Hernández
Member - Compensation Committee

Rafael Vélez
Member - Audit Committee

Carlos O. Souffront
Secretary

General Info

Corporate Headquarters

Oriental Center
254 Muñoz Rivera Avenue
San Juan, PR 00918

Telephone: (787) 771-6800

Transfer Agent and Register

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219

Telephone: (718) 921-8257

Dividend Reinvestment Plan

Corporate Legal Department
OFG Bancorp
PO Box 195115
San Juan, PR 00919

Telephone: (787) 771-6800

Independent Certified Public Accountants

KPMG LLP
250 Muñoz Rivera Avenue, Suite 1100

San Juan, PR 00918

Form 10-K

Annual Report on Form 10-K filed with the SEC is available
on request at: www.proxyvote.com

Annual Meeting

April 26, 2023 at 10:00 AM (EST)
It can be accessed live on this link:
http://www.virtualshareholdermeeting.com/OFG2023

Business Lines

Banking: Retail, Commercial and Wholesale
Auto Lending
Mortgage Lending
Wealth Management: Trust and Retirement Services, Securities
Brokerage, Investment Advisory Services
Insurance

Annual Certifications

Our President and CEO has submitted to the NYSE the Domestic Company Section 303A Annual CEO Certification regarding our compliance with the corporate governance listing standards of the NYSE. Also, we have filed with the SEC, as exhibits 31.1 and 31.2 to our annual report on Form 10-K for fiscal 2022, the Sarbanes-Oxley Act Section 302 Certifications of both our CEO and CFO regarding the quality of our public disclosures.

OFG Bancorp

www.OFGBancorp.com (NYSE: OFG)
www.orientalbank.com