Annual Report 2023

OFGBancorp

About the Cover

By the end of 2023, 93% of all OFG's Oriental Bank's retail routine transactions were conducted through self-service and digital channels. One of those channels is Oriental's new first-to-market self-service portal, where customers can manage all loan and deposit accounts in one place, as well as open new accounts.

Customers benefit from faster, more convenient service, with Oriental's staff available to assist on more complex transactions. Oriental benefits from staff spending less time on routine transactions and focus on supporting customer and business development.

About OFGBancorp

Now in its 60th year, 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.

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

To Our Shareholders

We are proud of our accomplishments in 2023, which was a strong year of growth for OFG. Major benefits resulting from our strategic initiatives began to emerge, demonstrating that the bank is well positioned for the future.

Earnings per share were up 11% to $3.83, we increased our common stock dividend and authorized a new share buyback program in 2024.

Our Digital First strategy showed great progress, enabling us to reach new milestones in customer digital engagement. This allowed our dedicated team to focus on serving customers and developing business.

Ending the year with record levels of loans, customer deposits, and assets helped lead to strong financial results and returning capital to investors.

This year, OFG will have been in business for 60 years. Based on our history of growth and commitment, we remain more than ready to serve our customers and investors in the years ahead.

To see more about our results and strategic initiatives, please visit our 2023 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, 2023

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 $1.228 billion as of June 30, 2023 based upon 47,076,187 shares outstanding and the reported closing price of $26.08 on the New York Stock Exchange on that date.

47,078,556 common shares ($1.00 par value per share) outstanding as of January 31, 2024

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement relating to the 2024 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, 2023

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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 credit losses ("ACL"), 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;
- a credit default by the U.S. government or a downgrade in the credit ratings of the U.S. government;
- the impacts related to or resulting from bank failures and other volatility, including potential increased regulatory and compliance requirements and costs and potential impacts to macroeconomic conditions, which could affect the ability of depository institutions, including the Bank, to attract and retain depositors and to borrow or raise capital;
- the actual or perceived soundness of other financial institutions, including as a result of the financial or operational failure of a major financial institution, or concerns about the creditworthiness of such a financial institution or its ability to fulfill its obligations, which can cause substantial and cascading disruption within the financial markets;
- amendments to the fiscal plans 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 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; and
- factors beyond our control such as severe weather conditions, natural disasters, pandemics, 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 for credit losses 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, auto, and mortgage lending, financial planning, insurance sales, investment advisory 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 ceased 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 First:** Our digital channels are (a) always available, (b) easy to use, (c) fast, (d) consistent, and (e) self-service with instant results with customers controlling how and when to transact. All routine transactions are available digitally, with an omnichannel approach.

- **Relationships and Interactions:** Branches transformed from a place where customers carry out transactions to a hub where they receive advice and foster business development. Expert financial guidance is provided through digital and in person channels.

- **Operational excellence:** Our operations work flawlessly. Our technology, systems and processes are trouble free, secure, automated, efficient and low latency. We relentlessly pursue the improvement of our processes.

- **Customer Insights:** Readily available, timely insights that empower customers to monitor and manage their finances. Our banking experts are equipped with the knowledge to proactively help customers achieve their financial aspirations.

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

- **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.

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

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

- **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 and 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 27 – 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 42 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, auto, 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 a wholly-owned 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, auto 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.

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 its mortgage loan portfolio and the GNMA, FNMA and FHLMC pools that it issues. The Bank had a subservicing arrangement with a third party for a portion of its acquired loan portfolio that was terminated on May 1, 2023. After such termination, OFG services all of its mortgage loan portfolio.

Loan Underwriting

Auto loans: 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, SOFR 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, 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 three 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 OFG's subsidiary engaged in securities brokerage and investment advisory activities. Its operations are part of OFG's strategy of providing retail and institutional clients fully integrated financial solutions. These 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 individual needs and preferences, including transaction-based pricing and asset-based fee pricing. Oriental Financial Services is a registered securities broker-dealer pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation. 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 OFG'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 OFG's existing customer base.

OFG Reinsurance Ltd., a Cayman Islands company, is OFG'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 an OFG subsidiary that was engaged in the administration and servicing of retirement plans in the U.S., Puerto Rico, and the Caribbean. On December 30, 2022, the Bank sold the rights to administer and service the retirement plans of its customers, and Oriental Pension Consultants ceased 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") or held to maturity ("HTM") 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.

Since December 31, 2019, OFG operates in the USVI and expects to grow the business that it acquired in such jurisdiction.

Our Human Capital

At OFG, our unwavering commitment to propelling the progress of our customers, employees, shareholders, and the communities we serve is the driving force behind everything we do. This profound sense of purpose serves as the cornerstone of our talent strategy. We foster a people-centric approach, ensuring our workforce possesses the current and future skills needed to achieve OFG's strategic goals and perform at their best. This talent strategy not only aligns skills with business needs but also fosters organizational agility through enhanced visibility and resource accessibility.

As of December 31, 2023, OFG had 2,248 employees, none of which are represented by a collective bargaining group.

Employee Experience and Culture

Maintaining an emotional connection with our employees is key to achieving our vision. In our latest annual engagement survey in collaboration with Gallup, we received feedback from 91% of our workforce. The survey results reflected a 4% overall score increase over the prior year, a 9% rise in engaged employees, and a remarkable 71% high engagement ratio. Utilizing a self-service platform, leaders gain real-time insights, analytics, action planning recommendations, and learning tools to promptly address key areas such as job expectations, recognition, ideas, collaboration, and development.

We also aim to continuously understand how employees live our values, how they connect their purpose to our mission and the impact of leadership styles in enabling our business strategy and empowering employees to thrive. To achieve this, we conducted a culture assessment to understand our current state and its implications on business outcomes and executed a three-phase plan—Discovery, Alignment, and Implementation. The Discovery phase involved individual interviews, focus groups, and surveys to gain insights, complemented by strategic working sessions and gap analyses. The information obtained during the Discovery phase thereafter fueled the implementation phase to strengthen leadership capabilities, reinforce core values, and encourage best practices.

Furthermore, in addition to maintaining the highest levels of business ethics and integrity, OFG ensures compliance with its Code of Business Conduct and Ethics through employee certifications, a whistleblower line, and related procedures.

Talent Development

As a continuous learning advocate, our culture encourages growth through various programs—training, feedback, coaching, mentoring, and stretch assignments. In the year ended December 31, 2023, we offered over 300 learning sessions totaling more than 20,000 training hours. Partnering with LinkedIn Learning expanded our offerings to over 22,000 courses. Leadership development programs, Gallup-based initiatives, and emerging talent programs, including trainee and alumni mentorship programs, further contribute to our talent pool.

OFG also has customer service and sales-service academies provided to client-facing sales and service employees. During the year ended December 31, 2023, and as part of our career growth and development programs, 20% of open positions were filled internally. Moreover, higher performance ratings compared to the previous year, and aligned with our business results are proof OFG's talent is doing their very best to contribute and intentionally live our purpose to make progress possible.

Once a year, a talent review and succession planning process is conducted for senior leaders and presented 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 compliance matters, including regulatory compliance and anti-money laundering programs, among others. All employees are required to complete annual online training courses covering all required topics.

Talent Acquisition and Retention

To enhance OFG's talent ecosystem, the talent acquisition process incorporates a skills-based approach to drive hiring decisions. OFG has leveraged internships and partnerships with universities to enrich recruiting efforts. During 2023, OFG was present in 18 job fairs held in Puerto Rico, US Virgin Islands and the US mainland. 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.

OFG monitors employee turnover rates and trends, as we believe that our success depends upon retaining our highly skilled and dedicated talent. OFG's proactive approach to talent retention includes conducting stay interviews on a need basis. On the other hand, exit interviews and termination reasons are analyzed to act on trends and plan future strategies. OFG's voluntary turnover rate was 10.9% by the 2023 year-end and continues to show a downward trend when compared to prior years. More than 70% of exits are for non-exempt roles. Our turnover rate is lower than industry benchmarks.

We believe that our philosophy of providing highly competitive performance driven compensation, an employee centered culture, along with significant opportunities for career growth and development opportunities, encourages a high level of employee retention. At December 31, 2023, OFG's talent had an average of 10 years of service.

Diversity, Equity, and Inclusion

OFG's hiring and talent management practices are committed to ensuring a diverse workforce that reflects the makeup of the communities in which it operates. Oriental prepares an annual diversity plan, whereby it identifies members of the community that are underrepresented in our workforce. During 2023, our workforce was overall represented by 68.7% female and 31.3% male, with equal representation in the executive team, 50% female and 50% male.

We are continuously reviewing and ensuring a diverse workforce representation at all levels. As part of our culture assessment, 70% of employees responded favorably to the statement "This organization seeks to hire people with diverse backgrounds and ways of thinking."

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.

Compensation

Integral to our strategy is our compensation program, designed by our Human Resources team and overseen by the Board's Compensation Committee. The program aligns individual and business performance objectives, ensuring competitiveness with market practices. It aims to attract and retain employees, link pay with performance, and align with corporate governance principles. The Board's Compensation Committee approves compensation of OFG's senior executive management team, taking into account input of the Compensation Committee's independent compensation consultant.

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 practices 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. OFG's investment in human capital extends to our workforce's dependents and during the last nine years $533 thousand has been awarded to 109 students as part of our university scholarship program for our employee's dependents.

We also provide targeted benefits aimed at promoting work-life balance, such as paid time-off for vacation, illness, maternity and paternity leave, community service leave, personal days, and flexible work arrangements, among others.

In response to the Covid-19 pandemic, OFG launched hybrid work from home arrangements for employees. Today we have formally adopted and evolved our hybrid model, which enhances our organization's adaptability and resilience to changing conditions while providing employees with flexibility that enables them to perform at their best. The program's effectiveness is measured and monitored quarterly to ensure it remains as a value-added attribute of our strategic vision.

Management and Board Oversight

Management is engaged in OFG's efforts regarding the administration of human capital through regular informational meetings, OFG's Enterprise Risk Management program, and organized succession planning. The Board 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 Compensation Committee is actively engaged in achieving and maintaining internal and external pay equity for the executive team and the Board members while overseeing incentive compensation more broadly throughout the organization. In promoting external pay equity, the Board and its 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 to 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 impermissible 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 U.S. Treasury Department (the "US Treasury") 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 to exercise broad rulemaking, supervision, and enforcement authority for a wide range of consumer financial 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 must 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 Federal Home Loan Bank (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 capital rules adopted by the federal banking agencies in 2013 under Basel III framework 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.

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, 2023, 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.

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 introduced 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. 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%.

The FDIC has the authority to charge special assessments from time to time, including in connection with systematic risk events. For example, in November 2023, the FDIC finalized a rule to recover losses to the FDIC deposit insurance fund as a result of bank failures during the first half of 2023. Under the rule, the FDIC will collect a special assessment based on a calculation using an insured depository institution's estimated amount of uninsured deposits. In particular, the special assessment will be imposed on insured depository institutions based on their estimated uninsured deposits in excess of $5 billion. Given that OFG has uninsured deposits under $5 billion, this special assessment does not apply to us. However, in the future, there may be additional special assessments imposed on insured depository institutions that may apply to us. It is not yet possible to quantify the scope of any of these actions or the potential impact on our operations.

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, 2023, 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 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, 2023, 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, 2023 and 2022, legal surplus amounted to $151.0 million and $133.9 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 ("AMT") purposes.

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 as of the end of previous calendar year and imposes limits on what banks may charge for debit card interchange fees. OFG's assets exceeded $10 billion as of December 31, 2023; therefore, we estimate that, beginning on July 1, 2024, the Durbin Amendment will reduce OFG's income from debit card interchange fees by approximately $10 to $11 million, on an annual basis, based on current volume. OFG has implemented measures to anticipate the increased regulatory oversight and other requirements that will apply as a result of crossing such $10 billion threshold.

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 pandemics 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, Puerto Rico has experienced significant economic contraction that persisted over a decade, 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. While Puerto Rico's economy has been gradually recovering, it still faces economic and fiscal challenges and could face additional economic or fiscal challenges in the future. 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. In addition, there is no assurance that the Puerto Rico government will be able to satisfy its obligations as restructured.

Various significant natural disasters, including hurricanes and earthquakes, as well as the Covid-19 pandemic have also impacted Puerto Rico's economy. Although federal disaster reconstruction assistance is expected to continue 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. 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.

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 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 and the armed conflict in Israel as a result of a terrorist attack by Hamas in late 2023, 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 Federal Open Market Committee of the Board of Governors of the Federal Reserve System ("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 and from the conflict in Israel are not known at this time, but they could continue to bring economic disruption, supply-chain interruptions, 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 FRB tightened monetary policy and increased the federal funds rate considerably since March 2022 through July 2023. In December 2023, the FRB held interest rates steady at a target rate range between 5.25% to 5.50% and suggested the possibility of rate cuts during 2024. Notwithstanding FRB's announcements, the amount, timing, and frequency of any decrease in the federal funds rate are not fully known at this time. If market interest rates increase or remain higher for longer, OFG will have competitive pressure to increase the rates on its deposits, which could result in a decrease of its net interest income and borrowers of variable rate commercial loans may experience difficulties paying their heightened debt service. If market interest rates decline, OFG could experience lower interest income from its variable rate commercial loans and prepayments or refinancing of higher fixed-rate loans. OFG's earnings can also be impacted by the spread between short-term and long-term market interest rates.

Any downgrade in the credit rating of the U.S. government or default by the U.S. government as a result of political conflicts over legislation to raise the U.S. government's debt limit may have a material adverse effect on OFG.

Recent federal budget deficit concerns and political conflict over legislation to raise the U.S. government's debt limit have increased the possibility of a default by the U.S. government on its debt obligations, related credit-rating downgrades, or an economic recession in the United States. Many of our investment securities are issued by the U.S. government, including certain government agencies and sponsored entities. As a result of uncertain domestic political conditions, including the possibility of the federal government defaulting on its obligations for a period of time due to debt-ceiling limitations or other unresolved political issues, investments in financial instruments issued or guaranteed by the federal government may pose liquidity risks. In connection with prior political disputes over U.S. fiscal and budgetary issues leading to the U.S. government shutdown in 2011, Standard & Poor's lowered its long-term sovereign credit rating on the U.S. from AAA to AA+. A downgrade, or a similar action by other rating agencies, in response to current political dynamics, as well as sovereign debt issues facing the governments of other countries, could generally have a material adverse impact on financial markets and economic conditions in the U.S. and worldwide and, therefore, materially adversely affect OFG's business, financial condition and results of operations.

CREDIT RISK

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 ACL, 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 ACL may not be enough to cover losses inherent in our loan portfolio, resulting in additions to the ACL. Material additions to the ACL would materially decrease our net income.

Our emphasis on the origination of commercial and retail loans is one of the more significant factors in evaluating our ACL. 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 ACL to provide for probable and expected losses inherent in the loan portfolio. We periodically determine the amount of the ACL 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 ACL relies on several key elements, which include a specific allowance for identified problem loans and a general systematic allowance.

Although we believe our ACL 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 ACL and that additional increases in the ACL will be required. Additions to the ACL 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 or the United States deteriorate, we may experience increased credit costs or need to take greater than anticipated markdowns and make greater than anticipated provisions to increase the ACL that could adversely affect our financial condition and results of operations in the future.

Bank regulators periodically review our ACL and may require us to increase our provision for credit losses or loan charge-offs. Any increase in our ACL 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 2023, we repurchased $9.6 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 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.

The ability of our borrowers to repay their obligations may be adversely affected by changes in real estate values or in real estate market dynamics. Commercial real estate valuations in particular are highly subjective, as they are based on many assumptions. Such valuations can be significantly affected over relatively short periods of time by changes in business climate, economic conditions, demographic and market trends such as the impact of the ongoing shift to online shopping on retail properties or the trend toward remote and hybrid work on office properties. The value of commercial real estate and ability of commercial real estate borrowers to service debt is sensitive to occupancy rates, the level of rents, regulatory changes, interest rates, other operating costs and, in many cases, the results of operations of businesses and other occupants of the real property. Weak economic conditions or demographic and market trends may impair a borrower's business operations, lead to elevated vacancy rates or lease turnover, slow the execution of new leases or result in falling rents. In particular, the office segment continues to be impacted by the evolving trend toward remote or hybrid work.

In the past, the decline in Puerto Rico’s economy had an adverse effect in the credit quality of our mortgage and commercial real estate 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 economy enters into a recession, or if there is a decline in economic activity, additional increases in the ACL 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. These risks are heightened further by the advent of new artificial intelligence technologies that may be adapted to increase the effectiveness of cyberattacks and their proper use may be necessary to aid in the defense of such attacks. 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, 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 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.

If we are unable to maintain or grow our core deposits, we may be subject to paying higher funding costs and our net interest income may decrease.

We must maintain adequate liquidity and funding sources to support our operations, comply with our financial obligations, finance our digitalization initiatives, fund planned capital distributions and meet regulatory requirements. We rely primarily on core deposits as a low cost and stable source of funding for our lending activities and the operation of our business. Therefore, our funding costs are largely dependent on our ability to maintain and grow our core deposits. As we face substantial competition in attracting and retaining deposits caused by rising interest rates, we have increased our cost of funds by increasing the rates we pay to our depositors to avoid losing deposits. We may also need to rely on more expensive sources of funding if deposits decrease. Rising interest rates have also led customers to move their funds to alternative investments that pay higher interest rates. Furthermore, we have a significant amount of collateralized deposits from the Puerto Rico government, its instrumentalities and municipalities ($1.618 billion, or approximately 17% of our total deposits, as of December 31, 2023), and the amount of these deposits may fluctuate depending on the financial condition and liquidity of these entities, as well as on our ability to maintain these customer relationships. If we are unable to maintain or grow our deposits for any reason, we may be subject to paying higher funding costs and our net interest income may decrease.

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 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 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. This law applies to banks with over $10 billion in consolidated assets and limits these banks on what they charge for debit card interchange fees. OFG’s assets exceeded $10 billion as of December 31, 2023, and therefore, we estimate that beginning in July 1, 2024, the Durbin Amendment will reduce OFG’s income from debit card interchange fees by approximately $10 to $11 million on an annual basis based on current volume.

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.

Adverse developments in the financial services industry could adversely affect our financial condition and results of operations.

In 2023, several depository institutions failed or required outside liquidity support. The impact of this situation led to risk of additional stress to the financial services industry generally as a result of increased lack of confidence in the financial sector. Although we currently do not anticipate liquidity constrains of the kind that caused certain other financial services institutions to fail or require external support, unanticipated deposit withdrawals due to market distress or otherwise or our inability to access other sources of liquidity, whether due to capital markets dislocations or otherwise, could result in constrains on our liquidity and adversely affect our business, financial condition, and results of operations.

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, and the Federal Reserve as lender of last resort 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 investment 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, such as artificial intelligence technologies. 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 1 of 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 and may limit our ability to implement our strategic initiatives. 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 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 and our impairment evaluation of intangibles, we determined that no impairment charges were necessary as of December 31, 2023. However, 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. 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 1C. *CYBERSECURITY*

Cybersecurity Risk Management Strategy

OFG has a comprehensive framework in place to assess, identify and manage material risks from cybersecurity threats. Our Information Security Officer ("ISO") is responsible for overseeing and implementing the Company's cybersecurity risk management framework as part of our broader Information Security Program approved by the Board. Our cybersecurity risk management framework is integrated into the Company's broader risk management system with a focus on monitoring key risk indicators within a defined risk tolerance set by our Board.

Our cybersecurity risk management framework is focused on the following key areas:

- Regular cybersecurity risk assessments;
- Design and implementation of controls to mitigate any identified cybersecurity risks;
- Continuous evaluation of the effectiveness of such controls; and
- Implementation of an incident response plan that includes procedures for responding to cybersecurity incidents.

In addition, our cybersecurity risk management framework incorporates three lines of defense, each with defined roles and responsibilities. OFG conducts an annual cybersecurity maturity assessment to (a) evaluate its cybersecurity risk management practices and (b) develop action plans for improving its cybersecurity risk management program.

The cybersecurity risk management framework also establishes standards or controls for the design of our cybersecurity infrastructure, including with respect to monitoring and preventing cybersecurity incidents, authenticating the identity of persons authorized to access critical information resources, and assessing safeguards that must be implemented by our external vendors and service providers.

OFG uses external consultants and other third-party service providers to monitor our information systems for any cyberattacks, impersonators or unauthorized releases of sensitive customer data, as well as performing investigations and penetration testing, identifying system vulnerabilities and required software patches, monitoring and managing firewalls, and advising on systems and cloud architecture. OFG also conducts due diligence of third-party software and related services and reviews cybersecurity reports from technology services providers to ensure that our cybersecurity infrastructure can respond to evolving cybersecurity risks relevant to our business.

Pursuant to our cybersecurity risk management framework, our Information Security team develops an annual information security awareness plan to educate employees as to the Company's standards, processes and practices with respect to information security, potential cybersecurity threats and proper use of information security resources entrusted to them, with the goal of minimizing possible employee security risks. Our Information Security team engages third-party consultants to assist us in the evaluation of our cybersecurity risk management practices to identify risks, perform social engineering exercises, and provide annual cybersecurity training.

Cybersecurity Governance

Our Board is responsible for overseeing OFG's cybersecurity efforts and approving the Information Security Program, which sets forth OFG's policy regarding the confidentiality, integrity and availability of its information assets. The Board's Risk and Compliance Committee more directly oversees the implementation of the Information Security Program and receives quarterly reports on any cybersecurity risks.

Our ISO, under the supervision of the Chief Risk Officer, leads the development and implementation of the Information Security Program. In addition, our Information Technology Department ("IT") also has a dedicated cybersecurity team under the supervision of our Chief Information Officer. Members of our Information Security and IT cybersecurity teams have over 50 years of combined experience in information technology systems and cybersecurity risk management and include a team member that has a ISACA Certified Information Systems Auditor certification and two team members each with a master's degree in cybersecurity.

Our ISO provides quarterly reports to our Executive Risk and Compliance Team, which is comprised of several executive officers of OFG. In addition, our Chief Risk Officer reports to the Board's Risk and Compliance Committee and, when necessary, the Board.

Any identified cybersecurity incidents must be reported to the ISO and the mitigation and remediation thereof is performed by the Incident Response Team, which is led by the ISO and composed of key executives, with identified call trees and key service providers to support the coordination of a rapid response.

In the last three fiscal years, OFG has not experienced any material cybersecurity incidents, and expenses incurred from any cybersecurity incidents were immaterial. For more information on the risks to the Company of future cybersecurity threats or incidents, see "Item 1A, Risk Factors — Operations and Business Risks."

ITEM 2. *PROPERTIES*

At December 31, 2023, 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, 2023, the Bank owns three branch premises and leases thirty-nine 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, 2023, the aggregate future rental commitments under the terms of its leases, exclusive of taxes, insurance and maintenance expenses payable by OFG, was approximately $24.0 million.

OFG’s investment in premises and equipment, exclusive of leasehold improvements at December 31, 2023, was $160.8 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".

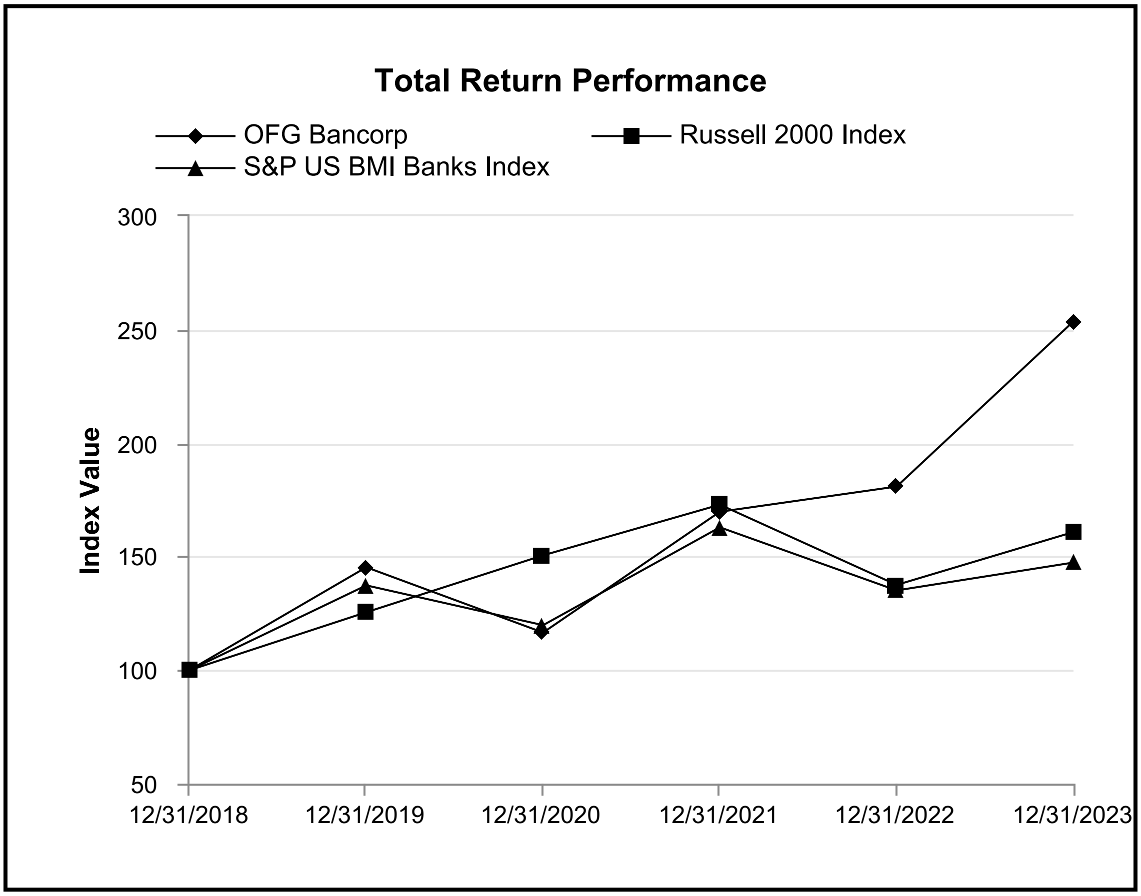
As of December 31, 2023, OFG had approximately 14,694 holders of record of its common stock, including all directors and officers of OFG, and beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees.

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 S&P US BMI Banks 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, 2018, 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	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
OFG Bancorp	100.00	145.34	116.58	169.77	180.87	253.63
Russell 2000	100.00	125.53	150.58	172.90	137.56	160.85
S&P US BMI Banks Index	100.00	137.36	119.83	162.92	135.13	147.41

Dividends

You can find dividend information concerning our common stock in Table 16 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 29 - 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

OFG did not repurchase any shares of its common stock during the quarter ended December 31, 2023.

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.

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 2021 results where it would be redundant to the discussion previously included in Item 7 of our 2022 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, 2022 compared to the year ended December 31, 2021, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2022 annual report on Form 10-K.

RECENT DEVELOPMENTS

Capital Actions

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 in the quarter ended March 31, 2023.

At December 31, 2023, OFG had repurchased 3.1 million shares of common stock for $82.8 million of the $100 million stock repurchase program authorized in January 2022. During 2023, OFG repurchased 743,699 shares for a total of $18.7 million at an average price of $25.08 per share.

Announcement of Forthcoming 2024 Capital Actions

In January 2024, OFG announced that its Board of Directors approved the increase of its regular quarterly cash dividend to $0.25 per common share from $0.22 per share, beginning in the quarter ending March 31, 2024. The Board of Directors also approved a new $50.0 million stock repurchase program. The new stock repurchase program, which is open-ended, replaces the prior stock repurchase program, which had had been approved by the Board of Directors in January 2022 and had $17.2 million remaining of its $100 million repurchase parameters.

Local Economic Conditions

We believe that Puerto Rico's economy continues to demonstrate resiliency and growth and its private sector is expanding. The Puerto Rico Economic Activity Index, as published by the Economic Development Bank for Puerto Rico, in November 2023 increased 5.9% year-over-year and retail sales in November increased 7.4% year-over-year and, according to the data published by Economic Development Bank for Puerto Rico, wages are also rising and labor participation is increasing. Total non-farm payroll employment in November 2023 improved 2.6% year-over-year and total employment rose 2.5% from July 2022 to December 2023. The inflow of federal stimulus and reconstruction funds for rebuilding infrastructure has continued. Nevertheless, OFG continues to pay attention to the potential impact of interest rate changes, inflation, and a possible U.S. mainland recession, all of which could impact our business and results of operations.

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 ACL. The provision for credit losses charged to current operations is based on this determination. The ACL 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's management evaluates the adequacy of the ACL 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 ACL, 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 ACL. Consequently, the business, financial condition, liquidity, capital and results of operations could also be affected.

The ACL estimation requires management to use relevant forward-looking economic forecasts, by using variables such as employment and unemployment rate, gross national product ("GNP"), 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 ACL 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 aggregating 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. As of December 31, 2023, management gave more weight to the baseline scenario, except for the US loan segment where the moderate recession scenario was given a greater weight. 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, 2023. 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 4% 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 ACL for off-balance sheet credit exposures.

For a detailed description of the principal factors used to determine the ACL 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 5 – Loans" to the consolidated financial statements.

FINANCIAL HIGHLIGHTS

The year ended December 31, 2023 was an outstanding year. At December 31, 2023, OFG ended with record levels of loans, customer deposits, assets, and stockholders' equity. For the first time, commercial loan balances exceeded $3 billion and tangible common equity was more than $1 billion. OFG's 'Digital First Strategy' resulted in our retail customers completing 93% of routine transactions through self-service channels. OFG's self-service portal, launched in early 2023, has been expanded to include more features and is rapidly being adopted by our customers. While consumer credit in Puerto Rico has begun to normalize post-pandemic, consumer liquidity and employment as well as commercial clients and the broader Puerto Rico economy continue to be strong.

Year Ended 2023:

Earnings per share diluted was $3.83 in 2023 compared to $3.44 in 2022. Total core revenues of $682.7 million in 2023 compared to $607.8 million in 2022.

Fourth Quarter of 2023:

Results Included:

Gain on Sale of Non-Performing Puerto Rico Small Business Loans: Resulted in a $6.3 million pre-tax gain in other non-interest income.

Workforce Early Retirement & Rightsizing: Resulted in $3.2 million in severance and lease cancellation costs in non-interest compensation and infrastructure expenses.

Large Public Funds Deposit: $1.2 billion in funds from an existing long-standing Puerto Rico government client were deposited mid-December.

Highlights:

Earnings per share diluted was $0.98 compared to $0.95 in the third quarter of 2023 and $0.97 in the fourth quarter of 2022. Total core revenues of $175.6 million compared to $172.2 million in the third quarter of 2023 and $168.3 million in the fourth quarter of 2022.

Performance metrics: Net interest margin of 5.62%, return on average assets of 1.76%, return on average tangible common stockholders' equity of 18.22%, and efficiency ratio of 53.59%.

Total interest income of $176.2 million compared to $165.7 million in the third quarter of 2023 and $145.7 million in the fourth quarter of 2022. Compared to the third quarter of 2023, the fourth quarter of 2023 primarily reflected higher average balances and yields on loans and investment securities.

Total interest expense of $32.7 million compared to $23.9 million in the third quarter of 2023 and $10.4 million in the fourth quarter of 2022. Compared to the third quarter of 2023, the fourth quarter of 2023 reflected increases of $4.0 million in the cost of average core deposits and $4.8 million in the cost of average wholesale funding, primarily due to temporarily higher balances of borrowings and brokered deposits during the quarter.

Total banking and financial service revenues of $32.1 million compared to $30.4 million in the third quarter of 2023 and $33.0 million in the fourth quarter of 2022. Compared to the third quarter of 2023, the fourth quarter of 2023 reflected annual insurance commission recognition of $2.5 million in wealth management revenues and lower mortgage servicing revenues.

Pre-provision net revenues of $88.2 million compared to $82.3 million in the third quarter of 2023 and $76.9 million in the fourth quarter of 2022.

Total provision for credit losses of $19.7 million compared to $16.4 million in the third quarter of 2023 and $8.8 million in the fourth quarter of 2022. The fourth quarter of 2023 provision primarily reflected increased loan volume.

Credit quality: Net charge-offs of $16.3 million compared to $18.8 million in the third quarter of 2023 and $11.2 million in the fourth quarter of 2022. The fourth quarter of 2023 early and total delinquency rates were 2.76% and 3.76%, respectively, in line with the third quarter of 2023. The non-performing loan rate of 1.22% was the lowest over the last five quarters.

Total non-interest expense of $94.1 million compared to $90.2 million in the third quarter of 2023 and $91.6 million in the fourth quarter of 2022.

Loans held for investment of $7.53 billion compared to $7.26 billion in the third quarter of 2023 and $6.84 billion in the fourth quarter of 2022. Loans increased 3.8% from the previous quarter and 10.2% year-over-year, reflecting increases in commercial loans and retail auto and consumer loans. This was partially offset by regular paydowns of residential mortgages and securitization and sale of conforming loans.

New loan production of $663.9 million compared to $567.5 million in the third quarter of 2023 and $616.4 million in the fourth quarter of 2022. The fourth quarter of 2023 primarily reflected increased commercial lending within Puerto Rico.

Total investments of $2.69 billion compared to $2.07 billion in the third quarter of 2023 and $1.97 billion in the fourth quarter of 2022. The third quarter of 2023 investments reflected purchases of $300 million of short-term US Treasury bills and $250 million of long-term government insured, mortgage-backed securities.

Customer deposits of $9.60 billion compared to $8.54 billion in the third quarter of 2023 and $8.56 billion in the fourth quarter of 2022.

Total borrowings and brokered deposits of $363.0 million compared to $454.4 million in the third quarter of 2023 and $38.4 million in the fourth quarter of 2022. The average balance of such wholesale funding was $602.0 million in the fourth quarter of 2023 compared to $266.4 million in the third quarter of 2023. The December 31, 2023 balance reflected repayment of $250 million of borrowings and the addition of $160 million of brokered deposits, most of which will mature in the first quarter of 2024.

Cash and cash equivalents of $748.2 million compared to $532.7 million in the third quarter of 2023 and $550.5 million in the fourth quarter of 2022.

Total assets of $11.34 billion at December 31, 2023 compared to $10.26 billion at September 30, 2023 and $9.82 billion at December 31, 2022.

Capital: CET1 ratio of 14.12% compared to 14.06% in the third quarter of 2023 and 13.64% in the fourth quarter of 2022. The Tangible Common Equity ratio was 9.68% compared to 9.74% in the third quarter of 2023 and 9.59% in the fourth quarter of 2022. Tangible Book Value per share of $23.13 compared to $21.01 in the third quarter of 2023 and $19.56 in the fourth quarter of 2022. The fourth quarter of 2023 Tangible Book Value reflected increased retained earnings and accumulated other comprehensive income.

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

	Year Ended December 31,		
	2023	2022	2021
EARNINGS DATA:	**(In thousands, except per share data)**		
Interest income	$ 648,880	$ 515,573	$ 449,199
Interest expense	88,010	33,493	41,829
Net interest income	**560,870**	**482,080**	**407,370**
Provision for credit losses	60,638	24,119	221
Net interest income after provision for credit losses	**500,232**	**457,961**	**407,149**
Non-interest income	128,381	131,690	133,210
Non-interest expenses	363,365	345,546	325,756
Income before taxes	**265,248**	**244,105**	**214,603**
Income tax expense	83,376	77,866	68,452
Net income	**181,872**	**166,239**	**146,151**
Less: dividends on preferred stock	—	—	(1,255)
Income available to common shareholders	**$ 181,872**	**$ 166,239**	**$ 144,896**
PER SHARE DATA:			
Basic	**$ 3.85**	**$ 3.46**	**$ 2.85**
Diluted	**$ 3.83**	**$ 3.44**	**$ 2.81**
Average common shares outstanding	**47,258**	**48,033**	**50,956**
Average common shares outstanding and equivalents	**47,552**	**48,436**	**51,370**
Cash dividends declared per common share	**$ 0.88**	**0.70**	**0.40**
Cash dividends declared on common shares	**$ 41,853**	**33,593**	**20,505**
PERFORMANCE RATIOS:			
Return on average assets (ROA)	**1.79 %**	**1.64 %**	**1.42 %**
Return on average tangible common stockholders' equity	**18.14 %**	**17.98 %**	**15.70 %**
Return on average common equity (ROE)	**16.37 %**	**15.95 %**	**13.80 %**
Efficiency ratio	**53.22 %**	**56.85 %**	**60.70 %**
Interest rate spread	**5.71 %**	**5.02 %**	**4.18 %**
Interest rate margin	**5.79 %**	**5.05 %**	**4.20 %**

	December 31,		
	2023	2022	2021
PERIOD END BALANCES AND CAPITAL RATIOS:	**(In thousands, except per share data)**		
Investments and loans			
Investment securities	$ 2,686,770	$ 1,971,522	$ 895,818
Loans, net	7,401,618	6,723,236	6,329,311
Total investments and loans	**$ 10,088,388**	**$ 8,694,758**	**$ 7,225,129**
Deposits and borrowings			
Deposits	$ 9,762,169	$ 8,568,364	$ 8,603,118
Borrowings	200,770	27,034	64,571
Total deposits and borrowings	**$ 9,962,939**	**$ 8,595,398**	**$ 8,667,689**
Stockholders' equity			
Common stock	59,885	59,885	59,885
Additional paid-in capital	638,667	636,793	637,061
Legal surplus	150,967	133,901	117,677
Retained earnings	639,324	516,371	399,949
Treasury stock, at cost	(228,350)	(211,135)	(150,572)
Accumulated other comprehensive loss	(67,013)	(93,409)	5,160
Total stockholders' equity	**$ 1,193,480**	**$ 1,042,406**	**$ 1,069,160**
Per share data			
Book value per common share	**$ 25.36**	**$ 21.91**	**$ 21.54**
Tangible book value per common share	**$ 23.13**	**$ 19.56**	**$ 19.08**
Market price	**$ 37.48**	**$ 27.56**	**$ 26.56**
Capital ratios			
Leverage capital	**11.03 %**	**10.36 %**	**9.69 %**
Common equity Tier 1 capital	**14.12 %**	**13.64 %**	**13.77 %**
Tier 1 risk-based capital	**14.12 %**	**13.64 %**	**14.27 %**
Total risk-based capital	**15.37 %**	**14.89 %**	**15.52 %**
Financial assets managed			
Trust assets managed	$ 2,511,880	$ 2,334,672	$ 3,758,895
Broker-dealer assets managed	2,446,281	2,172,116	2,466,004
Total assets managed	**$ 4,958,161**	$ 4,506,788	$ 6,224,899

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 2023 and 2022.

TABLE 1 - ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Interest		Average rate		Average balance	
	December 2023	December 2022	December 2023	December 2022	December 2023	December 2022
			(Dollars in thousands)			
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 648,880**	**515,573**	**6.70 %**	**5.40 %**	**$ 9,688,019**	**$ 9,544,055**
Tax equivalent adjustment	16,061	14,679	0.17 %	0.15 %	—	—
Interest-earning assets - tax equivalent	**664,941**	**530,252**	**6.87 %**	**5.55 %**	**9,688,019**	**9,544,055**
Interest-bearing liabilities	88,010	33,493	0.99 %	0.38 %	8,903,725	8,902,427
Tax equivalent net interest income / spread	**576,931**	**496,759**	**5.88 %**	**5.17 %**	**784,294**	**641,628**
Tax equivalent interest rate margin			**6.05 %**	**5.32 %**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	62,730	40,722	3.23 %	2.55 %	1,940,776	1,594,662
Interest bearing cash and money market investments	31,406	14,689	5.02 %	1.14 %	626,067	1,291,633
Total investments	**94,136**	**55,411**	**3.67 %**	**1.92 %**	**2,566,843**	**2,886,295**
Non-PCD loans						
Mortgage loans	34,442	36,881	5.54 %	5.42 %	621,382	680,768
Commercial loans	201,260	138,715	7.69 %	5.90 %	2,617,240	2,349,114
Consumer loans	70,197	58,181	11.42 %	11.28 %	614,902	515,781
Auto loans	176,144	147,557	8.30 %	8.17 %	2,122,997	1,805,976
Total Non-PCD loans	**482,043**	**381,334**	**8.07 %**	**7.13 %**	**5,976,521**	**5,351,639**
PCD loans						
Mortgage loans	60,434	66,610	6.16 %	6.02 %	980,564	1,106,708
Commercial loans	11,764	11,112	7.35 %	5.86 %	160,001	189,606
Consumer loans	109	155	14.99 %	14.03 %	727	1,102
Auto loans	394	951	11.72 %	10.94 %	3,363	8,705
Total PCD loans	**72,701**	**78,828**	**6.35 %**	**6.04 %**	**1,144,655**	**1,306,121**
Total loans [(1)]	**554,744**	**460,162**	**7.79 %**	**6.91 %**	**7,121,176**	**6,657,760**
Total interest-earning assets	**$ 648,880**	**515,573**	**6.70 %**	**5.40 %**	**$ 9,688,019**	**$ 9,544,055**

	Interest		Average rate		Average balance	
	December 2023	December 2022	December 2023	December 2022	December 2023	December 2022
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
NOW Accounts	25,710	11,291	1.03 %	0.41 %	2,489,560	2,761,653
Savings accounts	17,727	6,470	0.80 %	0.28 %	2,214,256	2,306,607
Time deposits	25,225	7,943	1.92 %	0.69 %	1,315,745	1,143,469
Non-interest bearing deposits	—	—	— %	— %	2,590,523	2,647,871
Total core deposits	68,662	25,704	0.80 %	0.29 %	8,610,084	8,859,600
Fair value premium and core deposit intangible amortizations	5,283	6,500	— %	— %	—	—
Brokered deposits	2,020	35	5.16 %	0.30 %	39,100	11,366
Total deposits	**75,965**	**32,239**	**0.88 %**	**0.36 %**	**8,649,184**	**8,870,966**
Borrowings:						
Securities sold under agreements to repurchase	3,306	—	5.55 %	— %	59,541	—
Advances from FHLB and other borrowings	8,739	733	4.48 %	2.67 %	195,000	27,497
Subordinated capital notes	—	521	— %	13.15 %	—	3,964
Total borrowings	**12,045**	**1,254**	**4.73 %**	**3.99 %**	**254,541**	**31,461**
Total interest-bearing liabilities	**88,010**	**33,493**	**0.99 %**	**0.38 %**	**8,903,725**	**8,902,427**
Net interest income / spread	**$ 560,870**	**$ 482,080**	**5.71 %**	**5.02 %**		
Interest rate margin			**5.79 %**	**5.05 %**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 784,294**	**$ 641,628**
Average interest-earning assets to average interest-bearing liabilities ratio					**108.81 %**	**107.21 %**

(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	$ 9,989	$ 12,019	$ 22,008
Interest-bearing cash and money market investments	(11,144)	27,861	16,717
Loans	40,103	54,479	94,582
Total interest income	**38,948**	**94,359**	**133,307**
Interest Expense:			
NOW accounts	(1,215)	15,634	14,419
Savings accounts	(271)	11,528	11,257
Time deposits	15,483	1,799	17,282
Brokered deposits	260	1,725	1,985
Fair value premium and core deposit intangible amortizations	—	(1,217)	(1,217)
Securities sold under agreements to repurchase	3,306	—	3,306
Advances from FHLB and other borrowings	7,200	806	8,006
Subordinated capital notes	(261)	(260)	(521)
Total interest expense	**24,502**	**30,015**	**54,517**
Net Interest Income	**$ 14,446**	**$ 64,344**	**$ 78,790**

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, 2023 and 2022

Net interest income of $560.9 million increased by $78.8 million from $482.1 million. Tax equivalent basis net interest income of $576.9 million increased $80.2 million, or 16.1%, from $496.8 million.

Interest rate spread increased by 69 basis points to 5.71% from 5.02% and net interest margin increased 74 basis points to 5.79% from 5.05%. This increase reflects an increase of 130 and 61 basis points, respectively, in the total average yield of interest-earning assets and the average cost of interest-bearing liabilities.

Net interest income was positively impacted by:

- A $94.6 million increase in interest income from loans driven by higher interest income from: (i) commercial loans of $63.2 million, primarily related to the upward repricing of variable rate commercial loans, increased yields on new loans originated during 2023, and higher average balance; (ii) consumer loans of $12.0 million mainly due to an increase of $98.7 million in the average balance of this portfolio; and (iii) auto loans of $28.0 million reflecting higher originations during 2023, partially offset by a decrease of $8.6 million in interest income from mortgage loans due to a reduction of $185.5 million in the average balance of this portfolio;

- A $22.0 million increase in interest income from investment securities, primarily related to a higher average volume of $346.1 million, which resulted in an increase in interest income of approximately $10.0 million, and higher yield by 68 basis points, which contributed to the increase in net interest income by approximately $12.0 million; and

- A $16.7 million increase in interest income from higher yield in lower balances of interest-bearing cash and money market related to the increase in the FRB federal funds rate during 2022 and 2023.

These increases were partially offset by higher interest expense of $54.5 million from (i) interest paid on deposits of $43.7 million due to higher average cost of total deposits of 52 basis points, (ii) $10.8 million paid on a new $200.0 million two-year FHLB advance in the period and (iii) interest paid on repurchase agreements of $3.3 million originated during the third quarter of 2023 that matured before the year-end, partially offset by the early redemption of $36.1 million subordinated capital notes during the first quarter of 2022, which resulted in a decrease in interest expense of $521 thousand.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Year Ended December 31,		
	2023	2022	Variance %
		(In thousands)	
Banking service revenue	$ 70,078	$ 71,161	(1.5) %
Wealth management revenue	32,990	32,635	1.1 %
Mortgage banking activities	18,787	21,929	(14.3) %
Total banking and financial service revenue	**121,855**	**125,725**	**(3.1)%**
Net (loss) gain on:			
Sale of securities	(1,149)	(247)	365.2 %
Early extinguishment of debt	—	42	(100.0) %
Other non-interest income	7,675	6,170	24.4 %
Total non-interest income	**$ 128,381**	**$ 131,690**	**(2.5)%**

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 or losses on sales of assets.

Comparison of the years ended December 31, 2023 and 2022

OFG recorded non-interest income in the amount of $128.4 million, compared to $131.7 million, a decrease of 2.5%, or $3.3 million. The decrease in non-interest income was mainly due to:

- A decrease of $3.1 million in mortgage banking activities due to: (i) an unfavorable impact of $1.9 million in mortgage servicing rights valuation, (ii) a $1.1 million reduction in net gains on sales driven by lower sales volume, (iii) a $474 thousand reduction in servicing fees as a result of the FNMA mortgage servicing transfer to a third party and (iv) a $513 thousand reduction in cash collections;

- A $1.1 million loss associated with the sale of a $203.3 million short-term US treasury note available for sale during 2023; and

- A decrease of $1.1 million in banking service revenues, primarily related to: (i) a $531 thousand reduction in electronic banking charges of merchant-related income, (ii) a $405 thousand reduction in credit life commissions and (iii) a $221 thousand reduction in prepayment loan fees.

These increases in non-interest income were partially offset by, an increase of $1.5 million in other non-interest income. During 2023, OFG recorded a $6.3 million gain on the sale of commercial non-performing loans held-for-sale with a reporting balance of $4.3 million and unpaid principal balance of $25.3 million. Results for 2022 also included a $4.7 million gain recognized on the sale of a branch building.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Year Ended December 31,		
	2023	2022	Variance %
		(In thousands)	
Compensation and employee benefits	$ 155,827	$ 142,930	9.0 %
Occupancy, equipment and infrastructure costs	59,235	51,308	15.4 %
Electronic banking charges	41,336	39,554	4.5 %
Information technology expenses	27,162	21,891	24.1 %
Professional and service fees	18,764	24,842	-24.5 %
Taxes, other than payroll and income taxes	12,968	12,999	-0.2 %
Insurance	10,494	9,898	6.0 %
Loan servicing and clearing expenses	7,774	9,161	-15.1 %
Advertising, business promotion, and strategic initiatives	8,743	8,240	6.1 %
Communication	4,678	4,296	8.9 %
Printing, postage, stationery and supplies	3,338	3,563	-6.3 %
Director and investor relations	1,351	1,125	20.1 %
Foreclosed real estate and other repossessed assets income, net of expenses	(405)	(2,074)	80.5 %
Other	12,100	17,813	-32.1 %
Total non-interest expenses	**$ 363,365**	**$ 345,546**	**5.2%**
Relevant ratios and data:			
Efficiency ratio	**53.22 %**	**56.85 %**	
Compensation and benefits to non-interest expense	**42.88 %**	**41.36 %**	
Compensation to average total assets owned	**1.53 %**	**1.41 %**	
Number of employees end of year	**2,248**	**2,253**	
Average number of employees	**2,258**	**2,249**	
Average compensation per employee (in thousands)	**$ 69.01**	**$ 63.55**	
Average loans per average employee	**$ 3,154**	**$ 2,960**	

Non-Interest Expenses

Comparison of the years ended December 31, 2023 and 2022

Non-interest expense was $363.4 million, representing an increase of 5.2%, or $17.8 million, compared to $345.5 million. The increase in non-interest expense was mainly due to:

- Increase in compensation and employee benefits of $12.9 million due to higher salaries and benefits, including payroll taxes. Also, during 2023, OFG recognized a $2.8 million expense relating to employee severance obligations resulting from a voluntary retirement program launched during the fourth quarter of 2023 and other rightsizing initiatives.

- Increase of $7.9 million in occupancy, equipment and infrastructure costs primary related to: (i) higher balances of $4.6 million in depreciation and amortization expenses reflecting new digital projects placed in production since 2022 and (ii) a $1.2 million increase in software maintenance expenses;

- Increase of $5.3 million in information technology expenses driven by higher design, development and operating support expenses incurred as part of OFG's digital transformation strategy;

- Decrease of $1.7 million in foreclosed real estate and other repossessed assets income reflecting lower gain on sales of such assets; and

- Increase of $1.8 million in electronic banking charges mainly due to increases of $2.2 million in point-of-sale and merchant-related fees.

The increase in non-interest expense was partially offset by, a decrease in (i) professional and service fees of $6.1 million, reflecting lower balances in compliance-related expenses and (ii) other expenses of $5.7 million, including $2.5 million due to the extinguishment of pandemic expenses, climate events expenses of $1.5 million and a $1.6 million decrease in debit card losses.

The efficiency ratio was 53.22%, an improvement from 56.85%. Amounts presented as part of non-interest income that were excluded from the efficiency ratio computation for years ended December 31, 2023 and 2022 amounted to $6.5 million and $6.0 million, respectively.

Provision for Credit Losses

Comparison of the years ended December 31, 2023 and 2022

Provision for credit losses increased $36.5 million to $60.6 million from $24.1 million. The provision for credit losses for 2023 reflected a provision of $42.6 million related to the growth in loan balances, a provision of $13.1 million related to commercial-specific loan reserves, mainly in the US commercial loan portfolio, and $4.8 million associated with qualitative adjustments mostly to the auto loan and US commercial loan portfolios.

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.

Income Tax Expense

Comparison of the years ended December 31, 2023 and 2022

Income tax expense increased by $5.5 million to $83.4 million from $77.9 million. OFG's Effective Tax Rate was 31.4% in 2023 compared to 31.9% in 2022. The increase in the income tax expense was related to greater income before tax by $13.0 million. OFG maintained an effective tax rate lower than statutory rate for the year ended December 31, 2023, mainly related to exempt investments, doing business through OFG's subsidiaries that are fully exempt or have a lower statutory tax rate, and changes in OFG's valuation allowance.

During 2023, the Bank utilized $150.5 million deferred loan charge-offs for income tax purposes, decreasing its net deferred tax asset by $56.5 million. After this decrease, the Bank finalized in a net deferred tax liability position.

Refer to "Note 17 – Income Taxes" to the consolidated financial statements for additional information on the income tax expense.

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 2023 and 2022.

TABLE 4 - BUSINESS SEGMENTS

	Year Ended December 31, 2023					
	Banking	Wealth Management	Treasury	Total	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 567,809	$ 28	$ 95,477	$ 663,314	$ (14,434)	**$ 648,880**
Interest expense	(73,480)	—	(28,964)	(102,444)	14,434	**(88,010)**
Net interest income	494,329	28	66,513	560,870	—	**560,870**
Provision for credit losses	60,255	—	383	60,638	—	**60,638**
Non-interest income, net	97,099	32,433	(1,151)	128,381	—	**128,381**
Non-interest expenses	(344,488)	(15,427)	(3,450)	(363,365)	—	**(363,365)**
Intersegment revenue	1,641	—	—	1,641	(1,641)	**—**
Intersegment expenses	—	(1,011)	(630)	(1,641)	1,641	**—**
Income before income taxes	$ 188,326	$ 16,023	$ 60,899	$ 265,248	$ —	**$ 265,248**
Income tax expense	83,242	34	100	83,376	—	**83,376**
Net income	**$ 105,084**	**$ 15,989**	**$ 60,799**	**$ 181,872**	**$ —**	**$ 181,872**
Total assets	**$ 9,154,201**	**$ 38,261**	**$3,304,204**	**$ 12,496,666**	**$ (1,152,213)**	**$ 11,344,453**

	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, net	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 time deposit opened by the Bank in Oriental Overseas, an international banking entity organized pursuant to the Puerto Rico International Banking Center Regulatory Act, as amended, which operates as a unit within the Bank. The time deposit with a balance of $300.3 million and $470.2 million at December 31, 2023 and 2022, respectively, is included in the Treasury Segment with its corresponding interest expense, to fund Oriental Overseas operations, which is included in the Banking Segment with its corresponding interest income, and are eliminated in the consolidation. Interest income is accrued on the unpaid principal balance. The increase in interest income and interest expense from the prior year was mainly as a result of the FRB federal funds rate increases and higher average balance.

Comparison of years ended December 31, 2023 and 2022

Banking

OFG's banking segment net income before taxes increased by $1.7 million from $186.6 million to $188.3 million, mainly reflecting:

- Increase of $94.6 million in interest income from loans, driven by increased yields on higher loan balances; and
- Increase of $7.9 million in interest income related to Oriental Overseas' time deposit from the Bank to fund its operations, which is eliminated in the consolidation, mainly as a result of higher average unpaid principal balance and interest rates in the current period.

The increase in the banking segment's net income was partially offset by:

- Increase of $36.1 million in provision for credit losses. The 2023 provision reflects $42.6 million related to the growth in loan balances, a provision of $13.1 million related to commercial-specific loan reserves, mainly in the US commercial loan portfolio, and $4.8 million associated with qualitative adjustments;
- Increase of $41.6 million in interest expense on deposits mainly related to higher costs of deposits;
- Increase of $21.4 million in non-interest expenses, mainly due to increases of: (i) $12.9 million in compensation and employee benefits, (ii) $7.9 million in occupancy, equipment and infrastructure costs related to depreciation and amortization expenses reflecting new digital projects placed in production since 2022 and software maintenance expenses, and (iii) $5.3 million in information technology expenses related to digital transformation, partially offset by lower: (a) professional and service fees of $6.1 million, and (b) other expenses of $5.7 million related to lower pandemic expenses by $2.5 million, climate event expenses by $1.5 million related to 2022 Hurricane Fiona and $1.6 million from debit card losses; and
- Decrease of $1.3 million in non-interest income. The current period included a $6.3 million gain on the sale of commercial non-performing loans held-for-sale, while the previous year included a $4.7 million gain recognized on the sale of a branch building.

Wealth Management

Net income before taxes from this segment increased by $3.2 million compared to the prior year, mainly reflecting:

- Annual insurance contingent commission amounting to $2.5 million received during 2023, $1.3 million higher than prior year due to Hurricane Fiona's related claims; and
- The sale of OFG's retirement plan administration business during the fourth quarter of 2022, which resulted in a decrease of $3.2 million in non-interest expenses and $2.2 million in non-interest income.

Treasury

Treasury segment net income before taxes increased by $16.2 million, mainly reflecting:

- Increase of $38.5 million in interest income, reflecting the purchase of agency mortgage-backed securities and US Treasury securities during such period and higher yield in lower balances of interest-bearing cash and money market investments related to higher FRB federal funds rate than in the previous year;
- Increase of $20.8 million in interest expense, reflecting higher expenses of: (i) $7.9 million from inter-segment borrowing as a result of higher average balance and FRB federal funds rate, (ii) $10.8 million in interest from a new $200 million two-year FHLB advance, (iii) $3.3 million from repurchase agreements; and
- A loss of $1.1 million related to the sale of a short-term US treasury note during 2023.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At December 31, 2023, OFG's total assets amounted to $11.344 billion, an increase of $1.526 billion, when compared to $9.819 billion at December 31, 2022.

Cash and due from banks increased by $197.4 million to $743.6 million, driven by the receipt of a $1.2 billion deposit from an existing long-standing Puerto Rico government client during the fourth quarter of 2023, the effect of a two-year $200.0 million FHLB advance and the sale of US Treasury securities during the year ended December 31, 2023, partially offset by loan funding, the purchase of $1.070 billion of investment securities and repayments of $150.0 million and $100.0 million, respectively, of repurchase agreements and overnight FHLB advances.

The investment portfolio increased by $715.2 million or 36.3% primarily driven by the purchase of $1.035 billion of mortgage-backed securities, $93.6 million in mortgage loan securitization, the purchase of a $35 million two-year privately placed hospital revenue bond issued by the Puerto Rico, Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA", by its Spanish acronym) during the fourth quarter of 2023, and favorable market value adjustments of $31.5 million, partially offset by the sale of a $203.3 million US Treasury securities available for sale, the maturity and repayment of $111.5 million U.S. Treasury notes and principal paydowns on mortgage-backed securities totaling $162.0 million. OFG's investment strategy focuses on liquidity and highly liquid securities, considering their investment and the current market environment.

OFG's loan portfolio is comprised of commercial loans secured by real estate, other commercial and industrial loans, US commercial loans, residential mortgage loans, consumer loans, and auto loans. At December 31, 2023, OFG's net loan portfolio increased by $678.4 million or 10.1% reflecting increases in commercial, auto and consumer loans, partially offset by a decrease in residential mortgage loans.

Financial Assets Managed

At December 31, 2023, OFG's financial assets include those managed by OFG's trust division and its securities broker-dealer and insurance agency subsidiaries. OFG's trust division offers various types of individual retirement accounts ("IRAs") and manages Keogh retirement plans and custodian and corporate trust accounts. At December 31, 2023 and 2022, the total assets managed by OFG's trust division amounted to $2.512 billion and $2.335 billion, respectively. 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, 2023, total assets managed by the securities broker-dealer and insurance agency subsidiaries from their customers' investment accounts amounted to $2.446 billion, compared to $2.172 billion at December 31, 2022. 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 indicate 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 both December 31, 2023 and 2022, OFG had $84.2 million of goodwill allocated as follows: $84.1 million to the banking segment and $100 thousand to the wealth management segment. Please refer to "Note 11 – Goodwill and Other Intangible Assets" to our consolidated financial statements for more information on the annual goodwill impairment test.

TABLE 5 - ASSETS SUMMARY AND COMPOSITION

	December 31, 2023	December 31, 2022	Variance %
	(In thousands)		
Investments:			
FNMA and FHLMC certificates	$ 1,730,655	$ 1,105,551	56.5 %
US Treasury securities	496,113	506,768	-2.1 %
GNMA certificates	376,294	319,534	17.8 %
Equity securities	38,469	23,667	62.5 %
CMOs issued by US government-sponsored agencies	9,610	14,851	-35.3 %
Other debt securities	35,616	1,142	3,018.7 %
Trading securities	13	9	44.4 %
Total investments	**2,686,770**	**1,971,522**	**36.3%**
Loans, net	**7,401,618**	**6,723,236**	**10.1%**
Total investments and loans	**10,088,388**	**8,694,758**	**16.0%**
Other assets:			
Cash and due from banks (including restricted cash)	743,550	546,303	36.1 %
Money market investments	4,623	4,161	11.1 %
Foreclosed real estate	10,780	11,214	-3.9 %
Accrued interest receivable	71,400	62,402	14.4 %
Deferred tax asset, net	4,923	55,485	-91.1 %
Premises and equipment, net	104,102	106,820	-2.5 %
Servicing assets	49,520	50,921	-2.8 %
Goodwill	84,241	84,241	0.0 %
Other intangible assets	20,694	27,593	-25.0 %
Operating lease right-of-use assets	21,725	25,363	-14.3 %
Other assets and customers' liability on acceptances	140,507	149,519	-6.0 %
Total other assets	**1,256,065**	**1,124,022**	**11.7%**
Total assets	**$ 11,344,453**	**$ 9,818,780**	**15.5%**
Investment portfolio composition:			
FNMA and FHLMC certificates	64.4 %	56.0 %	
US Treasury securities	18.5 %	25.7 %	
GNMA certificates	14.0 %	16.2 %	
Equity securities	1.4 %	1.2 %	
CMOs issued by US government-sponsored agencies	0.4 %	0.8 %	
Other debt securities and trading securities	1.3 %	0.1 %	
	100.0%	**100.0%**	

TABLE 6 - LOAN PORTFOLIO COMPOSITION

	December 31, 2023	December 31, 2022	Variance %
	(In thousands)		
Loans held for investment:			
Commercial loans	$ 3,076,903	$ 2,629,929	17.0 %
Mortgage loans	1,562,609	1,704,221	(8.3) %
Consumer loans	620,446	537,257	15.5 %
Auto loans	2,274,421	1,963,915	15.8 %
	7,534,379	**6,835,322**	**10.2 %**
Allowance for credit losses	(161,106)	(152,673)	5.5 %
Total loans held for investment	7,373,273	6,682,649	10.3 %
Mortgage loans held for sale	—	19,499	(100.0) %
Other loans held for sale	28,345	21,088	34.4 %
Total loans, net	**$ 7,401,618**	**$ 6,723,236**	**10.1 %**

OFG's loan portfolio is composed of commercial, mortgage, consumer, and auto loans. As shown in Table 6 above, total loans, net, amounted to $7.402 billion at December 31, 2023, a 10.1% increase when compared to $6.723 billion at December 31, 2022. The composition and trends of OFG's loans held-for-investment portfolio were as follows:

- Commercial loan portfolio amounted to $3.077 billion (40.8% of the gross loan portfolio) compared to $2.630 billion (38.5% of the gross loan portfolio) at December 31, 2022. Commercial loans secured by non-owner occupied commercial real estate amounted to $744.6 million and $605.5 million at December 31, 2023 and December 31, 2022, respectively, which represented 9.9% and 8.9% of our total loan portfolio held for investment. US commercial loans amounted to $755.2 million and $642.1 million at December 31, 2023 and 2022, respectively, which represented 10.0% and 9.4% of our total loan portfolio held for investment. Commercial loan production increased 12%, or $118.0 million, to $1,108.3 million in 2023 from $990.3 million in 2022.

- Mortgage loan portfolio amounted to $1.563 billion (20.7% of the gross loan portfolio) compared to $1.704 billion (24.9% of the gross originated loan portfolio) at December 31, 2022. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $19.4 million and $32.6 million at December 31, 2023 and 2022, 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 $133.0 million in 2023 which represents a decrease of 34% from $200.9 million in 2022.

  This decrease reflects the negative impact of the FRB federal funds rate increases during 2022 and 2023 in the Puerto Rico housing market. 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 US 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 $620.4 million (8.2% of the gross loan portfolio) compared to $537.3 million (7.9% of the gross loan portfolio) at December 31, 2022. Consumer loan production decreased 6% to $313.6 million in 2023 from $334.2 million in 2022.

- Auto loans portfolio amounted to $2.274 billion (30.3% of the gross loan portfolio) compared to $1.964 billion (28.7% of the gross originated loan portfolio) at December 31, 2022. Auto loans production increased by 13%, or $107.1 million to $919.7 million in 2023 from $812.6 million in 2022.

The following table presents the loans held for investment portfolio as of December 31, 2023 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, 2023	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 loans	$ 629,244	$ 19,367	$ 11,008	$ 247	$ 201,736	$ 1,085	$ 384,210	$ 11,591
Commercial loans	2,941,459	788,058	690,681	798,142	396,458	207,415	36,335	24,370
Consumer loans	619,894	64,166	279,440	—	245,876	—	30,412	—
Auto loans	2,272,530	56,618	1,033,239	—	1,182,673	—	—	—
Total	**$ 6,463,127**	**$ 928,209**	**$ 2,014,368**	**$ 798,389**	**$ 2,026,743**	**$ 208,500**	**$ 450,957**	**$ 35,961**
PCD								
Mortgage loans	$ 933,365	$ 1,028	$ 12,982	$ 291	$ 460,375	$ 594	$ 445,418	$ 12,677
Commercial loans	135,444	69,249	50,093	3,506	1,603	10,914	79	—
Consumer loans	552	294	—	—	—	—	258	—
Auto loans	1,891	857	962	—	72	—	—	—
Total	**$ 1,071,252**	**$ 71,428**	**$ 64,037**	**$ 3,797**	**$ 462,050**	**$ 11,508**	**$ 445,755**	**$ 12,677**
Total loans	**$ 7,534,379**	**$ 999,637**	**$ 2,078,405**	**$ 802,186**	**$ 2,488,793**	**$ 220,008**	**$ 896,712**	**$ 48,638**

The following table includes the maturities of OFG's lending exposure to the Puerto Rico government amounting to $68.6 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 $1,616.3 million at December 31, 2023.

TABLE 8 - PUERTO RICO GOVERNMENT RELATED LOANS

	December 31, 2023			
		Maturity		
	Carrying Value	Less than 1 Year	1 to 3 Years	More than 3 Years
Loans:		(In thousands)		
Municipalities	$ 68,557	$ —	$ 2,030	$ 66,527

At December 31, 2023, OFG has $68.6 million of direct credit exposure to the Puerto Rico government, a $5.1 million decrease from $73.7 million in December 31, 2022.

<u>Allowance for Credit Losses ("ACL")</u>

OFG measures its ACL based on management's best estimate of expected credit losses inherent in OFG's relevant financial assets. Tables 9 through 12 set forth an analysis of activity in the ACL and present selected credit loss statistics for 2023 and 2022 and as of December 31, 2023 and 2022. 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 6 – Allowance for Credit Losses" of the accompanying consolidated financial statements for a more detailed analysis of provisions and ACL.

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, 2023, OFG had $79.4 million of non-accrual loans held for investment, including $6.7 million PCD loans, compared to $89.6 million at December 31, 2022, reflecting decreases of $0.6 million and $9.1 million in auto and mortgage loan portfolios, respectively. At December 31, 2023 and 2022, total commercial non-accrual loans excluded $6.4 million and $16.4 million, respectively, of non-accrual commercial loans held for sale.

At December 31, 2022, loans whose terms have been extended and which were classified as Troubled Debt Restructurings (TDR's) that were not included in non-accrual loans amounted to $145.2 million as they were performing under their modified terms. On January 1, 2023, OFG adopted ASU 2022-02 related to the elimination of the recognition and measurement of TDRs and the enhancement of disclosures for loan restructurings for borrowers experiencing financial difficulty using the prospective transition method. Loans that were restructured in a TDR prior to the adoption of ASU 2022-02 will continue to be accounted for under the historical TDR accounting until the relevant loans are paid off, liquidated or subsequently modified.

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. As of December 31, 2023 and 2022, the outstanding balance of these residential mortgage loans was $5.8 million and $10.3 million, respectively.

At December 31, 2023, OFG's non-performing assets decreased by 13.6% to $100.0 million (0.88% total assets) from $115.7 million (1.18% of total assets) at December 31, 2022.

Foreclosed real estate decreased from $11.2 million at December 31, 2022 to $10.8 million at December 31, 2023 and other repossessed assets decreased from $4.6 million at December 31, 2022 to $4.0 million at December 31, 2023, both recorded at fair value. OFG does not expect non-performing loans to result in significantly higher losses. At December 31, 2023, the allowance coverage ratio to non-performing loans was 189.1% (152.9% at December 31, 2022).

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. The ACL 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, 2023, OFG's non-performing commercial loans amounted to $42.5 million (49.9% of OFG's non-performing loans), a 1.9% decrease from $43.4 million at December 31, 2022 (43.4% 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, 2023, OFG's non-performing mortgage loans totaled $20.3 million (23.8% of OFG's non-performing loans), a 40.0% decrease from $33.8 million (33.8% of OFG's non-performing loans) at December 31, 2022. 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, 2023, OFG's non-performing consumer loans amounted to $3.4 million (4.0% of OFG's non-performing loans), a 7.9% increase from $3.1 million at December 31, 2022 (3.1% of OFG's non-performing loans). 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 - At December 31, 2023, OFG's non-performing auto loans amounted to $19.1 million (22.3% of OFG's total non-performing loans), a decrease of 2.8% from $19.6 million at December 31, 2022 (19.7% of OFG's total non-performing loans). Non-PCD auto loans 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 the loan modification. Borrowers with discharged Chapter 7 bankruptcies may also apply. Loans in these programs are evaluated by designated credit underwriters for financial difficulty modification if OFG grants a concession for legal or economic reasons due to the debtor's financial difficulties.

TABLE 9 - ALLOWANCE FOR CREDIT LOSSES BREAKDOWN

	December 31, 2023	December 31, 2022	Variance %
	(In thousands)		
ACL:			
Non-PCD			
Commercial loans	$ 44,041	$ 39,158	12.5 %
Mortgage loans	7,998	9,571	-16.4 %
Consumer loans	27,086	23,264	16.4 %
Auto loans	73,485	69,848	5.2 %
Total ACL	**$ 152,610**	**$ 141,841**	**7.6 %**
PCD			
Commercial loans	$ 1,113	$ 1,388	-19.8 %
Mortgage loans	7,351	9,359	-21.5 %
Consumer loans	7	14	-50.0 %
Auto loans	25	71	-64.8 %
Total ACL	**$ 8,496**	**$ 10,832**	**-21.6 %**
ACL summary			
Commercial loans	$ 45,154	$ 40,546	11.4 %
Mortgage loans	15,349	18,930	-18.9 %
Consumer loans	27,093	23,278	16.4 %
Auto loans	73,510	69,919	5.1 %
Total ACL	**$ 161,106**	**$ 152,673**	**5.5 %**
ACL composition:			
Commercial loans	28.0 %	26.6 %	
Mortgage loans	9.5 %	12.4 %	
Consumer loans	16.8 %	15.2 %	
Auto loans	45.7 %	45.8 %	
	100.0 %	**100.0 %**	
ACL coverage ratio at end of year:			
Commercial loans	1.5 %	1.5 %	(4.5) %
Mortgage loans	1.0 %	1.1 %	(11.7) %
Consumer loans	4.4 %	4.3 %	0.9 %
Auto loans	3.2 %	3.6 %	(9.3) %
	2.1 %	**2.2 %**	**(4.0)%**
ACL coverage ratio to non-performing loans:			
Commercial loans	106.2 %	93.5 %	13.6 %
Mortgage loans	75.8 %	56.1 %	35.2 %
Consumer loans	802.5 %	744.2 %	7.8 %
Auto loans	385.8 %	356.5 %	8.2 %
	189.1 %	**152.9 %**	**23.7 %**

TABLE 10 - ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES

	December 31,			
	2023		2022	
	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 loans	$ 45,154	40.8%	$ 40,546	38.5%
Mortgage loans	15,349	20.7%	18,930	24.9%
Consumer loans	27,093	8.2%	23,278	7.9%
Auto loans	73,510	30.3%	69,919	28.7%
Total	**$ 161,106**	**100.0 %**	**$ 152,673**	**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,		
	2023	2022	Variance %
	(Dollars in thousands)		
Balance at beginning of year	$ 152,673	$ 155,937	-2.1 %
Provision for credit losses	60,277	24,408	147.0 %
Charge-offs	(86,271)	(63,774)	35.3 %
Recoveries	34,427	36,102	-4.6 %
Balance at end of year	**$ 161,106**	**$ 152,673**	**5.5%**

TABLE 12 — NET CREDIT LOSSES STATISTICS ON LOANS

	Year Ended December 31,		
	2023	2022	Variance %
	(Dollars in thousands)		
Non-PCD:			
Mortgage loans			
Charge-offs	$ (759)	$ (284)	167.3 %
Recoveries	1,217	3,314	-63.3 %
Total	**458**	**3,030**	**-84.9 %**
Commercial loans			
Charge-offs	(14,191)	(13,380)	6.1 %
Recoveries	874	1,200	-27.2 %
Total	**(13,317)**	**(12,180)**	**9.3 %**
Consumer loans			
Charge-offs	(23,655)	(15,198)	55.6 %
Recoveries	4,175	3,237	29.0 %
Total	**(19,480)**	**(11,961)**	**62.9 %**
Auto loans			
Charge-offs	(43,764)	(32,662)	34.0 %
Recoveries	25,107	21,131	18.8 %
Total	**(18,657)**	**(11,531)**	**61.8 %**
PCD:			
Mortgage loans			
Charge-offs	$ (317)	$ (1,695)	(81.3)%
Recoveries	698	2,665	(73.8)%
Total	**381**	**970**	**(60.7)%**
Commercial loans			
Charge-offs	(2,794)	(69)	3,949.3 %
Recoveries	1,618	3,804	(57.5)%
Total	**(1,176)**	**3,735**	**(131.5)%**
Consumer loans			
Charge-offs	(621)	(176)	252.8 %
Recoveries	96	94	2.1 %
Total	**(525)**	**(82)**	**540.2 %**
Auto loans			
Charge-offs	(170)	(310)	(45.2)%
Recoveries	642	657	(2.3)%
Total	**472**	**347**	**36.0 %**
Total charge-offs	(86,271)	(63,774)	35.3 %
Total recoveries	34,427	36,102	(4.6)%
Net credit losses	**$ (51,844)**	**$ (27,672)**	**87.4 %**

TABLE 12 — NET CREDIT LOSSES STATISTICS ON LOANS (CONTINUED)

	Year Ended December 31,		
	2023	2022	Variance %
	(Dollars in thousands)		
Net credit losses (recoveries) to average loans outstanding:			
Mortgage loans	(0.05) %	(0.22) %	76.60 %
Commercial loans	0.52 %	0.33 %	56.9%
Consumer	3.25 %	2.33 %	39.5%
Auto loans	0.86 %	0.62 %	38.8%
Total	**0.73 %**	**0.42 %**	**75.2%**
Recoveries to charge-offs	**39.91 %**	**56.61 %**	**-29.5%**
Average Loans Held for Investment			
Mortgage loans	$ 1,601,946	$ 1,787,476	-10.4 %
Commercial loans	2,777,241	2,538,720	9.4 %
Consumer loans	615,629	516,883	19.1 %
Auto loans	2,126,360	1,814,681	17.2 %
Total	**$ 7,121,176**	**$ 6,657,760**	**7.0%**

Net charge-offs for 2023 amounted to $51.8 million, increasing by $24.2 million, when compared to $27.7 million in 2022.

Net charge-offs variances were as follows:

Residential mortgage loans net recoveries amounted to $839 thousand in 2023, decreasing by $3.2 million when compared to net recoveries of $4.0 million in 2022.

Commercial loans net charge-offs for 2023 amounted to $14.5 million, increasing by $6.0 million, when compared to net charge-offs of $8.4 million in 2022. The charge-offs for the 2023 included $11.5 million charge-offs recognized on three US commercial loan relationships, a $2.1 million charge-off recognized on a PCD commercial loan, and $906 thousand charge-offs for a small portfolio of non-performing small business commercial loans that were sold during the period.

Consumer loans net charge-offs for 2023 amounted to $20.0 million, increasing by $8.0 million, when compared to $12.0 million in 2022. Auto loans net charge-offs for 2023 amounted to $18.2 million, increasing by $7.0 million, when compared to $11.2 million in 2022. With Covid-19 cash stimulus fading away, OFG has increased net charge-offs in auto and consumer loan portfolios.

TABLE 13 — NON-PERFORMING ASSETS

	December 31, 2023	December 31, 2022	Variance %
	(Dollars in thousands)		
Non-performing assets:			
Non-PCD			
Non-accruing loans	$ 72,725	$ 80,412	-9.6 %
Accruing loans	5,810	10,273	-43.4 %
Total	$ 78,535	$ 90,685	-13.4 %
PCD	6,674	9,186	-27.3 %
Total non-performing loans	$ 85,209	$ 99,871	-14.7 %
Foreclosed real estate	10,780	11,214	-3.9 %
Other repossessed assets	4,032	4,617	-12.7 %
	$ 100,021	**$ 115,702**	**-13.6%**
Non-performing assets to total assets	**0.88 %**	**1.18 %**	**-25.4%**
Non-performing assets to total capital	**8.38 %**	**11.10 %**	**-24.5%**

At December 31, 2022, Non-PCD non-accruing loans and accruing loans include $20.3 million and $9.0 million, respectively, of TDR loans. As mentioned previously, on January 1, 2023, OFG adopted ASU 2022-02 related to the elimination of the recognition and measurement of TDRs and the enhancement of disclosures for loan restructurings for borrowers experiencing financial difficulty using the prospective transition method.

TABLE 14 — NON-ACCRUAL LOANS

	December 31, 2023	December 31, 2022	Variance %
	(Dollars in thousands)		
Non-accrual loans			
Non-PCD			
Commercial loans	$ 36,096	$ 34,432	4.8 %
Mortgage loans	14,197	23,241	-38.9 %
Consumer loans	3,376	3,128	7.9 %
Auto loans	19,056	19,613	-2.8 %
Total	**$ 72,725**	**$ 80,414**	**-9.6%**
PCD			
Commercial loans	$ 6,424	$ 8,927	-28.0 %
Mortgage loans	250	259	-3.5 %
Total	**$ 6,674**	**$ 9,186**	**-27.3%**
Total non-accrual loans	**$ 79,399**	**$ 89,600**	**-11.4%**
Non-accruals loans composition percentages:			
Commercial loans	53.6 %	48.4 %	
Mortgage loans	18.2 %	26.2 %	
Consumer loans	4.3 %	3.5 %	
Auto loans	23.9 %	21.9 %	
	100.0 %	**100.0 %**	
Non-accrual loans ratios:			
Non-accrual loans to total loans	**1.05 %**	**1.31 %**	-19.85 %
Allowance for credit losses to non-accrual loans	**202.91 %**	**170.39 %**	19.09 %

	Year Ended December 31, 2023	Year Ended December 31, 2022
	(In thousands)	
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	$ 941	$ 1,190

TABLE 15 - NON-PERFORMING LOANS

	December 31, 2023	December 31, 2022	Variance %
	(Dollars in thousands)		
Non-performing loans			
Non-PCD			
Commercial loans	$ 36,096	$ 34,432	4.8 %
Mortgage loans	20,007	33,512	-40.3 %
Consumer loans	3,376	3,128	7.9 %
Auto loans	19,056	19,613	-2.8 %
Total	**$ 78,535**	**$ 90,685**	**-13.4%**
PCD			
Commercial loans	$ 6,424	$ 8,927	-28.0 %
Mortgage loans	250	259	-3.5 %
Total	**$ 6,674**	**$ 9,186**	**-27.3%**
Total non-performing loans	**$ 85,209**	**$ 99,871**	**-14.7%**
Non-performing loans composition percentages:			
Commercial loans	49.90 %	43.40 %	
Mortgage loans	23.80 %	33.80 %	
Consumer loans	4.00 %	3.10 %	
Auto loans	22.30 %	19.70 %	
	100.00 %	**100.00 %**	
Non-performing loans to:			
Total loans held for investment gross	**1.13 %**	**1.46 %**	-22.6 %
Total assets	**0.75 %**	**1.02 %**	-26.5 %
Total capital	**7.14 %**	**9.58 %**	-25.5 %
Non-performing loans with partial charge-offs to:			
Total loans held for investment gross	**0.29 %**	**0.40 %**	-27.5 %
Non-performing loans	**25.63 %**	**27.27 %**	-6.0 %
Other non-performing loans ratios:			
Charge-off rate on non-performing loans to non-performing loans on which charge-offs have been taken	**75.14 %**	**99.57 %**	-24.5 %
Allowance for credit losses to non-performing loans on which no charge-offs have been taken	**254.24 %**	**210.18 %**	21.0 %

TABLE 16 - LIABILITIES SUMMARY AND COMPOSITION

	December 31, 2023	December 31, 2022	Variance %
	(Dollars in thousands)		
Deposits:			
Non-interest-bearing deposits	$ 2,537,431	$ 2,630,458	-3.5 %
NOW accounts	3,512,887	2,546,245	38.0 %
Savings accounts	2,088,091	2,227,963	-6.3 %
Time deposits	1,620,688	1,162,959	39.4 %
Total deposits	**9,759,097**	**8,567,625**	13.91 %
Accrued interest payable	3,072	739	315.7 %
Total deposits and accrued interest payable	**9,762,169**	**8,568,364**	**13.93%**
Borrowings:			
Advances from FHLB	200,768	26,716	651.5 %
Other borrowings	2	318	-99.4 %
Total borrowings	**200,770**	**27,034**	**642.7%**
Total deposits and borrowings	**9,962,939**	**8,595,398**	**15.9%**
Other Liabilities:			
Acceptances outstanding	25,576	28,607	-10.6 %
Lease liability	24,029	27,370	-12.2 %
Deferred tax liability, net	22,444	—	100.0 %
Other liabilities	115,985	124,999	-7.2 %
Total liabilities	**$ 10,150,973**	**$ 8,776,374**	**15.7%**
Deposits portfolio composition percentages:			
Non-interest-bearing deposits	26.0%	30.7%	
NOW accounts	36.0%	29.7%	
Savings accounts	21.4%	26.0%	
Time deposits	16.6%	13.6%	
	100.0 %	**100.0 %**	
Borrowings portfolio composition percentages:			
Advances from FHLB	100.0 %	98.8 %	
Other borrowings	— %	1.2 %	
	100.0 %	**100.0 %**	

Liabilities and Funding Sources

As shown in Table 15 above, at December 31, 2023, OFG's total liabilities were $10.151 billion, 15.7% higher than the $8.776 billion reported at December 31, 2022. Deposits and borrowings, OFG's funding sources, amounted to $9.963 billion at December 31, 2023 compared to $8.595 billion at December 31, 2022.

Deposits, excluding accrued interest payable, increased by $1.191 billion reflecting an increase in demand deposits of $733.7 million, brokered deposits of $150.8 million and time deposits of $309.2 million, offset by a decrease in savings and money market accounts of $139.9 million. In December 2023, OFG received a $1.2 billion deposit in an interest-bearing checking account from an existing long-standing Puerto Rico government client who had an inflow of liquidity. At December 31, 2023 and 2022, total public fund deposits from various Puerto Rico government municipalities, agencies and corporations amounted to $1.616 billion and $284.2 million, respectively. These public funds were collateralized with securities and commercial loans amounting to $1.645 billion and $367.3 million at December 31, 2023 and 2022, respectively.

As of December 31, 2023, borrowings consist mainly of FHLB advances, which increased to $200.8 million, representing an increase of $174.1 million, when compared to $26.7 million at December 31, 2022. The increase in borrowings reflects a new two-year FHLB advance amounting to $200.0 million during the period as part of OFG's asset liability management strategies.

Stockholders' Equity

At December 31, 2023, OFG's total stockholders' equity was $1.193 billion, a 14.5% increase when compared to $1.042 billion at December 31, 2022. This increase reflects an increase in retained earnings of $123.0 million and legal surplus of $17.1 million, mainly due to $181.9 million in net income, partially offset by $41.9 million in common stock dividends, and a decrease in accumulated other comprehensive loss, net of tax, of $26.4 million from favorable market value adjustments on available-for-sale investment securities during 2023. These variances were partially offset by $17.2 million from treasury stock as a result of repurchases of common stock in the aggregate amount of $18.7 million in connection with the $100 million stock buyback program announced in 2022.

Regulatory Capital

OFG and the Bank are subject to regulatory capital requirements established by the FRB 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, 2023, 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 ACL (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 are being phased out of CET1 capital over a three-year period.

The risk-based capital ratios presented in Table 16 include common equity tier 1, tier 1 capital, total capital and leverage capital as of December 31, 2023 and 2022 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, 2023 and 2022:

TABLE 16 — CAPITAL, DIVIDENDS AND STOCK DATA

	December 31, 2023	December 31, 2022	Variance %
	(Dollars in thousands, except per share data)		
Capital data:			
Stockholders' equity	$ 1,193,480	$ 1,042,406	14.5 %
Regulatory Capital Ratios data:			
Common equity tier 1 capital ratio	**14.12 %**	**13.64 %**	**3.5 %**
Minimum common equity tier 1 capital ratio required	4.50 %	4.50 %	0.0 %
Actual common equity tier 1 capital	$ 1,174,205	1,037,385	13.2 %
Minimum common equity tier 1 capital required	$ 374,301	342,246	9.4 %
Minimum capital conservation buffer required (2.5%)	$ 207,945	190,137	9.4 %
Excess over regulatory requirement	$ 591,959	505,002	17.2 %
Risk-weighted assets	$ 8,317,802	7,605,466	9.4 %
Tier 1 risk-based capital ratio	**14.12 %**	**13.64 %**	**3.5 %**
Minimum tier 1 risk-based capital ratio required	6.00 %	6.00 %	0.0 %
Actual tier 1 risk-based capital	$ 1,174,205	$ 1,037,385	13.2 %
Minimum tier 1 risk-based capital required	$ 499,068	$ 456,328	9.4 %
Minimum capital conservation buffer required (2.5%)	$ 207,945	190,137	9.4 %
Excess over regulatory requirement	$ 467,192	$ 390,920	19.5 %
Risk-weighted assets	$ 8,317,802	$ 7,605,466	9.4 %
Total risk-based capital ratio	**15.37 %**	**14.89 %**	**3.2 %**
Minimum total risk-based capital ratio required	8.00 %	8.00 %	0.0 %
Actual total risk-based capital	$ 1,278,537	$ 1,132,658	12.9 %
Minimum total risk-based capital required	$ 665,424	$ 608,437	9.4 %
Minimum capital conservation buffer required (2.5%)	$ 207,945	190,137	9.4 %
Excess over regulatory requirement	$ 405,168	$ 334,084	21.3 %
Risk-weighted assets	$ 8,317,802	$ 7,605,466	9.4 %
Leverage capital ratio	**11.03 %**	**10.36 %**	**6.5 %**
Minimum leverage capital ratio required	4.00 %	4.00 %	0.0 %
Actual tier 1 capital	$ 1,174,205	$ 1,037,385	13.2 %
Minimum tier 1 capital required	$ 425,911	$ 400,445	6.4 %
Excess over regulatory requirement	$ 748,294	$ 636,940	17.5 %
Tangible common equity to total assets	**9.60 %**	**9.48 %**	**1.3 %**
Tangible common equity to risk-weighted assets	**13.09 %**	**12.24 %**	**6.9 %**
Total equity to total assets	**10.52 %**	**10.62 %**	**-0.9 %**
Total equity to risk-weighted assets	**14.35 %**	**13.71 %**	**4.7 %**
Stock data:			
Outstanding common shares	47,065,156	47,581,375	(1.1) %
Book value per common share	$ 25.36	$ 21.91	15.7 %
Tangible book value per common share	$ 23.13	$ 19.56	18.3 %
Market price at end of period	$ 37.48	$ 27.56	36.0 %
Market capitalization at end of period	$ 1,764,002	$ 1,311,343	34.5 %

From December 31, 2022 to December 31, 2023, leverage capital ratio increased from 10.36% to 11.03%, tier 1 risk-based capital ratio and common equity tier 1 capital ratio increased from 13.64% to 14.12%, total risk-based capital ratio increased from 14.89% to 15.37%, and tangible common equity to tangible total assets increased from 9.59% to 9.68%. The increases in capital ratios reflected an increase in retained earnings from net income, net of dividends and stock repurchases, partially offset by an increase in risk-weighted assets of $712.3 million. Risk-weighted assets increased mainly from an increase in loans.

	December 31,		Variance
	2023	2022	%
	(Dollars in thousands)		
Common dividend data:			
Cash dividends declared	$ 41,853	$ 33,593	24.6 %
Cash dividends declared per share	$ 0.88	$ 0.70	25.7 %
Payout ratio	22.98 %	20.35 %	12.9 %
Dividend yield	2.35 %	2.54 %	(7.5)%

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, 2023 and 2022:

	December 31,	
	2023	2022
	(In thousands, except share or per share information)	
Total stockholders' equity	$ 1,193,480	$ 1,042,406
Goodwill	(84,241)	(84,241)
Other intangible assets	(20,694)	(27,593)
Total tangible common equity (non-GAAP)	**$ 1,088,545**	**$ 930,572**
Total assets	$ 11,344,453	9,818,780
Goodwill	(84,241)	(84,241)
Core deposit intangible	(15,848)	(21,131)
Customer relationship intangible	(4,846)	(6,462)
Total tangible assets	**$ 11,239,518**	**$ 9,706,946**
Tangible common equity to tangible assets	**9.68 %**	**9.59 %**
Common shares outstanding at end of period	47,065,156	47,581,375
Tangible book value per common share	**$ 23.13**	**$ 19.56**

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, 2023	December 31, 2022	Variance %
	(Dollars in thousands)		
Risk-based capital:			
Common equity tier 1 capital	**$ 1,174,205**	**$ 1,037,385**	**13.2 %**
Tier 1 capital	**1,174,205**	**1,037,385**	**13.2 %**
Additional Tier 2 capital	104,332	95,273	9.5 %
Total risk-based capital	**$ 1,278,537**	**$ 1,132,658**	**12.9 %**
Risk-weighted assets:			
Balance sheet items	$ 7,768,828	$ 6,976,335	11.4 %
Off-balance sheet items	548,974	629,131	(12.7) %
Total risk-weighted assets	**$ 8,317,802**	**$ 7,605,466**	**9.4 %**
Ratios:			
Common equity tier 1 capital (minimum required, including capital conservation buffer - 7%)	**14.12 %**	**13.64 %**	**3.5 %**
Tier 1 capital (minimum required, including capital conservation buffer - 8.5%)	**14.12 %**	**13.64 %**	**3.5 %**
Total capital (minimum required, including capital conservation buffer - 10.5%)	**15.37 %**	**14.89 %**	**3.2 %**
Leverage ratio (minimum required - 4%)	**11.03 %**	**10.36 %**	**6.5 %**

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, 2023 and 2022:

	December 31, 2023	December 31, 2022	Variance %
	(Dollars in thousands)		
Oriental Bank Regulatory Capital Ratios:			
Common Equity Tier 1 Capital to Risk-Weighted Assets	**13.01%**	**12.36%**	**5.26 %**
Actual common equity tier 1 capital	$ 1,075,487	$ 933,494	15.2 %
Minimum capital requirement (4.5%)	$ 371,913	$ 339,910	9.4 %
Minimum capital conservation buffer requirement (2.5%)	$ 206,618	$ 188,839	9.4 %
Minimum to be well capitalized (6.5%)	$ 537,208	$ 490,981	9.4 %
Tier 1 Capital to Risk-Weighted Assets	**13.01%**	**12.36%**	**5.3 %**
Actual tier 1 risk-based capital	$ 1,075,487	$ 933,494	15.2 %
Minimum capital requirement (6%)	$ 495,884	$ 453,214	9.4 %
Minimum capital conservation buffer requirement (2.5%)	$ 206,618	$ 188,839	9.4 %
Minimum to be well capitalized (8%)	$ 661,179	$ 604,285	9.4 %
Total Capital to Risk-Weighted Assets	**14.27%**	**13.61%**	**4.8 %**
Actual total risk-based capital	$ 1,179,164	$ 1,028,126	14.7 %
Minimum capital requirement (8%)	$ 661,179	$ 604,285	9.4 %
Minimum capital conservation buffer requirement (2.5%)	$ 206,618	$ 188,839	9.4 %
Minimum to be well capitalized (10%)	$ 826,474	$ 755,356	9.4 %
Total Tier 1 Capital to Average Total Assets	**10.20%**	**9.42%**	**8.3 %**
Actual tier 1 capital	$ 1,075,487	$ 933,494	15.2 %
Minimum capital requirement (4%)	$ 421,660	$ 396,525	6.3 %
Minimum to be well capitalized (5%)	$ 527,075	$ 495,656	6.3 %

OFG's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At December 31, 2023 and 2022, OFG's market capitalization for its outstanding common stock was $1.764 billion ($37.48 per share) and $1.311 billion ($27.56 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
2023			
December 31, 2023	$ 38.29	$ 28.67	$ 0.22
September 30, 2023	$ 33.82	$ 26.14	$ 0.22
June 30, 2023	$ 27.80	$ 22.80	$ 0.22
March 31, 2023	$ 30.42	$ 24.37	$ 0.22
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

In January 2022, OFG announced the approval by the Board of Directors of a stock repurchase program for the purchase of up to $100 million of its outstanding shares of common stock. The shares of common stock repurchased are held by OFG as treasury shares. During 2023, OFG repurchased 743,699 shares for a total of $18.7 million at an average price of $25.08 per share. 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 2023, 2022 and 2021, other than through its publicly announced stock repurchase program.

At December 31, 2023 the number of shares that may yet be purchased under the $100 million stock buyback program is estimated at 459,898 and was calculated by dividing the remaining balance of $17.2 million by $37.48 (closing price of OFG's common stock at December 31, 2023).

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 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 discussed in greater detail 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 of interest rate 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 ALT which is composed of certain executive officers from the risk management, 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.

In March 2023, the market reacted with volatility as a result of the collapse of three large US regional banks, which became the biggest bank failures since 2008, after they experienced a run on deposits mainly driven by a significant decrease in the value of their investments. Market reactions to recession concerns and inflationary pressure, combined with aggressive interest rate increases as part of the FRB's efforts to control inflation during 2022 and 2023, had a significant impact on bond prices, including those guaranteed by the US government or by a US government-sponsored entity. Nevertheless, we believe that OFG has strong capital and liquidity levels that facilitate holding securities until the recovery of their amortized cost basis. We also believe that our market risk management practices have allowed us to effectively manage the market volatility over time and remained strong under these conditions. After the events triggered by such bank failures, our customer deposits base has increased. Total core deposits at December 31, 2023 amounted to $9.600 billion compared to $8.557 billion at December 31, 2022. The FDIC covers up to $250,000 per account owner by ownership category for retail and commercial deposit accounts. This coverage extends to both principal and accrued interest while the account balance remains within the limits. At December 31, 2023 and 2022, the aggregate amount of our uninsured deposits was $4.885 billion and $3.498 billion, respectively. We have $1.618 billion of deposits from the Puerto Rico government, its instrumentalities and municipalities, which represents 17% of our total deposits as of December 31, 2023, mainly from a $1.2 billion deposit received in mid-December, as we continue to build and strengthen our customer relationships. These public funds are collateralized with securities and commercial loans amounting to $1.645 billion and $367.3 million at December 31, 2023 and 2022, respectively. The amount of these deposits may fluctuate depending on the financial condition and liquidity of these entities, as well as on our ability to maintain these customer relationships. We believe that our clients are confident in the resiliency and strong position of the Bank.

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 created 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 help manage OFG's 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, 2023. 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	$ 7,401	1.25 %	$ 3,789	0.64 %
+ 100 Basis points	$ 14,825	2.50 %	$ 7,699	1.30 %
+ 200 Basis points	$ 29,695	5.01 %	$ 15,466	2.61 %
- 50 Basis points	$ (8,357)	-1.41 %	$ (4,213)	-0.71 %
-100 Basis points	$ (16,665)	-2.81 %	$ (8,204)	-1.38 %
-200 Basis points	$ (32,089)	-5.41 %	$ (17,044)	-2.87 %

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 will 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 any structured repurchase agreements 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 included 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. In the past, OFG has also incorporated the use of derivative instruments to minimize significant unplanned fluctuations in earnings that were caused by interest rate volatility. OFG's goal was 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 was 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 appreciated or depreciated in market value. Also, for some fixed-rate assets or liabilities, the effect of this variability in earnings was expected to be substantially offset by OFG's gains and losses on the derivative instruments that were linked to the forecasted cash flows of these hedged assets and liabilities. OFG considered the strategic use of derivatives to be a prudent method of managing interest-rate sensitivity as it reduced the exposure of earnings and the market value of its equity to undue risk posed by changes in interest rates. At December 31, 2023, OFG did not have derivative instruments.

During 2023, OFG redeployed its high cash levels and maturing treasury positions into longer-term mortgage-backed securities. These moves position OFG's balance sheet better for the expected lower interest rate environment in the second half of 2024.

In July 2017, the Chief Executive of the Financial Conduct Authority ("FCA") of the United Kingdom announced that the FCA intended to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. However, the administrator of LIBOR extended the publication of the most commonly used U.S. Dollar LIBOR settings until June 30, 2023 and ceased publishing other LIBOR settings since December 31, 2021. The U.S. federal banking agencies issued guidance strongly encouraging banking organizations to cease using U.S. Dollar LIBOR as a reference rate in new contracts as soon as practicable and in any event by December 31, 2021. On March 15, 2022, President Biden signed into law the "Adjustable Interest Rate (LIBOR) Act," as part of the Consolidated Appropriations Act of 2022, which provides for a statutory transition to a replacement rate selected by the FRB based on the Secured Overnight Financing Rate ("SOFR") for contracts referencing LIBOR that contain no fallback provisions or ineffective fallback provisions, unless a replacement rate is selected by a determining person as outlined in the statute. On December 16, 2022, the FRB adopted a final rule implementing the Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR that replaced LIBOR in certain financial contracts after June 30, 2023. As of December 31, 2023, OFG has transitioned all of its financial instruments to an alternative benchmark rate by adopting the SOFR alternatives and other credit sensitive alternative reference rates.

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 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 Risk Officer, Chief Credit 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. Liquidity to support growth in loans held for investment has been fulfilled primarily through growth in customer deposits. OFG's goal is to obtain as much of its funding for loans held for investment and other earning assets as possible from customer deposits, which are generated principally through development of long-term customer relationships. In December 2023, OFG received a $1.2 billion deposit in an interest-bearing checking account from an existing long-standing Puerto Rico government client who had an isolated inflow of liquidity resulting in a total of $1.618 billion deposits from the Puerto Rico government and its instrumentalities as of December 31, 2023. OFG is not relying on this deposit as part its long-term funding management strategies, even though these funds could remain in the Bank for a longer period. Deposit volumes as well as the customer deposit base, excluding the Puerto Rico government deposit mentioned above, have remained stable. 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 and subordinated notes, but depending on its assets and liabilities management strategies, it could use them in the future. In 2023, OFG received a $200.0 million 2-year FHLB advance with a weighted average interest rate of 4.52%, and as of December 31, 2023, had $162.2 million in brokered deposits. Most of the brokered deposits at December 31, 2023 will mature early in the first quarter of 2024. The interim increase in wholesale funding during 2023 reflected asset and liability management strategies that involved a short-term need of increased liquidity. OFG expects to continue using excess deposits to reduce wholesale funding. In addition, approximately $500 million US Treasury securities will mature during the first semester of 2024, which will provide additional funds.

In the ordinary course of OFG's operations, it has entered into certain contractual obligations and has made other commitments to make future payments. OFG believes that it will be able to meet its contractual obligations as they come due through the maintenance of adequate cash levels. 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, decreased to $1.256 billion at December 31, 2023 ($111.4 million with maturity of one year or less and $1.144 billion with maturity over one year) compared 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), and standby letters of credit provided to customers amounted to $24.0 million and $24.7 million at December 31, 2023 and 2022, respectively. Loans sold with recourse at December 31, 2023 and 2022 amounted to $98.7 million and $110.9 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, 2023 and 2022, OFG maintained other non-credit commitments amounting to $18.9 million and $21.5 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 integrated at our long term financial plan 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, 2023 and 2022, OFG had commitments for capital expenditures in technology amounting to $7.8 million and $8.6 million, respectively, which are expected to be satisfied with OFG's unrestricted cash.

OFG expects to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. Our liquidity risk management practices have allowed us to effectively manage the market volatility in the past, as with the Covid-19 pandemic, and in the present, with the recent disruption in the banking industry with the high-profile bank failures during the first half of 2023. Liquidity has grown from the federal stimulus programs Puerto Rico has received 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, recent geopolitical events, and increasing recessionary risk in the US, we continue monitoring our liquidity position, specifically cash on hand to meet customer demands.

In addition, as OFG is a holding company and is a separate operating entity from the Bank, OFG's primary sources of liquidity are dividends received from the Bank and borrowings from outside sources. Banking regulations may limit the amount of dividends that may be paid by the Bank. Management believes that these limitations will not impact OFG's ability to meet its ongoing short-term cash obligations.

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 or US 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, 2023, OFG had approximately $748.2 million in unrestricted cash and cash equivalents, $1.024 billion in investment securities that are not pledged as collateral, $446.0 million in borrowing capacity at the FHLB and a secured line of credit through the FRB discount window with $1.240 billion in loans pledged (borrowing capacity $770.0 million). Also starting with the first quarter 2023, the Bank is eligible to borrow from the FRB's Bank Term Funding Program ("BTFP"), which provides additional contingent liquidity through the pledge of certain qualifying securities and other assets. The BTFP is a one-year program ending on March 11, 2024 and OFG can borrow any time during the term and can repay the obligation at any time without penalty. The Bank pledged $48.1 million of investment securities under the program even though it does not expect to use it. At December 31, 2023, the Bank had $419 million in securities not pledged that qualified for the BTFP.

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 also maintains a cybersecurity risk management framework in place to assess, identify and manage risks from cybersecurity threats. Refer to "Item 1C. Cybersecurity" in this annual report on Form 10-K for furthers discussion on OFG's cybersecurity risk management framework.

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, Legal and Corporate Compliance, Information Technology, 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 by 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 the General Counsel who reports to the Chief Executive Officer and supervises the BSA Officer and Regulatory Compliance Officer. The General Counsel 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.

As a result of the 2023 bank failures, regulatory agencies may propose certain actions, including reforms to existing regulatory and prudential frameworks that may impose different capital and liquidity requirements, including increased requirements to issue debt or raise capital. In November 2023, the FDIC finalized a rule to recover losses to the FDIC deposit insurance fund as a result of bank failures during the first half of 2023. Under the rule, the FDIC will collect a special assessment based on a calculation using an insured depository institution's estimated amount of uninsured deposits. In particular, the special assessment will be imposed on insured depository institutions based on their estimated uninsured deposits in excess of $5 billion. Given that OFG has uninsured deposits under $5 billion, this special assessment does not apply to us. However, in the future there may be additional special assessments imposed on insured depository institutions that may apply to us. It is not yet possible to quantify the scope of any of these actions or the potential impact on our operations.

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
FINANCIAL STATEMENTS INDEX

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, 2023. 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, 2023 based on the COSO Criteria.

The effectiveness of OFG's internal control over financial reporting as of December 31, 2023, has been audited by KPMG LLP, OFG's independent registered public accounting firm, as stated in their report dated February 26, 2024.

By: */s/ José Rafael Fernández*
José Rafael Fernández
President and Chief Executive Officer
Date: February 26, 2024

By: */s/ Maritza Arizmendi*
Maritza Arizmendi
Chief Financial Officer
Date: February 26, 2024

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, 2023 and 2022, 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, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, 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, 2023, 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 26, 2024 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 6 to the consolidated financial statements, the Company's allowance for credit losses for loans was $161 million as of December 31, 2023, which includes loans evaluated on a collective basis when they share similar risk characteristics (the December 31, 2023 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, 2023 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, 2023 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, 2023 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 26, 2024

Stamp No. E556004 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the records 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, 2023, 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, 2023, 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, 2023 and 2022, 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, 2023, and the related notes (collectively, the consolidated financial statements), and our report dated February 26, 2024 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 26, 2024

Stamp No. E556003 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, 2023 AND 2022

	December 31,	
	2023	2022
	(In thousands)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 743,550	$ 546,146
Money market investments	4,623	4,161
Total cash and cash equivalents	**748,173**	**550,307**
Restricted cash	—	157
Investments:		
Trading securities, at fair value, with amortized cost of $163 (December 31, 2022 - $162)	13	9
Investment securities available-for-sale, at fair value, with amortized cost of $2,177,761 (December 31, 2022 - $1,522,812); no allowance for credit losses	2,099,264	1,412,776
Investment securities held-to-maturity, at amortized cost, with fair value of $490,764 (December 31, 2022 - $469,186); no allowance for credit losses	549,024	535,070
Equity securities	38,469	23,667
Total investments	**2,686,770**	**1,971,522**
Loans:		
Loans held-for-sale, at lower of cost or fair value	28,345	40,587
Loans held for investment, net of allowance for credit losses of $161,106 (December 31, 2022 - $152,673)	7,373,273	6,682,649
Total loans	**7,401,618**	**6,723,236**
Other assets:		
Foreclosed real estate	10,780	11,214
Accrued interest receivable	71,400	62,402
Deferred tax assets, net	4,923	55,485
Premises and equipment, net	104,102	106,820
Customers' liability on acceptances	25,576	28,607
Servicing assets	49,520	50,921
Goodwill	84,241	84,241
Other intangible assets	20,694	27,593
Operating lease right-of-use assets	21,725	25,363
Other assets	114,931	120,912
Total assets	**$ 11,344,453**	**$ 9,818,780**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2023 AND 2022 (CONTINUED)

	December 31,	
	2023	**2022**
	(In thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 6,050,428	$ 5,176,758
Savings accounts	2,088,102	2,227,965
Time deposits	1,623,639	1,163,641
Total deposits	**9,762,169**	**8,568,364**
Borrowings:		
Advances from the Federal Home Loan Bank of New York (the "FHLB")	200,768	26,716
Other borrowings	2	318
Total borrowings	**200,770**	**27,034**
Other liabilities:		
Acceptances executed and outstanding	25,576	28,607
Operating lease liabilities	24,029	27,370
Deferred tax liabilities, net	22,444	—
Accrued expenses and other liabilities	115,985	124,999
Total liabilities	**10,150,973**	**8,776,374**
Commitments and contingencies (See Note 24)		
Stockholders' equity:		
Common stock, $1 par value; 100,000,000 shares authorized; 59,885,234 shares issued: 47,065,156 shares outstanding (December 31, 2022 - 59,885,234 shares issued; 47,581,375 shares outstanding)	59,885	59,885
Additional paid-in capital	638,667	636,793
Legal surplus	150,967	133,901
Retained earnings	639,324	516,371
Treasury stock, at cost, 12,820,078 shares (December 31, 2022 - 12,303,859 shares)	(228,350)	(211,135)
Accumulated other comprehensive loss, net of tax of $11,484 (December 31, 2022 - $16,221)	(67,013)	(93,409)
Total stockholders' equity	**1,193,480**	**1,042,406**
Total liabilities and stockholders' equity	**$ 11,344,453**	**$ 9,818,780**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021

	Year Ended December 31,		
	2023	**2022**	**2021**
	(In thousands, except per share data)		
Interest income:			
Loans	$ 554,744	$ 460,162	$ 433,788
Mortgage-backed securities	50,359	31,298	11,614
Investment securities and other	43,777	24,113	3,797
Total interest income	**648,880**	**515,573**	**449,199**
Interest expense:			
Deposits	75,965	32,239	39,014
Securities sold under agreements to repurchase	3,306	—	—
Advances from FHLB and other borrowings	8,739	733	1,641
Subordinated capital notes	—	521	1,174
Total interest expense	**88,010**	**33,493**	**41,829**
Net interest income	**560,870**	**482,080**	**407,370**
Provision for credit losses	60,638	24,119	221
Net interest income after provision for credit losses	**500,232**	**457,961**	**407,149**
Non-interest income:			
Banking service revenue	70,078	71,161	71,706
Wealth management revenue	32,990	32,635	35,044
Mortgage banking activities	18,787	21,929	22,508
Total banking and financial service revenues	**121,855**	**125,725**	**129,258**
Net (loss) gain on:			
Sale of securities	(1,149)	(247)	19
Early extinguishment of debt	—	42	(1,481)
Other non-interest income	7,675	6,170	5,414
Total non-interest income	**128,381**	**131,690**	**133,210**

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

OFG BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021 (CONTINUED)

	Year Ended December 31,		
	2023	2022	2021
	(In thousands, except per share data)		
Non-interest expense:			
Compensation and employee benefits	155,827	142,930	133,442
Occupancy, equipment and infrastructure costs	59,235	51,308	50,158
Electronic banking charges	41,336	39,554	37,202
Information technology expenses	27,162	21,891	18,965
Professional and service fees	18,764	24,842	20,080
Taxes, other than payroll and income taxes	12,968	12,999	13,829
Insurance	10,494	9,898	10,092
Loan servicing and clearing expenses	7,774	9,161	7,604
Advertising, business promotion, and strategic initiatives	8,743	8,240	6,999
Communication	4,678	4,296	4,555
Printing, postage, stationery and supplies	3,338	3,563	4,037
Director and investor relations	1,351	1,125	1,135
Foreclosed real estate and other repossessed assets income, net of expenses	(405)	(2,074)	(3,007)
Other	12,100	17,813	20,665
Total non-interest expense	**363,365**	**345,546**	**325,756**
Income before income taxes	**265,248**	**244,105**	**214,603**
Income tax expense	83,376	77,866	68,452
Net income	**181,872**	**166,239**	**146,151**
Less: dividends on preferred stock	—	—	(1,255)
Net income available to common shareholders	**$ 181,872**	**$ 166,239**	**$ 144,896**
Earnings per common share:			
Basic	**$ 3.85**	**$ 3.46**	**$ 2.85**
Diluted	**$ 3.83**	**$ 3.44**	**$ 2.81**
Average common shares outstanding and equivalents	**47,552**	**48,436**	**51,370**
Cash dividends per share of common stock	**$ 0.88**	**$ 0.70**	**$ 0.40**

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, 2023, 2022 AND 2021

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Net income	**$ 181,872**	**$ 166,239**	**$ 146,151**
Other comprehensive income (loss) before tax:			
Unrealized gain (loss) on securities available-for-sale	30,390	(117,575)	(6,951)
Realized loss (gain) on sale of securities available-for-sale	1,149	247	(19)
Unrealized (loss) gain on cash flow hedges	(406)	1,210	908
Other comprehensive income (loss) before taxes	**31,133**	**(116,118)**	**(6,062)**
Income tax effect	(4,737)	17,549	200
Other comprehensive income (loss) after taxes	**26,396**	**(98,569)**	**(5,862)**
Comprehensive income	**$ 208,268**	**$ 67,670**	**$ 140,289**

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, 2023, 2022 AND 2021

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Preferred stock:			
Balance at beginning of year	$ —	$ —	$ 92,000
Redemption of preferred stock	—	—	(92,000)
Balance at end of year	**—**	**—**	**—**
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	636,793	637,061	622,652
Stock-based compensation expense	5,001	4,185	6,245
Lapsed restricted stock units	(3,127)	(4,453)	(1,966)
Redemption of preferred stock, issuance costs	—	—	10,130
Balance at end of year	**638,667**	**636,793**	**637,061**
Legal surplus:			
Balance at beginning of year	133,901	117,677	103,269
Transfer from retained earnings	17,066	16,224	14,408
Balance at end of year	**150,967**	**133,901**	**117,677**
Retained earnings:			
Balance at beginning of year	516,371	399,949	300,096
Net income	181,872	166,239	146,151
Cash dividends declared on common stock[1]	(41,853)	(33,593)	(20,505)
Cash dividends declared on preferred stock	—	—	(1,255)
Transfer to legal surplus	(17,066)	(16,224)	(14,408)
Redemption of preferred stock, issuance costs	—	—	(10,130)
Balance at end of year	**639,324**	**516,371**	**399,949**
Treasury stock:			
Balance at beginning of year	(211,135)	(150,572)	(102,949)
Stocks repurchased	(18,653)	(64,110)	(49,872)
Lapsed restricted stock units and options	1,438	3,547	2,249
Balance at end of year	**(228,350)**	**(211,135)**	**(150,572)**
Accumulated other comprehensive loss, net of tax:			
Balance at beginning of year	(93,409)	5,160	11,022
Other comprehensive loss, net of tax	26,396	(98,569)	(5,862)
Balance at end of year	**(67,013)**	**(93,409)**	**5,160**
Total stockholders' equity	**$ 1,193,480**	**$ 1,042,406**	**$ 1,069,160**

[1] Dividends declared per common share during 2023 - $0.88 (2022 - $0.70; 2021 - $0.40).

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, 2023, 2022 AND 2021

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 181,872	$ 166,239	$ 146,151
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred loan origination fees and fair value premiums on loans	1,339	683	(10,193)
Amortization of investment securities (discounts), net of accretion of premiums	(4,451)	(3,628)	3,111
Amortization of other intangible assets	6,899	8,500	9,803
Net change in operating leases	297	360	469
Depreciation and amortization of premises and equipment	20,387	15,812	14,128
Deferred income tax expense, net	67,349	61,126	63,616
Provision for credit losses	60,638	24,119	221
Stock-based compensation	5,001	4,185	6,245
(Gain) loss on:			
Sale of securities	1,149	247	(19)
Sale of loans	(7,331)	(1,202)	(7,292)
Early extinguishment of debt	—	(42)	1,481
Foreclosed real estate and other repossessed assets	(6,251)	(12,186)	(10,435)
Sale of other assets	106	(4,962)	(571)
Originations and purchases of loans held-for-sale	(67,941)	(185,884)	(353,685)
Proceeds from sale of loans held-for-sale	35,881	97,608	220,684
Net decrease (increase) in:			
Accrued interest receivable	(8,938)	(5,825)	9,537
Servicing assets	1,401	(1,948)	(1,678)
Other assets	4,971	35,371	(9,051)
Net increase (decrease) in:			
Accrued interest on deposits and borrowings	3,000	34	(861)
Accrued expenses and other liabilities	279	(34,151)	18,383
Net cash provided by operating activities	**295,657**	**164,456**	**100,044**

OFG BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021 (CONTINUED)

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Cash flows from investing activities:			
Purchases of:			
Investment securities available-for-sale	(1,035,453)	(1,266,569)	(29,095)
Investment securities held-to-maturity	(35,000)	(196,742)	(380,322)
FHLB stock	(44,781)	(122)	—
Equity securities	(5,943)	(4,550)	(7,650)
Maturities and redemptions of:			
Investment securities available-for-sale	273,643	132,756	102,034
Investment securities held-to-maturity	22,265	29,438	12,445
FHLB stock	36,298	83	2,312
Proceeds from sales of:			
Investment securities available-for-sale	202,133	242,126	2,174
Foreclosed real estate and other repossessed assets, including write-offs	60,085	48,805	44,966
Loans held for investment	—	—	4,846
Premises and equipment	38	4,784	570
Other assets	—	1,060	—
Origination and purchase of loans, excluding loans held-for-sale	(3,586,017)	(2,885,018)	(2,036,516)
Principal repayment of loans	2,725,844	2,412,011	2,124,355
Additions to premises and equipment	(17,857)	(30,999)	(23,053)
Net cash used in investing activities	**$ (1,404,745)**	**$ (1,512,937)**	**$ (182,934)**
Cash flows from financing activities:			
Net increase (decrease) in:			
Deposits	1,195,080	6,906	152,699
Subordinated capital notes	—	(34,958)	—
FHLB advances and other borrowings	173,070	(1,547)	(39,174)
Exercise of stock options and restricted units lapsed, net	(1,689)	(906)	283
Purchase of treasury stock	(18,653)	(64,110)	(49,872)
Redemption of preferred stock	—	—	(92,000)
Dividends paid on preferred stock	—	—	(1,255)
Dividends paid on common stock	(41,011)	(30,090)	(19,718)
Net cash provided by (used in) financing activities	**$ 1,306,797**	**$ (124,705)**	**$ (49,037)**
Net change in cash, cash equivalents and restricted cash	**197,709**	**(1,473,186)**	**(131,927)**
Cash, cash equivalents and restricted cash at beginning of year	550,464	2,023,650	2,155,577
Cash, cash equivalents and restricted cash at end of year	**$ 748,173**	**$ 550,464**	**$ 2,023,650**

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, 2023, 2022 and 2021 (CONTINUED)

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Statements of Financial Condition:			
Cash and due from banks	$ 743,550	$ 546,146	$ 2,014,523
Money market investments	4,623	4,161	8,952
Restricted cash	—	157	175
Total cash, cash equivalents, restricted cash and restricted cash equivalents at end of year	**$ 748,173**	**$ 550,464**	**$ 2,023,650**

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:			
Interest paid	$ 79,726	$ 26,959	$ 35,338
Income taxes paid	$ 15,007	$ 5,126	$ 2,794
Operating lease liabilities paid	$ 10,117	$ 10,107	$ 10,948
Mortgage loans held-for-sale securitized into mortgage-backed securities	$ 93,565	$ 126,082	$ 149,080
Transfer from loans to foreclosed real estate and other repossessed assets	$ 53,400	$ 37,233	$ 39,547
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$ 53,021	$ 17,476	$ 54,983
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$ 8,763	$ 22,723	$ 7,053
Financed sales of foreclosed real estate	$ 585	$ 1,767	$ 1,444
Delinquent loans booked under the GNMA buy-back option	$ 19,401	$ 32,590	$ 14,511
Conversion of debt security to equity security	$ 376	$ 1,500	$ —

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

OFG BANCORP
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of OFG Bancorp ("OFG" or the "Company") conform with U.S. Generally Accepted Accounting Principles ("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"), 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, auto and mortgage lending, financial planning, insurance sales, investment advisory 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 a retirement plan administrator, Oriental Pension Consultants, Inc. ("OPC"), which thereafter ceased its operations. The results for the years 2022 and 2021 included OPC operations.

OFG conducts its business through its main office in San Juan, Puerto Rico, forty-two 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; one subsidiary in the United States, 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 has a wholly-owned 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 its mortgage loan portfolio and the GNMA, FNMA and FHLMC pools that it issues. Through December 31, 2022, the Bank had a subservicing arrangement with a third party for a portion of its acquired loan portfolio. This subservicing arrangement expired on May 1, 2023, and since then, OFG no longer has any subservicing arrangement.

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.

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 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 dividends are retroactively recognized in all periods presented in the consolidated financial statements.

Securities Sold Under Agreements to Repurchase

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

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 securities into one of three categories:

Held-to-maturity - Securities that management has the intent and ability to hold to maturity. These securities are carried at amortized cost. An ACL 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 securities 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. Credit losses relating to available-for-sale debt securities are recorded through an 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 US Treasury securities 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 non-interest income in the consolidated statements of operations. Management determines the appropriate classification of securities at the time of purchase.

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 consolidated 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.

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 from financial and non-financial information received from the individual investment funds and companies. As of December 31, 2023 and 2022 and for the years then ended, there were no impairments, downward or upward adjustments, annual or on a cumulative basis for these investments. 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.

Financial Instruments

Certain financial instruments, including trading securities, investment securities available-for-sale, and derivatives 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 were derived from pricing models that considered 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, from time to time, 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. At December 31, 2023, OFG does not have derivative instruments.

Other Loans Held-For-Sale and Transfers of Other Loans from Held-for-Investment to Held-for-Sale

Other loans reported as held-for-sale are non-mortgage loans which 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. Other loans held-for-sale include commercial loans that were designated as held-for-investment at origination or purchase, but that OFG subsequently decided to sell to other institutions.

These loans are reclassified to held-for-sale on the date that OFG decides to sell them. At this time, any previously recorded ACL is reversed in earnings and the loan is recorded at its amortized cost basis. Prior to the transfer, OFG applies its write-off policy to the amortized cost basis. The amortized cost at the date of transfer is reduced by any write-offs recognized just prior to the transfer. If the amortized cost basis exceeds the loan's fair value at the date of transfer, OFG establishes a valuation allowance equal to the difference between amortized cost basis and fair value. The previously recorded ACL associated with the transferred loans after applying the write-off policy is released and an offsetting entry is recorded to the provision.

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. Mortgage loans held-for-sale include all conforming mortgage loans originated and purchased, which from time to time OFG 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 records a contingent liability for these customary representations and warranties related to loans sold by OFG and is presented within other liabilities in the consolidated statements of financial condition. For more information refer to Note 24 – Commitments and Contingencies.

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. For more information refer to Note 24 – Commitments and Contingencies.

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 assets in the statements of operations in the period in which the changes occur, and includes these changes, if any, with mortgage banking activities in the consolidated statements of operations. The fair value of servicing rights is subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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

Loans and ACL

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.

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 financial difficulties modification or previously identified as troubled debt restructuring. As such, our PCD loans are recorded at the purchase price plus the ACL expected at the time of acquisition or implementation of the standard. An ACL 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 ACL 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 ACL are recorded through the provision expense.

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 ACL is adjusted each period for changes in expected credit losses. The ACL 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 ACL 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 financial difficulties modifications or previously identified 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. 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, OFG uses a prepayment model that 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 $63.5 million and $58.1 million on December 31, 2023 and 2022, 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 $20.2 million at December 31, 2023 (December 31, 2022 - $21.8 million), of which $18.2 million (December 31, 2022 - $20.7 million) corresponds to loans in current status. ACL for accrued interest receivable on loans that participated in the deferral programs amounted to $85 thousand and $144 thousand at December 31, 2023 and 2022, 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 measures the ACL 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 modified loans classified as FDM or as previous Troubled Debt Restructurings (“TDRs”), 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 ACL.

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 OFG USA and OIB. 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.

Mortgage Loans – This segment includes traditional mortgages, non-traditional mortgages, mortgages in the loss mitigation program, residential performing FDMs and previous TDRs, and residential non-performing FDMs and previous 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 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 - This portfolio consists of auto loans. 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 GNP and employment rate are key factors that impact the frequency and severity of loss estimates.

Auto loans 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 6 – Allowance for Credit Losses.

Legacy Troubled Debt Restructuring and Financial Difficulties Modifications

A modification of a loan, prior to ASU 2022-02, constituted a TDR when OFG, as creditor, granted a concession for legal or economic reasons due to the debtor's financial difficulties. A concession was granted when, as a result of the restructuring, OFG did not expect to collect all amounts due, according to original contractual terms of the loan agreement.

These concessions included 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 was having financial difficulties, OFG evaluated whether it was probable that the debtor was going to default on any of its debt in the foreseeable future.

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

TDR loans were classified as either accrual or nonaccrual. An accruing loan that was modified in a TDR remained in accrual status if, based on a current, well-documented credit analysis, collection of principal and interest in accordance with the modified terms was reasonably assured, and the borrower had demonstrated sustained historical repayment performance for a reasonable period before the modification. To restore a non-accruing loan that had been modified in a TDR to accrual status, the credit officer must have performed 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 have remained in nonaccrual status. The analysis must have considered the borrower's sustained historical repayment performance for a reasonable period prior to the return-to-accrual date but may have taken into account payments made for a reasonable period prior to the restructuring if the payments were consistent with the modified terms. A sustained period of repayment performance generally would have been a minimum of six consecutive payments and would have involved 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 were not considered TDRs as they represented short-term delay of payments or other insignificant modifications, whether under OFG's regular loan modification assessments or the Interagency Statement guidance; or OFG 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 did not meet any of the above criteria, OFG accounted for them as TDRs. For loan modifications that included a payment deferral and were not TDRs, the borrower's past due and nonaccrual status was not impacted during the deferral period. These loans were not considered past due until after the deferral period was over and scheduled payments resumed. Accrued interest on these Covid-19 modified loans was due when the deferral period ended. The credit quality of these loans has been re-evaluated after the deferral period ended. 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.

On January 1, 2023, OFG adopted ASU 2022-02, which eliminated the recognition and measurement of TDRs and enhanced disclosures for loan restructurings for borrowers experiencing financial difficulty (FDM), using the prospective transition method. Loans that were restructured in a TDR prior to the adoption of ASU 2022-02 will continue to be accounted for under the historical TDR accounting until the relevant loans are paid off, liquidated or subsequently modified. Since adoption, all restructurings, including restructurings for borrowers experiencing financial difficulty, are evaluated to determine whether they result in a new loan or a continuation of an existing loan. Loan restructurings for borrowers experiencing financial difficulty are generally accounted for as a continuation of the existing loan as the terms of the restructured loans are typically not at market rates. When a loan is restructured, OFG measures impairment on the loan using a discounted cash flow approach that utilizes the loan's restructured terms, including the post-restructuring interest rate.

A modification is subject to disclosure under the new ASU when OFG separately concludes that both of the following conditions exist: 1) the debtor is experiencing financial difficulties, and 2) the modification constitutes a reduction in the interest rate on the loan, a payment extension, a forgiveness of principal, or a more-than-insignificant payment delay, or a combination of any of these. Determination that a borrower is experiencing financial difficulties involves a degree of judgment. The identification of loan modifications to debtors with financial difficulties or FDM is critical in the determination of the adequacy of the ACL. A FDM is typically in non-accrual status at the time of the modification. These loans continue in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments for at least six months of sustained performance after the modification and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.

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 ACL. 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, 2023 and 2022, 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 24 – 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.

ACL 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. An asset versus liability classification exercise is completed for each applicable tax paying entity in each tax jurisdiction and deferred tax assets and liabilities are offset within each jurisdiction. Accordingly, in a single balance sheet, a net deferred tax asset and a net deferred liability may appear.

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.

OFS is 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. 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 2022, 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 2022. Tax audits by their nature are often complex and can require several years to complete.

Advertising Costs

Advertising costs are expensed as incurred.

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 28 – 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, 2013 and 2023.

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 2023, 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

Income Taxes—Improvements to Income Tax Disclosures. In December 2023, the FASB issued ASU 2023-09 to enhance income tax disclosures and address investor requests for more information about the tax risks and opportunities present in an entity's worldwide operations. The ASU's two primary enhancements will require further disaggregation for existing disclosures for the effective tax rate reconciliation and income taxes paid. More specifically, the amendments will require entities to disclose: a tabular effective tax rate reconciliation, broken out into specific categories with certain reconciling items above a 5% threshold further broken out by nature and jurisdiction; and income taxes paid (net of refunds received), broken out between federal, state and foreign, and net amounts paid to an individual jurisdiction that exceed 5% of the total. The amendments in this update are effective for annual periods beginning after December 15, 2024. Entities are permitted to early adopt these amendments. The amendments should be applied prospectively, but retrospective application is permitted. We will adopt this guidance when it becomes effective, in the annual period of 2025 on a prospective basis, and the impact on our financial statements and disclosures is not expected to be material.

Segment Reporting—Improvements to Reportable Segment Disclosures. In November 2023, the FASB issued ASU 2023-07 to enhance segment reporting by expanding the breadth and frequency of segment disclosures required for public entities. The amendments in this ASU will allow registrants to disclose multiple measures of segment profit or loss and it also clarifies that single reportable segment entities must apply Topic 280 in its entirety. 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. A public entity, as OFG, should apply these amendments retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. We will adopt this guidance when it becomes effective, in the first quarter of 2024 on a retrospective basis, and the impact on our financial statements and disclosures is not expected to be material.

NOTE 2 – RESTRICTED CASH

OFG had a contract with the Federal National Mortgage Association (the "FNMA") which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At December 31, 2022, OFG had delivered as collateral cash amounting to approximately $157 thousand. On May 1, 2023, OFG and a third-party servicer terminated a subservicing agreement by mutual agreement. Pursuant to such termination, the third-party servicer became the direct servicer of the FNMA loans sold with recourse, thereby relieving OFG of its obligation to deliver collateral with respect to such loans. Therefore, no collateral was delivered at December 31, 2023.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover demand deposits, excluding government deposits that are secured with pledged collateral. The amount of those minimum average reserve balances for the week that covered December 31, 2023 was $464.5 million (December 31, 2022 - $482.9 million). At December 31, 2023 and 2022, 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 3 – 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, 2023 and 2022, money market instruments included as part of cash and cash equivalents amounted to $4.6 million and $4.2 million, respectively.

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, 2023 and 2022 were as follows:

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2023				
	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	$ 6,972	$ —	$ 311	$ 6,661	1.76 %
Due from 5 to 10 years	45,835	—	2,767	43,068	2.00 %
Due after 10 years	1,411,327	8,989	54,100	1,366,216	4.11 %
Total FNMA and FHLMC certificates	1,464,134	8,989	57,178	1,415,945	4.03 %
GNMA certificates					
Due less than 1 year	5	—	—	5	1.31 %
Due from 1 to 5 years	$ 8,851	$ —	$ 351	$ 8,500	1.71 %
Due from 5 to 10 years	17,113	16	955	16,174	2.19 %
Due after 10 years	380,306	4,419	33,110	351,615	3.38 %
Total GNMA certificates	406,275	4,435	34,416	376,294	3.30 %
CMOs issued by US government-sponsored agencies					
Due from 1 to 5 years	9,071	—	364	8,707	1.78 %
Due from 5 to 10 years	54	—	—	54	2.14 %
Due after 10 years	861	—	12	849	5.07 %
Total CMOs issued by US government-sponsored agencies	9,986	—	376	9,610	2.06 %
Total mortgage-backed securities	**1,880,395**	**13,424**	**91,970**	**1,801,849**	**3.86 %**
Investment securities					
US Treasury securities					
Due less than 1 year	296,747	52	—	296,799	5.40 %
Other debt securities					
Due less than 1 year	500	—	—	500	3.25 %
Due from 1 to 5 years	119	—	3	116	2.97 %
Total investment securities	**297,366**	**52**	**3**	**297,415**	**5.39 %**
Total securities available for sale	**$ 2,177,761**	**$ 13,476**	**$ 91,973**	**$ 2,099,264**	**4.07 %**

	December 31, 2023				
	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	$ 314,710	$ —	$ 56,767	$ 257,943	1.72 %
Investment securities					
US Treasury securities					
Due less than 1 year	199,314	—	1,548	197,766	3.33 %
Other debt securities					
Due from 1 to 5 years	35,000	55	—	35,055	6.36 %
Total securities held to maturity	**$ 549,024**	**$ 55**	**$ 58,315**	**$ 490,764**	**2.60 %**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	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 certificates					
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 %**

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, 2023 and 2022, most securities held by OFG are issued by U.S. government entities and government-sponsored agencies that have a zero-credit loss assumption and, therefore, have no allowance for credit losses.

Investment securities at December 31, 2023 include $1.624 billion pledged to secure government deposits and regulatory collateral, of which $1.575 billion serve as collateral for public funds. For regulatory collateral, the secured parties are not permitted to sell or repledge them. Investment securities as of 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.

At both December 31, 2023 and 2022, the Bank's international banking entities held short-term US Treasury securities in the amount of $325 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 OCFI.

During 2023, OFG acquired a two-year $35.0 million private placement hospital revenue bond issued by AFICA, a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico, to provide financing for a private entity. This bond is not marketable and therefore has no rating. It is included in "Other debt securities held to maturity" in the tables above.

During 2023, 2022 and 2021, OFG retained securitized GNMA pools totaling $76.4 million, $112.4 million and $149.1 million amortized cost, respectively, at a yield of 5.33%, 3.90% and 2.45%, respectively, from its own originations. During 2023 and 2022, OFG retained FNMA pools totaling $17.2 million and $13.7 million amortized cost, respectively, at a yield of 5.37% and 4.97%, respectively, from its own originations. OFG did not retain FNMA pools during 2021.

During 2023, OFG purchased $300.0 million of short-term available for sale US Treasury securities. During 2022, OFG purchased $550.0 million of available for sale US Treasury securities and $200.0 million of held to maturity US Treasury securities. During 2021, OFG did not purchase US Treasury securities. US Treasury securities are exempt of income taxes.

During the 2023, OFG sold $203.3 million of available for sale US Treasury securities and recognized a $1.1 million loss in the sale. 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, OFG sold $2.2 million of available-for-sale mortgage-backed securities and recognized a $19 thousand gain in the sale. These losses and gains are included in "net (loss) gain on sale of securities" in the consolidated statements of operations.

	Year Ended December 31, 2023			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
		(In thousands)		
Sale of investment securities available-for-sale				
US Treasury securities	**$ 202,133**	**$ 203,282**	**$ —**	**$ 1,149**

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

Description	Year Ended December 31, 2021			
	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**	**$ —**

The following table shows OFG's gross unrealized losses and fair value of investment securities available-for-sale at December 31, 2023 and 2022, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2023		
	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
FNMA and FHLMC certificates	$ 731,334	$ 56,847	$ 674,487
GNMA certificates	275,669	34,364	241,305
CMOs issued by US Government-sponsored agencies	9,986	376	9,610
Other debt securities	119	3	116
	$ 1,017,108	**$ 91,590**	**$ 925,518**

	December 31, 2023		
	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
FNMA and FHLMC certificates	$ 106,235	$ 331	$ 105,904
GNMA certificates	7,864	52	7,812
	$ 114,099	**$ 383**	**$ 113,716**

	December 31, 2023		
	Total		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
FNMA and FHLMC certificates	$ 837,569	$ 57,178	$ 780,391
GNMA certificates	283,533	34,416	249,117
CMOs issued by US Government-sponsored agencies	9,986	376	9,610
Other debt securities	119	3	116
	$ 1,131,207	**$ 91,973**	**$ 1,039,234**

The unrealized losses on OFG's investment in federal agency mortgage-backed securities were caused by market volatility related to interest rate increases. OFG purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government or by a government sponsored enterprise. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of OFG's investments. OFG does not intend to sell the investments, and it is not more likely than not that OFG will be required to sell the investments before recovery of their amortized cost bases.

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	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**

	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**

	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**

NOTE 4 - PLEDGED ASSETS

The following table shows a summary of pledged and not pledged assets at December 31, 2023 and 2022. Investment securities available for sale are presented at fair value, and investment securities held to maturity, residential mortgage loans, commercial loans, and auto loans are presented at amortized cost:

	December 31,	
	2023	2022
	(In thousands)	
Pledged investment securities to secure:		
Bank Term Funding Program	48,070	—
Derivatives	—	443
IBE Regulation	645	—
Bond for the Bank's trust operations	104	104
Puerto Rico public fund deposits	1,575,042	293,650
Total pledged investment securities	**1,623,861**	**294,197**
Pledged residential mortgage loans to secure:		
Advances from the Federal Home Loan Bank	**769,813**	**473,600**
Pledged commercial loans to secure:		
Advances from the Federal Home Loan Bank	236,665	477,516
Federal Reserve Bank Credit Facility	70,075	49,117
Puerto Rico public fund deposits	69,731	73,617
	376,471	**600,250**
Pledged Auto loans to secure:		
Federal Reserve Bank Credit Facility	**1,169,711**	**1,160,678**
Total pledged assets	**$ 3,939,856**	**$ 2,528,725**
Financial assets not pledged:		
Investment securities	$ 1,024,427	$ 1,653,649
Residential mortgage loans	792,796	1,250,120
Commercial loans	2,728,777	2,050,767
Consumer loans	620,446	537,257
Auto loans	1,104,710	803,237
Total assets not pledged	**$ 6,271,156**	**$ 6,295,030**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 - LOANS

OFG's loan portfolio is composed of four segments: commercial, mortgage, consumer, and auto loans. 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, 2023 and 2022 was as follows:

	December 31, 2023			December 31, 2022		
	Non-PCD	PCD	Total	Non-PCD	PCD	Total
	(In thousands)					
Commercial loans:						
Commercial secured by real estate	$ 1,095,207	$ 120,988	$ 1,216,195	$ 974,202	$ 138,678	$ 1,112,880
Other commercial and industrial	1,091,021	14,459	1,105,480	854,442	20,474	874,916
US commercial loans	755,228	—	755,228	642,133	—	642,133
	2,941,456	**135,447**	**3,076,903**	**2,470,777**	**159,152**	**2,629,929**
Mortgage loans	**629,247**	**933,362**	**1,562,609**	**675,793**	**1,028,428**	**1,704,221**
Consumer loans:						
Personal loans	568,358	264	568,622	480,620	338	480,958
Credit lines	10,926	288	11,214	12,826	300	13,126
Credit cards	40,314	—	40,314	42,872	—	42,872
Overdraft	296	—	296	301	—	301
	619,894	**552**	**620,446**	**536,619**	**638**	**537,257**
Auto loans	**2,272,530**	**1,891**	**2,274,421**	**1,958,257**	**5,658**	**1,963,915**
	6,463,127	**1,071,252**	**7,534,379**	**5,641,446**	**1,193,876**	**6,835,322**
Allowance for credit losses	(152,610)	(8,496)	(161,106)	(141,841)	(10,832)	(152,673)
Total loans held for investment, net	**6,310,517**	**1,062,756**	**7,373,273**	**5,499,605**	**1,183,044**	**6,682,649**
Mortgage loans held for sale	—	—	—	19,499	—	19,499
Other loans held for sale	28,345	—	28,345	21,088	—	21,088
Total loans held for sale	**28,345**	**—**	**28,345**	**40,587**	**—**	**40,587**
Total loans, net	**$ 6,338,862**	**$ 1,062,756**	**$ 7,401,618**	**$ 5,540,192**	**$ 1,183,044**	**$ 6,723,236**

During 2023, OFG sold non-performing Puerto Rico small business commercial loans held-for-sale amounting to $4.3 million, with an unpaid principal balance of $25.3 million and recognized a $6.3 million gain on the sale. This gain is included in the other non-interest income line of the consolidated statements of operations.

At December 31, 2023 and 2022, OFG had carrying balances of $68.6 million and $73.7 million, respectively, in loans held for investment granted to the Puerto Rico government or its instrumentalities as part of the commercial loan segment. The Bank's loans to the Puerto Rico government are general obligations of municipalities secured by ad valorem taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities in current status. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations.

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The tables below present the aging of the amortized cost of loans held for investment at December 31, 2023 and 2022, by class of loans. Mortgage loans past due include $19.4 million and $32.6 million of delinquent loans in the GNMA buy-back option program at December 31, 2023 and 2022, 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, 2023						
	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 loans:							
Commercial secured by real estate	$ 1,585	$ 411	$ 5,671	$ 7,667	$ 1,087,540	$ 1,095,207	$ —
Other commercial and industrial	1,366	291	4,974	6,631	1,084,390	1,091,021	—
US commercial loans	—	—	—	—	755,228	755,228	—
	2,951	**702**	**10,645**	**14,298**	**2,927,158**	**2,941,456**	**—**
Mortgage loans	**6,107**	**9,596**	**31,557**	**47,260**	**581,987**	**629,247**	**2,478**
Consumer loans:							
Personal loans	6,115	4,041	2,755	12,911	555,447	568,358	—
Credit lines	137	35	35	207	10,719	10,926	—
Credit cards	657	280	586	1,523	38,791	40,314	—
Overdraft	87	14	—	101	195	296	—
	6,996	**4,370**	**3,376**	**14,742**	**605,152**	**619,894**	**—**
Auto loans	**101,610**	**46,071**	**19,056**	**166,737**	**2,105,793**	**2,272,530**	**—**
Total loans	**$ 117,664**	**$ 60,739**	**$ 64,634**	**$ 243,037**	**$ 6,220,090**	**$ 6,463,127**	**$ 2,478**

As of December 31, 2023, total past due loans exclude $6.4 million of past due commercial loans held for sale.

	December 31, 2022						
	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 loans:							
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 loans	**9,267**	**5,848**	**56,714**	**71,829**	**603,964**	**675,793**	**3,856**
Consumer loans:							
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	**75,237**	**36,954**	**19,613**	**131,804**	**1,826,453**	**1,958,257**	**—**
Total loans	**$ 91,954**	**$ 46,997**	**$ 88,912**	**$227,763**	**$ 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.

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 preceding two tables.

Non-accrual Loans

The following table presents the amortized cost basis of loans held for investment on nonaccrual status as of December 31, 2023 and 2022:

	December 31, 2023			December 31, 2022		
	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 loans:						
Commercial secured by real estate	$ 3,553	$ 7,929	$ 11,482	$ 4,091	$ 17,098	$ 21,189
Other commercial and industrial	4,560	830	5,390	2,769	885	3,654
US commercial loans	19,224	—	19,224	9,589	—	9,589
	27,337	**8,759**	**36,096**	**16,449**	**17,983**	**34,432**
Mortgage loans	**10,339**	**3,858**	**14,197**	**11,719**	**11,522**	**23,241**
Consumer loans:						
Personal loans	2,741	14	2,755	1,950	379	2,329
Personal lines of credit	35	—	35	116	—	116
Credit cards	586	—	586	683	—	683
	3,362	**14**	**3,376**	**2,749**	**379**	**3,128**
Auto loans	**19,051**	**5**	**19,056**	**19,612**	**1**	**19,613**
Total	**$ 60,089**	**$ 12,636**	**$ 72,725**	**$ 50,529**	**$ 29,885**	**$ 80,414**
PCD:						
Commercial loans:						
Commercial secured by real estate	$ 3,060	$ 2,417	$ 5,477	$ 2,807	$ 6,084	$ 8,891
Other commercial and industrial	—	947	947	—	36	36
	3,060	**3,364**	**6,424**	**2,807**	**6,120**	**8,927**
Mortgage loans	**250**	**—**	**250**	**259**	**—**	**259**
Total	**$ 3,310**	**$ 3,364**	**$ 6,674**	**$ 3,066**	**$ 6,120**	**$ 9,186**
Total non-accrual loans	**$ 63,399**	**$ 16,000**	**$ 79,399**	**$ 53,595**	**$ 36,005**	**$ 89,600**

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, 2023 and 2022, total commercial non-accrual loans exclude $6.4 million and $16.4 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, 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 as they were performing under their modified terms.

Modifications to Debtors Experiencing Financial Difficulty

OFG's loss mitigation program was designed to ensure that borrowers experiencing financial difficulties have the opportunity to continue paying their obligations. The loss mitigation alternatives are divided depending on the borrower's hardship and their ability to continue with regular payment or with a new modified payment plan. The loss mitigation program provides alternatives for home retention or disposition options avoiding foreclosure proceedings and collateral retention.

OFG offers various types of loan modifications to borrowers experiencing financial difficulty in the form of an interest rate reduction, an other-than-insignificant payment delay, a term extension, interest or principal forbearance or forgiveness, or any combination of these types of concessions.

On January 1, 2023, OFG adopted ASU 2022-02, which eliminated the recognition and measurement of TDRs and enhanced disclosures for loan restructurings for borrowers experiencing financial difficulty, using the prospective transition method.

At December 31, 2023, the amortized cost of modified loans excludes $188 thousand of accrued interest receivable. Accrued interest receivable on loans is included in the "accrued interest receivable" line in OFG's consolidated statements of financial condition.

The following tables present the amortized cost basis as of December 31, 2023 of loans held for investment that were modified during 2023, disaggregated by class of financing receivable and type of concession granted.

	Interest Rate Reduction	
	Year Ended December 31, 2023	
	Amortized Cost Basis (In thousands)	% of Total Class of Financing
Commercial loans:		
US commercial loans	6,649	0.88 %
Consumer loans:		
Personal loans	37	0.01 %
Auto loans	48	— %
Total	**$ 6,734**	

	Term Extension	
	Year Ended December 31, 2023	
	Amortized Cost Basis (In thousands)	% of Total Class of Financing Receivable
Commercial loans:		
Commercial secured by real estate	$ 6,332	0.52 %
Other commercial and industrial	689	0.06 %
	7,021	0.23 %
Mortgage loans	5,777	0.37 %
Auto loans	13	— %
Total	**$ 12,811**	

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	Principal Forbearance/ Forgiveness	
	Year Ended December 31, 2023	
	Amortized Cost Basis (In thousands)	% of Total Class of Financing Receivable
Mortgage loans	**$ 97**	**0.01 %**

	Combination - Term Extension and Interest Rate Reduction	
	Year Ended December 31, 2023	
	Amortized Cost Basis (In thousands)	% of Total Class of Financing Receivable
Mortgage loans	$ 710	0.05 %
Consumer loans:		
Personal loans	80	0.01 %
Auto loans	53	— %
Total	**$ 843**	

	Combination - Term Extension and Principal Forgiveness/	
	Year Ended December 31, 2023	
	Amortized Cost Basis (In thousands)	% of Total Class of Financing Receivable
Commercial loans:		
US commercial loans	$ 4,183	0.55 %
Mortgage loans	440	0.03 %
Total	**$ 4,623**	

Our credit loss estimation methodology incorporates a lifetime approach, utilizing modeled loan performance based on the historical experience of loans with similar risk characteristics, adjusted for current conditions, and reasonable and supportable forecasts. The model considers extensive historical loss experience, including the impact of loss mitigation programs offered to borrowers facing financial difficulty and projected loss severity from loan defaults, and is applied consistently across all portfolio segments. Additionally, our ACL is recorded on each asset upon origination or acquisition and is based on historical loss information, including modifications made to borrowers facing financial difficulty, and expected behavior. Changes to the ACL are generally not recorded upon modification, as the effects of most modifications are already considered in the estimation methodology. Refer to Note 6 – Allowance for Credit Losses for additional information.

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	Year Ended December 31, 2023		
	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (In months)	Weighted-Average Forgiveness/Forbearance of Principal Amount (In thousands)
Commercial loans:			
Commercial loans secured by real estate	— %	23	$ —
US Commercial loans	1.95 %	31	2,973
	— %	54	$ 2,973
Mortgage loans	1.94 %	213	$ 24
Consumer loans:			
Personal loans	2.98 %	81	$ —
Auto loans	3.00 %	0	$ —

The following table presents the amortized cost basis as of December 31, 2023 of loans held for investment that had a payment default subsequent to being granted a modification to borrowers experiencing financial difficulty in the prior twelve-months.

	Year Ended December 31, 2023				
	Amortized Cost Basis of Modified Financing Receivables that Subsequently Defaulted				
	Interest Rate Reduction	Term Extension	Principal Forgiveness/ Forbearance	Combination - Term Extension and Interest Rate Reduction	Total
			(In thousands)		
Mortgage loans	$ —	$ 704	$ —	$ —	$ 704

A payment default for a financial difficulty modification loan is defined as reaching 90 days past due with respect to principal and/or interest payments or when the borrower missed three consecutive monthly payments since modification. Payment defaults is one of the factors considered when projecting future cash flows in the calculation of the allowance for credit losses of loans.

OFG closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents an aging of the loans held for investment that have been modified during 2023.

	December 31, 2023					
	30-59 Day Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total
	(In thousands)					
Commercial loans:						
Commercial loans secured by real estate	$ —	$ —	$ —	$ —	$ 6,332	$ 6,332
Other commercial and industrial	—	—	—	—	689	689
US commercial loans	—	—	—	—	10,832	10,832
	—	—	—	—	17,853	17,853
Mortgage loans	**471**	**297**	**583**	**1,351**	**5,673**	**7,024**
Consumer loans:						
Personal loans	—	—	—	—	117	117
	—	**—**	**—**	**—**	**117**	**117**
Auto loans	**30**	**—**	**—**	**30**	**84**	**114**
Total	**$ 501**	**$ 297**	**$ 583**	**$ 1,381**	**$ 23,727**	**$ 25,108**

At December 31, 2023, the total amortized cost of modified loans to borrowers experiencing financial difficulty includes $4.6 million of government-guaranteed loans (*e.g.,* FHA/VA). There were no outstanding commitments to lend additional funds to debtors experiencing financial difficulties at December 31, 2023.

Legacy TDR Disclosures Prior to the Adoption of ASU 2022-02

Prior to the adoption of ASU 2022-02, OFG offered various types of concessions when modifying a loan. Refer to "Note 1 – Summary of Significant Accounting Policies" in this report for more information on TDR accounting and disclosure requirements, and our adoption of ASU 2022-02.

The amount of outstanding commitments to lend additional funds to commercial borrowers whose terms were modified in TDRs amounted to $3.2 million at December 31, 2022.

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

	December 31, 2022			
	Accruing	Non-accruing	Total	Related Allowance
	(In thousands)			
Commercial loans:				
Commercial secured by real estate	$ 31,437	$ 13,187	$ 44,624	$ 181
Other commercial and industrial	2,272	354	2,626	42
US commercial loans	7,132	—	7,132	89
	40,841	**13,541**	**54,382**	**312**
Mortgage loans	**102,387**	**6,773**	**109,160**	**2,495**
Consumer loans:				
Personal loans	**1,850**	**15**	**1,865**	**73**
Auto loans	**77**	**—**	**77**	**3**
Total loans	**$ 145,155**	**$ 20,329**	**$ 165,484**	**$ 2,883**

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

	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 loans	**31,709**	**8,020**	**35,194**	**34,237**	**109,160**
Consumer: loans					
Personal loans	**825**	**176**	**793**	**71**	**1,865**
Auto loans	**39**	**—**	**20**	**18**	**77**
Total loans	**$ 48,236**	**$ 39,017**	**$ 43,905**	**$ 34,326**	**$ 165,484**

At December 31, 2022, TDR mortgage loans included $43.5 million 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 were not included in the TDR tables.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Loan modifications that were considered TDR loans completed during 2022 and 2021:

	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	9	148	8.70 %	72	148	9.35 %	49

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

	2022		2021	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Mortgage	13	$ 1,701	19	$ 2,488
Commercial	1	$ 633	—	$ —
Consumer	1	$ 40	6	$ 76
Auto	—	$ —	1	$ 10

As of December 31, 2023 and 2022, the recorded investment on residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure amounted to $24.1 million and $14.9 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 property title issues.

Collateral-dependent Loans

The table below presents the amortized cost of commercial collateral-dependent loans held for investment at December 31, 2023 and 2022, by class of loans.

	December 31,	
	2023	2022
	(In thousands)	
Commercial loans secured by real estate	**$ 8,027**	**$ 8,805**

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.

On January 1, 2023, OFG adopted ASU 2022-02 which requires public companies to include current year-to-date period gross charge-offs by year of origination as described in the tables below.

As of December 31, 2023, 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
	2023	2022	2021	2020	2019	Prior		
	(In thousands)							
Commercial loans:								
Commercial secured by real estate:								
Loan grade:								
Pass	$224,598	$216,205	$195,884	$120,489	$ 80,671	$131,016	$ 65,873	$ 1,034,736
Special Mention	—	1,772	6,554	5,057	15,676	12,500	153	41,712
Substandard	—	459	1,386	1,109	2,615	11,939	1,236	18,744
Doubtful	—	—	—	—	—	15	—	15
Loss	—	—	—	—	—	—	—	—
Total commercial secured by real estate	224,598	218,436	203,824	126,655	98,962	155,470	67,262	1,095,207
Commercial secured by real estate:								
2023 gross charge-offs	—	—	265	—	94	820	—	1,179
Other commercial and industrial:								
Loan grade:								
Pass	284,615	99,522	113,760	37,665	7,438	14,836	527,008	1,084,844
Special Mention	8	2,953	—	—	51	100	—	3,112
Substandard	3	473	826	259	935	186	383	3,065
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total other commercial and industrial:	284,626	102,948	114,586	37,924	8,424	15,122	527,391	1,091,021
Other commercial and industrial:								
2023 gross charge-offs	—	124	1,095	89	9	1,180	—	2,497
US commercial loans:								
Loan grade:								
Pass	142,222	63,885	69,233	31,206	28,202	8,085	358,757	701,590
Special Mention	—	7,803	—	—	—	—	20,913	28,716
Substandard	10,832	—	—	—	—	5,699	8,391	24,922
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total US commercial loans:	153,054	71,688	69,233	31,206	28,202	13,784	388,061	755,228
US commercial loans:								
2023 gross charge-offs	33	1,156	642	47	—	8,637	—	10,515
Total commercial loans	**$662,278**	**$393,072**	**$387,643**	**$195,785**	**$135,588**	**$184,376**	**$ 982,714**	**$ 2,941,456**
Total 2023 gross charge-offs	**$ 33**	**$ 1,280**	**$ 2,002**	**$ 136**	**$ 103**	**$ 10,637**	**$ —**	**$ 14,191**

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As of December 31, 2022, 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 loans:								
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**

At December 31, 2023 and 2022, the balance of revolving commercial loans converted to term loans was $144.1 million and $78.0 million, respectively.

OFG considers the performance of the loan portfolio and its impact on the ACL. 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 table presents the amortized cost in mortgage and consumer loans held for investment based on payment activity as of December 31, 2023:

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior		
	(In thousands)							
Mortgage loans:								
Payment performance:								
Performing	$ 24,623	$ 19,722	$ 23,303	$ 15,821	$ 14,589	$511,182	$ —	$ 609,240
Nonperforming	—	—	181	108	479	19,239	—	20,007
Total mortgage loans:	24,623	19,722	23,484	15,929	15,068	530,421	—	629,247
Mortgage loans:								
2023 gross charge-offs	—	4	—	—	—	755	—	759
Consumer loans:								
Personal loans:								
Payment performance:								
Performing	270,883	186,612	68,133	19,185	14,460	6,330	—	565,603
Nonperforming	503	1,588	304	193	66	101	—	2,755
Total personal loans	271,386	188,200	68,437	19,378	14,526	6,431	—	568,358
Personal loans:								
2023 gross charge-offs	1,748	10,512	4,661	830	1,384	731	—	19,866
Credit lines:								
Payment performance:								
Performing	—	—	—	—	—	—	10,891	10,891
Nonperforming	—	—	—	—	—	—	35	35
Total credit lines	—	—	—	—	—	—	10,926	10,926
Credit lines:								
2023 gross charge-offs	—	—	—	—	—	—	419	419
Credit cards:								
Payment performance:								
Performing	—	—	—	—	—	—	39,728	39,728
Nonperforming	—	—	—	—	—	—	586	586
Total credit cards	—	—	—	—	—	—	40,314	40,314
Credit cards:								
2023 gross charge-offs	—	—	—	—	—	—	2,825	2,825
Overdrafts:								
Payment performance:								
Performing	—	—	—	—	—	—	296	296
Nonperforming	—	—	—	—	—	—	—	—
Total overdrafts	—	—	—	—	—	—	296	296
Overdrafts:								
2023 gross charge-offs	—	—	—	—	—	—	545	545
Total consumer loans	271,386	188,200	68,437	19,378	14,526	6,431	51,536	619,894
Total consumer loans 2023 gross charge-offs	1,748	10,512	4,661	830	1,384	731	3,789	23,655
Total mortgage and consumer loans	**$296,009**	**$207,922**	**$ 91,921**	**$ 35,307**	**$ 29,594**	**$536,852**	**$ 51,536**	**$1,249,141**
Total mortgage and consumer loans 2023 gross charge-offs	**$ 1,748**	**$ 10,516**	**$ 4,661**	**$ 830**	**$ 1,384**	**$ 1,486**	**$ 3,789**	**$ 24,414**

The following table presents the amortized cost in mortgage and consumer loans held for investment based on payment activity as of December 31, 2022:

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2022	2021	2020	2019	2018	Prior		
	(In thousands)							
Mortgage loans:								
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 loans:								
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**

At December 31, 2023 and 2022, there were no mortgage and consumer revolving loans that converted to term loans.

OFG evaluates credit quality for auto loans based on FICO score. The following table presents the amortized cost in auto loans held for investment based on their most recent FICO score as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	2020	2019	Prior	Total
	(In thousands)						
Auto loans:							
FICO score:							
1-660	170,639	190,743	118,821	57,087	41,124	38,570	616,984
661-699	169,430	110,260	58,166	25,886	18,253	16,137	398,132
700+	474,005	323,514	183,286	103,886	88,929	58,779	1,232,399
No FICO	6,203	6,537	4,592	2,200	3,886	1,597	25,015
Total auto loans	**$ 820,277**	**$ 631,054**	**$ 364,865**	**$ 189,059**	**$ 152,192**	**$115,083**	**$ 2,272,530**
Auto loans:							
2023 gross charge-offs	**$ 4,090**	**$ 18,142**	**$ 10,894**	**$ 4,008**	**$ 3,380**	**$ 3,250**	**$ 43,764**

The following table presents the amortized cost in auto loans held for investment based on their most recent FICO score as of December 31, 2022:

	Term Loans Amortized Cost Basis by Origination Year						
	2022	2021	2020	2019	2018	Prior	Total
	(In thousands)						
Auto loans:							
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	**$ 733,760**	**$ 479,581**	**$ 263,060**	**$ 230,492**	**$ 157,044**	**$ 94,320**	**$ 1,958,257**

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 preceding two tables.

As of December 31, 2023 and 2022, accrued interest receivable on loans totaled $63.5 million and $58.1 million, respectively, and is included in the accrued interest receivable line in OFG’s consolidated statements of financial condition. Refer to “Note 12 – Accrued Interest Receivable and Other Assets” for more information on accrued interest receivable on loans.

NOTE 6 – ALLOWANCE FOR CREDIT LOSSES

OFG measures its ACL 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 weight 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 ACL, see "Note 1 – Summary of Significant Accounting Policies".

At December 31, 2023, 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 uses a higher probability level in the moderate recessionary scenario. In addition, the ACL at December 31, 2023 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 auto loan portfolio credit trends and the evolution of risk ratings applied to the commercial loans and collateral changes in real estate 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.

As of December 31, 2023, the allowance for credit losses increased by $8.4 million when compared to December 31, 2022. The provision for credit losses for 2023 reflected a provision of $42.6 million related to the growth in loan balances, a provision of $13.1 million related to commercial-specific loan reserves, mainly in the US commercial loan portfolio, and $4.8 million associated with qualitative adjustments mostly to the auto loan and US commercial loan portfolios.

The net charge-offs for 2023, amounted to $51.8 million, an increase of $24.2 million when compared to 2022. The increase is mainly due to increases of $8.0 million in consumer loans, $7.0 million in auto loans, $6.0 million in commercial loans and $3.2 million in mortgage loans. During 2023, OFG charged-off $10.5 million of US commercial loans and $906 thousand for a small portfolio of non-performing small business commercial loans that were transferred to the held for sale category and sold subsequently; partially offset by a recovery of $3.7 million from the sale of older, previously fully charged-off auto and consumer loans.

The following tables present the activity in OFG's allowance for credit losses by segment for 2023, 2022 and 2021:

	Year Ended December 31, 2023				
	Commercial	Mortgage	Consumer	Auto	Total
			(In thousands)		
Non-PCD:					
Balance at beginning of year	$ 39,158	$ 9,571	$ 23,264	$ 69,848	$ 141,841
Provision for (recapture of) credit losses	18,200	(2,031)	23,302	22,294	61,765
Charge-offs	(14,191)	(759)	(23,655)	(43,764)	(82,369)
Recoveries	874	1,217	4,175	25,107	31,373
Balance at end of year	**$ 44,041**	**$ 7,998**	**$ 27,086**	**$ 73,485**	**$ 152,610**
PCD:					
Balance at beginning of year	$ 1,388	$ 9,359	$ 14	$ 71	$ 10,832
Provision for (recapture of) credit losses	901	(2,389)	518	(518)	(1,488)
Charge-offs	(2,794)	(317)	(621)	(170)	(3,902)
Recoveries	1,618	698	96	642	3,054
Balance at end of year	**$ 1,113**	**$ 7,351**	**$ 7**	**$ 25**	**$ 8,496**
Total allowance for credit losses at end of year	**$ 45,154**	**$ 15,349**	**$ 27,093**	**$ 73,510**	**$ 161,106**

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	Year Ended December 31, 2022				
	Commercial	Mortgage	Consumer	Auto	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 of) provision for 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 $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	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 ACL by $20.4 million.

NOTE 7 — FORECLOSED REAL ESTATE

The following table presents the activity related to foreclosed real estate for 2023, 2022 and 2021:

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Balance at beginning of year	**$ 11,214**	**$ 15,039**	**$ 11,596**
Additions	10,216	7,872	18,221
Sales	(13,880)	(16,855)	(14,758)
Decline in value	(1,152)	(1,256)	(1,450)
Other adjustments	4,382	6,414	1,430
Balance at end of year	**$ 10,780**	**$ 11,214**	**$ 15,039**

NOTE 8 — PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2023 and 2022 are stated at cost less accumulated depreciation and amortization as follows:

	Useful Life (Years)	December 31,	
		2023	2022
		(In thousands)	
Land	—	$ 4,031	$ 4,031
Buildings and improvements	20 — 40	76,542	74,349
Leasehold improvements	1 — 10	19,145	17,901
Furniture and fixtures	3 — 10	21,377	23,460
Information technology and other	3 — 7	58,898	59,130
		179,993	178,871
Less: accumulated depreciation and amortization		(75,891)	(72,051)
		$ 104,102	**$ 106,820**

Depreciation and amortization of premises and equipment totaled $20.4 million, $15.8 million and $14.1 million for 2023, 2022 and 2021, respectively. These are included in the consolidated statements of operations as part of occupancy and equipment expenses.

NOTE 9 - 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.

At December 31, 2023, the fair value of mortgage servicing rights was $49.5 million ($50.9 million — December 31, 2022).

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The following table presents the changes in servicing rights measured using the fair value method for 2023, 2022 and 2021:

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Fair value at beginning of year	**$ 50,921**	**$ 48,973**	**$ 47,295**
Servicing from mortgage securitization or asset transfers	2,560	3,998	6,089
Changes due to payments on loans	(4,163)	(5,312)	(6,738)
Changes in fair value due to changes in valuation model inputs or assumptions	202	3,262	2,327
Fair value at end of year	**$ 49,520**	**$ 50,921**	**$ 48,973**

The following table presents key economic assumption ranges used in measuring the mortgage-related servicing asset fair value as of December 31, 2023, 2022 and 2021:

	Year Ended December 31,		
	2023	2022	2021
Constant prepayment rate	1.35% - 17.34%	3.43% - 21.20%	3.90% - 24.48%
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,	
	2023	2022
	(In thousands)	
Mortgage-related servicing asset		
Carrying value of mortgage servicing asset	$ 49,520	50,921
Weighted average life (in years)	7.3	7.8
Constant prepayment rate		
Decrease in fair value due to 10% adverse change	$ (928)	$ (956)
Decrease in fair value due to 20% adverse change	$ (1,821)	$ (1,880)
Discount rate		
Decrease in fair value due to 10% adverse change	$ (1,999)	$ (2,265)
Decrease in fair value due to 20% adverse change	$ (3,856)	$ (4,356)

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 and included in the mortgage banking activities section in the consolidated statement of operations. Servicing fees on mortgage loans for 2023, 2022 and 2021 totaled $19.0 million, $20.3 million and $21.4 million , respectively.

NOTE 10 — DERIVATIVES

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

As of December 31, 2022, the notional amount of derivative contracts outstanding was $26.6 million with a gross fair value of $406 thousand, which was included in other assets in the consolidated statement of financial condition. The gross fair value of derivatives liabilities was zero at December 31, 2022. The impact of master netting agreements was not material. As of December 31, 2023, there were no derivative contracts outstanding.

NOTE 11 — GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill attributable to operating segments are reflected in the table below. Goodwill by reportable business segment is included in the table below. Refer to "Note 29 – OFG Bancorp (Holding Company Only) Financial Information" 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**
December 31, 2023	**$ 84,063**	**$ 178**	**$ —**	**$ 84,241**

There were no changes in the carrying amount of goodwill as of December 31, 2023 and 2022. There were no accumulated impairment losses during 2023, 2022 and 2021.

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 2023 using October 31, 2023 as the annual evaluation date and concluded that there was no impairment at December 31, 2023.

The following table reflects the components of other intangible assets subject to amortization at December 31, 2023 and 2022:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
		(In thousands)	
December 31, 2023			
Core deposit intangibles	$ 41,507	$ 25,659	$ 15,848
Customer relationship intangibles	12,693	7,847	4,846
Total other intangible assets	**$ 54,200**	**$ 33,506**	**$ 20,694**
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**

In connection with previous acquisitions, OFG recorded core deposit intangibles representing the value of checking and savings deposits acquired. In addition, OFG recorded customer relationship intangibles representing the value of customer relationships acquired with the acquisitions of insurance agencies. During 2023 and 2022, OFG performed an assessment of events or circumstances that could trigger reductions in the book value of other intangible assets. Based on this assessment, no impairments were identified at December 31, 2023 and 2022.

Other intangible assets have a definite useful life. Amortization of other intangible assets for the years ended December 31, 2023, 2022 and 2021, was $6.9 million, $8.5 million and $9.8 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)
2024	5,913
2025	4,927
2026	3,942
2027	2,956
2028	1,971
Thereafter	985

NOTE 12 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at December 31, 2023 and 2022 consists of the following:

	December 31,	
	2023	2022
	(In thousands)	
Loans	$ 63,526	$ 58,144
Investments	7,874	4,258
	$ 71,400	**$ 62,402**

Accrued interest receivable on loans that participated in the Hurricane Fiona and Covid-19 deferral programs amounted to $20.2 million at December 31, 2023, of which $18.2 million corresponded to loans in current status. 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 corresponded 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, 2023 and 2022, the ACL for accrued interest receivable for loans that participated in moratorium programs amounted to $85 thousand and $144 thousand, respectively, and is included in accrued interest receivable in the statement of financial condition.

Other assets at December 31, 2023 and 2022 consist of the following:

	December 31,	
	2023	2022
	(In thousands)	
Prepaid expenses	$ 63,040	$ 54,875
Other repossessed assets	4,032	4,617
Accounts receivable and other assets	47,859	61,420
	$ 114,931	**$ 120,912**

Prepaid expenses amounting to $63.0 million at December 31, 2023, include prepaid municipal, property and income taxes aggregating to $54.7 million. At December 31, 2022 prepaid expenses amounted to $54.9 million, including prepaid municipal, property and income taxes aggregating to $47.2 million.

Other repossessed assets totaled $4.0 million and $4.6 million at December 31, 2023 and 2022, respectively, and consist of repossessed automobiles, which are recorded at their net realizable value.

NOTE 13— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of December 31, 2023 and 2022 consist of the following:

	December 31,	
	2023	2022
	(In thousands)	
Non-interest-bearing demand deposits	$ 2,537,431	$ 2,630,458
Interest-bearing savings and demand deposits	5,601,099	4,774,265
Retail certificates of deposit	1,083,316	979,545
Institutional certificates of deposit	378,143	172,725
Total core deposits	**9,599,989**	**8,556,993**
Brokered deposits	162,180	11,371
Total deposits	**$ 9,762,169**	**$ 8,568,364**

At December 31, 2023 and 2022, the aggregate amount of uninsured deposits was $4.885 billion (50% of total deposits), and $3.498 billion (41% of total deposits), respectively.

The weighted average interest rate of OFG's deposits was 0.88% and 0.41%, respectively, at December 31, 2023 and 2022.

Interest expense for 2023, 2022 and 2021 was as follows:

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Demand and savings deposits	$ 48,722	$ 24,261	$ 23,713
Certificates of deposit	27,243	7,978	15,301
	$ 75,965	**$ 32,239**	**$ 39,014**

At December 31, 2023 and 2022, time deposits in denominations of $250 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $747.2 million and $384.4 million, respectively.

In December 2023, OFG received a $1.2 billion deposit in an interest-bearing checking account from an existing long-standing Puerto Rico government client who had an inflow of liquidity. At December 31, 2023 and 2022, total public fund deposits from various Puerto Rico government municipalities, agencies and corporations amounted to $1.616 billion and $284.2 million, respectively. These public funds were collateralized with securities and commercial loans amounting to $1.645 billion and $367.3 million at December 31, 2023 and 2022, respectively.

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Excluding accrued interest of approximately $3.0 million and $682 thousand, the scheduled maturities of certificates of deposit at December 31, 2023 and 2022 are as follows:

December 31, 2023

	Year-end amount	Uninsured amount
	(In thousands)	
Within one year:		
Three months or less	$ 457,533	$ 115,392
Over 3 months through 6 months	195,902	61,245
Over 6 months through 1 year	329,758	113,524
	983,193	**290,161**
Over 1 through 2 years	467,348	201,478
Over 2 through 3 years	94,450	13,971
Over 3 through 4 years	29,514	1,379
Over 4 through 5 years	45,575	4,665
Over 5 years	608	—
	$ 1,620,688	**$ 511,654**

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**

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 $564 thousand and $495 thousand as of December 31, 2023 and 2022, respectively.

NOTE 14— 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, 2023 and 2022, these advances were secured by mortgage and commercial loans amounting to $1.0 billion and $951.1 million, respectively. Also, at December 31, 2023 and 2022, OFG had an additional borrowing capacity with the FHLB of $446.0 million and $628.1 million, respectively. At December 31, 2023 and 2022, the weighted average remaining maturity of FHLB advances was 1.2 years and 3 days, respectively. The original terms of the outstanding long-term advances at December 31, 2023 is 2 years.

The following table shows a summary of the advances and their terms, excluding accrued interest in the amount of $768 thousand and $103 thousand at December 31, 2023 and 2022, respectively:

	December 31,	
	2023	2022
	(In thousands)	
Short-term fixed-rate advances from FHLB, with a weighted average interest rate of 4.46%	$ —	$ 26,613
Long-term fixed-rate advance from FHLB, with a weighted average interest rate of 4.52%	200,000	—
	$ 200,000	**$ 26,613**

Advances from FHLB mature as follows:

	December 31,	
	2023	2022
	(In thousands)	
Under 90 days	$ —	$ 26,613
Over one to three years	200,000	—
	$ 200,000	**$ 26,613**

NOTE 15 — EMPLOYEE BENEFIT PLANS

OFG offers three profit-sharing plans, participation is according to the employment region; Puerto Rico, the United States mainland (the "US") and the USVI (collectively, the "Plans"). The Puerto Rico employee plan contains 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"). Under this plan, participants were permitted to contribute up to $20,000 in 2023.

The US and USVI profit-sharing plans provide a cash or deferred arrangement qualified under Sections 401(a) and 401(k) of the United States Internal Revenue Code of 1986, as amended (the "US Code"). Under these plans, participants were permitted to contribute up to $22,500 in 2023.

The Plans are subject to the provisions of Title I of the Employee Retirement Income Security Act of 1976, as amended ("ERISA") and cover all full-time employees of OFG who are 21 or older, and at least have three months of employment. OFG's matching contribution is 50 cents for each dollar contributed by an employee, up to 8% of such employee's base salary. Each Plan is invested in accordance with the employee's decision among the available investment alternatives provided by the Plans. The Plans are entitled to acquire and hold qualifying employer securities as part of their investment of the trust assets pursuant to ERISA Section 407. OFG's contribution becomes 100% vested once the employee completes three years of service. During 2023, 2022 and 2021, OFG contributed $2.7 million, $2.4 million and $2.3 million, respectively, in cash to the Plans.

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 are generally 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 16 — 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 2023, 2022, and 2021 was as follows:

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Balance at the beginning of year	$ 32,792	$ 25,915	$ 21,112
New loans and disbursements	507	9,706	8,233
Repayments	(5,816)	(2,829)	(3,430)
Balance at the end of year	**$ 27,483**	**$ 32,792**	**$ 25,915**

OFG also hired professional services amounting to $3.3 million, $4.3 million and $5.0 million for 2023, 2022, and 2021, 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, 2023 and 2022, OFG's investment in the partnership amounted to $2.5 million and $2.4 million, respectively.

NOTE 17 — 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 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 ceased 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 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 2023, 2022, and 2021 were as follows:

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Current income tax expense	$ 16,027	$ 16,740	$ 4,836
Deferred income tax expense	67,349	61,126	63,616
Total income tax expense	**$ 83,376**	**$ 77,866**	**$ 68,452**

In relation to the exempt income level, the Bank's investment securities portfolio and loans portfolio generated net tax-exempt interest income of $28.6 million, $26.3 million and $14.4 million during 2023, 2022, and 2021, respectively. OIB generated exempt income of $3.9 million, $4.4 million and $9.5 million for 2023, 2022, and 2021, respectively.

OFG maintained an effective tax rate lower than statutory rate for 2023, mainly related to exempt investments, doing business through OFG's subsidiaries that are fully exempt or have a lower statutory tax rate, and changes in the valuation allowance of OFG.

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,					
	2023		2022		2021	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)					
Income tax expense at statutory rates	$ 99,468	37.50 %	$ 91,539	37.50 %	$ 80,476	37.50 %
Tax of exempt income, net	(12,201)	-4.60 %	(11,523)	-4.72 %	(9,489)	-4.42 %
Disallowed net operating loss carryover	(350)	-0.13 %	(267)	(0.11) %	(179)	(0.08) %
Change in valuation allowance	(1,554)	-0.59 %	(502)	(0.21) %	803	0.37 %
Unrecognized tax benefits, net	69	0.03 %	69	0.03 %	70	0.03 %
Capital gain at preferential rate	472	0.18 %	(787)	-0.32 %	(3)	— %
Tax rate difference (ordinary vs capital)	(817)	-0.31 %	(247)	-0.10 %	(480)	-0.22 %
Return to provision adjustments	(721)	-0.27 %	(407)	-0.17 %	(933)	-0.43 %
Difference in tax rates due to multiple jurisdictions	(963)	-0.36 %	—	— %	187	0.09 %
Other items, net	(27)	-0.02 %	(9)	— %	(2,000)	-0.94 %
Income tax expense	**$ 83,376**	**31.43 %**	**$ 77,866**	**31.90 %**	**$ 68,452**	**31.90 %**

OFG classifies unrecognized tax benefits in other liabilities. These gross unrecognized tax benefits would affect the effective tax rate if realized. At December 31, 2023, the amount of unrecognized tax benefits was $936 thousand (December 31, 2022 - $867 thousand). OFG had accrued $69 thousand at December 31, 2023 (December 31, 2022 - $69 thousand) for the payment of interest and penalties related to unrecognized tax benefits.

The following table presents a reconciliation of unrecognized tax benefits:

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Balance at beginning of year	$ 867	$ 798	$ 728
Additions for tax positions of prior years	69	69	70
Balance at end of year	**$ 936**	**$ 867**	**$ 798**

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 2023, 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 2019 to 2022, 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 2020 to 2022. 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, 2023, and 2022 were as follows:

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	December 31, 2023	December 31, 2022
	(In thousands)	
Deferred tax assets:		
Allowance for credit losses and other reserves	$ 58,612	$ 57,273
Scotiabank PR discount	463	1,453
Loans and other real estate valuation adjustment	1,905	2,313
Deferred loan charge-offs	16,147	72,376
Net operating loss carry forwards	6,548	9,022
Alternative minimum tax	13,553	14,467
Unrealized net loss on available-for-sale securities	11,525	16,422
Goodwill	3,542	10,252
Acquired portfolio	37,374	45,761
Other assets allowances	1,692	1,538
Other deferred tax assets	16,344	16,570
Total gross deferred tax asset	167,705	247,447
Less: valuation allowance	(7,589)	(9,143)
Net gross deferred tax assets	160,116	238,304
Deferred tax liabilities:		
Acquired loans tax basis	(137,143)	(137,195)
FDIC-assisted Eurobank acquisition, net	(5,481)	(5,760)
Customer deposit and customer relationship intangibles	(4,943)	(7,314)
Building valuation adjustment	(6,104)	(6,540)
Unrealized net gain included in other comprehensive income	—	(152)
Servicing asset	(15,516)	(16,041)
Other deferred tax liabilities	(8,450)	(9,817)
Total gross deferred tax liabilities	(177,637)	(182,819)
Net deferred tax (liability) asset	**$ (17,521)**	**$ 55,485**

The net deferred tax liability shown in the table above at December 31, 2023 is reflected in the consolidated balance sheet as $4.9 million in deferred tax assets, net of a valuation allowance of $7.0 million, and $22.4 million in the deferred tax liabilities, net with a valuation allowance of $569 thousand, reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of OFG. As of December 31, 2022, OFG's net deferred tax asset, net of a valuation allowance of $9.1 million, amounted to $55.5 million. The decrease in valuation allowance of $1.6 million was mainly related to additional taxable income in OFG's operations. OFG has $6.5 million in deferred tax asset related to net operating loss carry forwards ("NOL"), which has a valuation allowance of $6.4 million. The NOL has expiration dates between 2024 and 2032. There is a small portion of NOL of approximately $130 thousand that does not have an expiration date. 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, 2023. 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 18 — 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. OFG and the Bank have elected to exclude accumulated comprehensive income related to both available for sale securities and derivative valuations from Common Equity Tier 1 Capital.

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.

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 ACL (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 is being phased out of CET1 capital over a three-year period.

As of December 31, 2023 and 2022, OFG and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2023 and 2022, 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 BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

OFG's and the Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 were 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, 2023						
Total capital to risk-weighted assets	$ 1,278,537	**15.37 %**	$ 873,369	**10.50 %**	$ 831,780	**10.00 %**
Tier 1 capital to risk-weighted assets	$ 1,174,205	**14.12 %**	$ 707,013	**8.50 %**	$ 665,424	**8.00 %**
Common equity tier 1 capital to risk-weighted assets	$ 1,174,205	**14.12 %**	$ 582,246	**7.00 %**	$ 540,657	**6.50 %**
Tier 1 capital to average total assets	$ 1,174,205	**11.03 %**	$ 425,911	**4.00 %**	$ 532,389	**5.00 %**
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 %**

	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, 2023						
Total capital to risk-weighted assets	$ 1,179,164	**14.27 %**	$ 867,797	**10.50 %**	$ 826,474	**10.00 %**
Tier 1 capital to risk-weighted assets	$ 1,075,487	**13.01 %**	$ 702,503	**8.50 %**	$ 661,179	**8.00 %**
Common equity tier 1 capital to risk-weighted assets	$ 1,075,487	**13.01 %**	$ 578,532	**7.00 %**	$ 537,208	**6.50 %**
Tier 1 capital to average total assets	$ 1,075,487	**10.20 %**	$ 421,660	**4.00 %**	$ 527,075	**5.00 %**
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 %**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 19 – 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 2023, 2022, and 2021 is set forth below:

	Year Ended December 31,					
	2023		2022		2021	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Beginning of year	234,950	$ 16.38	338,494	$ 15.76	481,444	$ 15.10
Options exercised	(218,350)	16.34	(103,544)	14.34	(140,850)	13.51
Options forfeited	—	—	—	—	(2,100)	16.55
End of year	**16,600**	**$ 16.92**	**234,950**	**$ 16.38**	**338,494**	**$ 15.76**

The following table summarizes the range of exercise prices and the weighted average remaining contractual life of the options outstanding at December 31, 2023:

	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	6,400	16.10	0.2	6,400	16.10
16.91 to 19.71	10,200	17.44	1.2	10,200	17.44
	16,600	**$ 16.92**	**0.8**	**16,600**	**$ 16.92**
Aggregate Intrinsic Value	**$ 341,240**			**$ 341,240**	

There were no options granted during 2023, 2022 and 2021. 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 2023, 2022 and 2021:

	Year Ended December 31,					
	2023		2022		2021	
	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	408,832	$ 22.27	511,740	$ 19.35	529,770	$ 15.58
Restricted units granted	204,048	27.84	178,281	27.89	205,440	18.76
Restricted units lapsed	(181,692)	20.85	(277,866)	17.08	(218,188)	13.85
Restricted units forfeited	(20,191)	25.18	(3,323)	22.89	(5,282)	19.38
End of year	**410,997**	**$ 25.43**	**408,832**	**$ 22.27**	**511,740**	**$ 19.35**

The total unrecognized compensation cost related to non-vested restricted units to members of management at December 31, 2023 was $5.8 million and is expected to be recognized over a weighted-average period of 1.7 years.

NOTE 20 – STOCKHOLDERS' EQUITY

Common Stock

At both December 31, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, the Bank's legal surplus amounted to $151.0 million and $133.9 million, respectively. During 2023, OFG transferred $17.1 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 for the purchase of up to $100 million of its outstanding shares of common stock. The shares of common stock repurchased are held by OFG as treasury shares. During 2023, OFG repurchased 743,699 shares for a total of $18.7 million at an average price of $25.08 per share. 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 $24.49 per share.

At December 31, 2023, the number of shares that may yet be purchased under the $100 million program is estimated at 459,898 and was calculated by dividing the remaining balance of $17.2 million by $37.48 (closing price of OFG's common stock at December 31, 2023).

OFG did not repurchase any shares of its common stock during the 2023, 2022 and 2021, other than through its publicly announced stock repurchase program.

The activity in connection with common shares held in treasury by OFG for 2023, 2022 and 2021 is set forth below:

	Year Ended December 31,					
	2023		2022		2021	
	Shares	Dollar Amount	Shares	Dollar Amount	Shares	Dollar Amount
	(In thousands, except shares data)					
Beginning of year	12,303,859	$ 211,135	10,248,882	$ 150,572	8,498,163	$ 102,949
Common shares used upon lapse of restricted stock units and options	(227,480)	(1,438)	(296,891)	(3,547)	(301,710)	(2,249)
Common shares repurchased as part of the stock repurchase programs	743,699	18,653	2,351,868	64,110	2,052,429	49,872
End of year	**12,820,078**	**$ 228,350**	**12,303,859**	**$ 211,135**	**10,248,882**	**$ 150,572**

NOTE 21 - ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss, net of income taxes, as of December 31, 2023 and 2022 consisted of:

	December 31,	
	2023	2022
	(In thousands)	
Unrealized loss on securities available-for-sale	$ (78,497)	$ (110,036)
Income tax effect of unrealized loss on securities available-for-sale	11,484	16,373
Net unrealized loss on securities available-for-sale	(67,013)	(93,663)
Unrealized gain on cash flow hedges	—	406
Income tax effect of unrealized gain on cash flow hedges	—	(152)
Net unrealized gain on cash flow hedges	—	254
Accumulated other comprehensive loss, net of income taxes	**$ (67,013)**	**$ (93,409)**

The following table presents changes in accumulated other comprehensive loss by component, net of taxes, 2023, 2022 and 2021:

	Year Ended December 31, 2023		
	Net unrealized loss on securities available-for-sale	Net unrealized gain on cash flow hedges	Accumulated other comprehensive loss
	(In thousands)		
Beginning balance	$ (93,663)	$ 254	$ (93,409)
Other comprehensive income (loss) before reclassifications	27,792	(5,647)	22,145
Amounts reclassified out of accumulated other comprehensive loss	(1,142)	5,393	4,251
Other comprehensive income (loss)	26,650	(254)	26,396
Ending balance	**$ (67,013)**	**$ —**	**$ (67,013)**

	Year Ended December 31, 2022		
	Net unrealized loss on securities available-for-sale	Net unrealized gain on cash flow hedges	Accumulated other comprehensive loss
	(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 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 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**

The following table presents reclassifications out of accumulated other comprehensive loss for 2023, 2022 and 2021:

	Amount reclassified out of accumulated other comprehensive loss Year Ended December 31,			Affected Line Item in Consolidated Statement of Operations
	2023	2022	2021	
		(In thousands)		
Cash flow hedges:				
Interest-rate contracts	$ 5,393	$ 733	$ 1,641	Net interest expense
Available-for-sale securities:				
(Loss) gain on sale of investments	(1,149)	(247)	19	Net (loss) gain on sale of securities
Tax effect from changes in tax rates	7	8	6	Income tax expense
	$ 4,251	**$ 494**	**$ 1,666**	

NOTE 22 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for 2023, 2022 and 2021 is as follows:

	Year Ended December 31,		
	2023	2022	2021
	(In thousands, except per share data)		
Net income	$ 181,872	$ 166,239	$ 146,151
Less: Dividends on preferred stock			
Non-convertible preferred stock (Series A, B, and D)	—	—	(1,255)
Income available to common shareholders	**$ 181,872**	**$ 166,239**	**$ 144,896**
Average common shares outstanding	47,258	48,033	50,956
Effect of dilutive securities:			
Average potential common shares-options	294	403	414
Total weighted average common shares outstanding and equivalents	**47,552**	**48,436**	**51,370**
Earnings per common share - basic	**$ 3.85**	**$ 3.46**	**$ 2.85**
Earnings per common share - diluted	**$ 3.83**	**$ 3.44**	**$ 2.81**

For 2023, 2022 and 2021 weighted-average restricted stock units with an anti-dilutive effect on earnings per share not included in the calculation amounted to 8,695, 1,279 and 3,175, respectively.

During 2023, OFG increased its quarterly common stock cash dividend to $0.22 per share from $0.20 per share at December 31, 2022.

NOTE 23 – GUARANTEES

At December 31, 2023 and 2022, the notional amount of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $24.0 million and $24.7 million, respectively.

OFG has a liability for residential mortgage loans sold subject to credit recourse pursuant to FHLMC's, GNMA's, and FNMA's residential mortgage loan sales and securitization programs. At December 31, 2023 and 2022, the unpaid principal balance of residential mortgage loans sold subject to credit recourse under the residential mortgage loan sales programs was $98.7 million and $110.9 million, respectively. 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. At December 31, 2023, OFG's liability for estimated credit losses related to loans sold with credit recourse amounted to $102 thousand (December 31, 2022– $147 thousand). On May 1, 2023, OFG and a third-party servicer terminated a subservicing agreement by mutual agreement. Pursuant to such termination, the third-party servicer assumed the direct servicing of the subserviced loans pursuant to FNMA's residential mortgage loans sales program, thereby relieving OFG of its corresponding recourse obligation under that program.

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 2023, 2022 and 2021:

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Balance at beginning of year	$ 147	$ 294	$ 218
Net recoveries (charge-offs/terminations)	(45)	(147)	76
Balance at end of year	**$ 102**	**$ 147**	**$ 294**

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 2023, 2022 and 2021, OFG repurchased $1.2 million, $1.5 million and $3.1 million, 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.

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 2023, OFG repurchased $9.6 million (December 31, 2022 –$24.2 million) of unpaid principal balance in mortgage loans, excluding mortgage loans subject to such credit recourse provision. At December 31, 2023 and 2022, OFG had a $405 thousand and a $1.4 million liability, respectively, for the estimated credit losses related to these loans.

During 2023, 2022 and 2021, OFG recognized $220 thousand and $148 thousand in gains and $157 thousand in losses, respectively, from the repurchase of residential mortgage loans sold subject to credit recourse, and $678 thousand in gains, $281 thousand and $4.3 million in losses, respectively, from the repurchase of residential mortgage loans as a result of breaches of customary representations and warranties.

At December 31, 2023, OFG serviced $5.6 billion (December 31, 2022 - $5.8 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 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 guarantee 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, 2023, the outstanding balance of funds advanced by OFG under such mortgage loan servicing agreements was approximately $4.2 million (December 31, 2022 - $7.8 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 24— 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, 2023 and 2022 were as follows:

	December 31,	
	2023	2022
	(In thousands)	
Commitments to extend credit	$ 1,255,695	$ 1,403,118
Commercial letters of credit	119	1,082

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, 2023 and 2022, 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, 2023 and 2022, is as follows:

	December 31,	
	2023	2022
	(In thousands)	
Standby letters of credit and financial guarantees	$ 23,970	$ 24,749
Loans sold with recourse	98,685	110,891

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, 2023 and 2022, the ACL for off-balance sheet credit exposures corresponding to commitments to extend credit and standby letters of credit amounted to $1.2 million and $734 thousand, respectively, and is included in other liabilities in the statement of financial condition.

At December 31, 2023 and 2022, OFG maintained other non-credit commitments amounting to $18.9 million and $21.5 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 require 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, 2023 and 2022, OFG had commitments for capital expenditures in technology amounting to $7.8 million and $8.6 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, 2023 and 2022, this accrued liability amounted to $817 thousand and $2.4 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 25— 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
	2023	**2022**	**2021**	
	(In thousands)			
Lease costs	$ 10,414	$ 10,467	$ 11,417	Occupancy and equipment
Variable lease costs	1,452	1,529	1,881	Occupancy and equipment
Short-term lease costs	529	565	859	Occupancy and equipment
Lease income	(123)	(226)	(442)	Occupancy and equipment
Total lease costs	$ 12,272	$ 12,335	$ 13,715	

Operating Lease Assets and Liabilities

	December 31,		Statement of Financial Condition Classification
	2023	2022	
	(In thousands)		
Right-of-use assets	$ 21,725	$ 25,363	Operating lease right-of-use assets
Lease Liabilities	$ 24,029	$ 27,370	Operating leases liabilities

	December 31,	
	2023	2022
	(In thousands)	
Weighted-average remaining lease term	5.1 years	5.1 years
Weighted-average discount rate	7.0 %	6.8 %

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2023 were as follows:

As of December 31, 2023	Minimum Rent (In thousands)
2024	$ 8,298
2025	6,122
2026	4,019
2027	3,180
2028	2,383
Thereafter	5,150
Total lease payments	**$ 29,152**
Less imputed interest	5,123
Present value of lease liabilities	**$ 24,029**

OFG, as lessor, leases and subleases real property to tenants under operating leases. As of December 31, 2023, no material lease concessions have been granted to tenants. As of December 31, 2023, OFG, as lessee, has not requested any lease concessions.

NOTE 26 - FAIR VALUE OF FINANCIAL INSTRUMENTS

OFG follows the fair value measurement framework under GAAP.

Fair Value Measurement

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

Money market investments

The fair value of money market investments is based on the carrying amounts reflected in the 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"). 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. At December 31, 2022, OFG held one security categorized as other debt that was classified as Level 3. The estimated fair value of this security was determined by using an adjusted third-party model to calculate the present value of projected future cash flows. The assumptions were highly uncertain and included primarily market discount rates and current spread. The assumptions used were drawn from similar securities that were actively traded in the market and have similar risk characteristics. The valuation was performed on a quarterly basis. At December 31, 2023 there was one security held-to-maturity, carried at amortized cost with no ACL established, classified as Level 3.

Derivative instruments

The fair value of the interest rate swaps was largely a function of the financial market's expectations regarding the future direction of interest rates. Accordingly, current market values were not necessarily indicative of the future impact of derivative instruments on earnings. This depended, 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 was based on observable market parameters, which included 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 accounted for the industry sector and the credit rating of the counterparty and/or OFG. Certain other derivative instruments with limited market activity were valued using externally developed models that considered unobservable market parameters. Based on their valuation methodology, derivative instruments were classified as Level 2. At December 31, 2023 there were no derivative instruments outstanding.

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 are 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, 2023			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ 296,799	$ 1,802,465	$ —	$ 2,099,264
Trading securities	—	13	—	13
Money market investments	4,623	—	—	4,623
Servicing assets	—	—	49,520	49,520
	$ 301,422	**$ 1,802,478**	**$ 49,520**	**$ 2,153,420**
Non-recurring fair value measurements:				
Collateral dependent loans	$ —	$ —	$ 8,027	$ 8,027
Foreclosed real estate	—	—	10,780	10,780
Other repossessed assets	—	—	4,032	4,032
Other loans held for sale	$ —	$ —	28,345	28,345
	$ —	**$ —**	**$ 51,184**	**$ 51,184**

	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**

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 2023 and 2022, 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 2023, 2022 and 2021:

Level 3 Instruments Only

	Year Ended December 31,								
	2023			2022			2021		
	Other debt securities available for sale	Servicing Assets	Total	Other debt securities available for sale	Servicing Assets	Total	Other debt securities available for sale	Servicing Assets	Total
	(In thousands)								
Balance at beginning year	$ 406	$ 50,921	$ 51,327	$ 1,530	$ 48,973	$ 50,503	—	$ 47,295	$ 47,295
New instruments acquired	—	2,560	2,560	376	3,998	4,374	—	6,089	6,089
Transfer from Level 2	—	—	—	—	—	—	1,500	—	1,500
Principal repayments and amortization	—	(4,163)	(4,163)	—	(5,312)	(5,312)	—	(6,738)	(6,738)
Instrument converted to equity security	(406)	—	(406)	(1,581)	—	(1,581)	—	—	—
Gains included in earnings	—	202	202	—	3,262	3,262	—	2,327	2,327
Gains included in other comprehensive income	—	—	—	81	—	81	30	—	**$ 30**
Balance at end of year	**$ —**	**$ 49,520**	**$ 49,520**	**$ 406**	**$ 50,921**	**$ 51,327**	**$ 1,530**	**$ 48,973**	**$ 50,503**

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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.

Servicing assets gains included in earnings during 2023, 2022 and 2021 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 9 – Servicing Assets.

During 2023, 2022 and 2021, 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, 2023 and 2022:

	December 31, 2023				
	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
	(In thousands)				
Servicing assets	$ 49,520	Cash flow valuation	Constant prepayment rate	1.35% - 17.34%	6.12 %
			Discount rate	10.00% - 15.50%	11.45 %
Collateral dependent loans	$ 8,027	Fair value of property or collateral	Appraised value less disposition costs	10.20% - 33.20%	17.00 %
Foreclosed real estate	$ 10,780	Fair value of property or collateral	Appraised value less disposition costs	10.20% - 33.20%	12.67 %
Other repossessed assets	$ 4,032	Fair value of property or collateral	Estimated net realizable value less disposition costs	31.00% - 77.00%	57.72 %
Other loans held for sale	$ 28,345	Bids or sales contract prices	Estimated market value	52.00% - 103.20%	84.80 %

	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%

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 at December 31, 2022 was a DFC methodology. DFC is a valuation method that uses the concept of the time value of money. The methodology used the future cash flows discounted through a yield to obtain a net present value. Assumptions applied in the model were 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 include 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, 2023 and 2022 was as follows:

	December 31,			
	2023		2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Financial Assets:				
Level 1				
Cash and cash equivalents	$ 748,173	$ 748,173	$ 550,307	$ 550,307
Restricted cash	$ —	$ —	$ 157	$ 157
Investment securities available-for-sale	$ 296,799	$ 296,799	$ 309,133	$ 309,133
Level 2				
Financial Assets:				
Trading securities	$ 13	$ 13	$ 9	$ 9
Investment securities available-for-sale	$ 1,802,465	$ 1,802,465	$ 1,103,237	$ 1,103,237
Investment securities held-to-maturity	$ 455,709	$ 514,024	$ 469,186	$ 535,070
Federal Home Loan Bank (FHLB) stock	$ 14,488	$ 14,488	$ 6,005	$ 6,005
Equity securities	$ 23,981	$ 23,981	$ 17,662	$ 17,662
Derivative assets	$ —	$ —	$ 406	$ 406
Level 3				
Financial Assets:				
Investment securities available for sale	$ —	$ —	$ 406	$ 406
Investment securities held-to-maturity	$ 35,055	$ 35,000	$ —	$ —
Total loans (including loans held-for-sale)	$ 7,282,214	$ 7,401,618	$ 6,467,878	$ 6,723,236
Accrued interest receivable	$ 71,400	$ 71,400	$ 62,402	$ 62,402
Servicing assets	$ 49,520	$ 49,520	$ 50,921	$ 50,921
Accounts receivable and other assets	$ 47,859	$ 47,859	$ 61,014	$ 61,014
Financial Liabilities:				
Deposits	$ 9,767,068	$ 9,762,169	$ 8,556,300	$ 8,568,364
Advances from FHLB	$ 199,184	$ 200,768	$ 26,716	$ 26,716
Other borrowings	$ 2	$ 2	$ 318	$ 318
Accrued expenses and other liabilities	$ 115,985	$ 115,985	$ 124,999	$ 124,999

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2023 and 2022:

- 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. The estimated fair value of the AFICA bond in other debt securities held-to-maturity is determined by using a detailed discounted cash flow valuation model to calculate the present value of projected future cash flows. The credit losses are recorded using the ACL methodology. This involves comparing the amortized cost of the securities with the fair value of the expected future cash flows. Several assumptions requiring a high degree of judgment include the selection of market discount rates, the determination of current credit spread, and the estimation of both the probability of default and loss given default rates. The estimated fair value of the convertible note in other debt securities available-for-sale outstanding at December 31, 2022 was determined by using an adjusted third-party cash flow valuation model to calculate the present value of projected future cash flows. The assumptions used the performance of the collateral underlying each deal. The valuation, which was obtained at least on a quarterly basis, was analyzed and its assumptions were evaluated and incorporated in either an internal-based valuation model, when deemed necessary, or compared to counterparties' prices and agreed by management. Equity securities do not have readily available fair values and are measured at cost, less any impairment.

- 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 outstanding at December 31, 2022, which included interest rate swaps and forward-settlement swaps, were 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 were 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 loan type, such as mortgage, commercial, consumer, auto and leasing. The fair value is calculated by discounting contractual cash flows; this discount rate used considers a capital adjustment as well as other premiums for systemic risk, servicing costs, modeling & uncertainty risk, and impairment uncertainty.

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

- The fair value of long-term borrowings, which include securities sold under agreements to repurchase and advances from FHLB 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 27 – 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 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, securities brokerage services, investment advisory services, insurance, corporate and individual trust and retirement services, as well as retirement plan administration services up to December 31, 2022, when 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 2023, 2022 and 2021:

	Year Ended December 31, 2023					
	Banking	Wealth Management	Treasury	Total	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 567,809	$ 28	$ 95,477	$ 663,314	$ (14,434)	**$ 648,880**
Interest expense	(73,480)	—	(28,964)	(102,444)	14,434	**(88,010)**
Net interest income	494,329	28	66,513	560,870	—	**560,870**
Provision for credit losses	60,255	—	383	60,638	—	**60,638**
Non-interest income, net	97,099	32,433	(1,151)	128,381	—	**128,381**
Non-interest expenses	(344,488)	(15,427)	(3,450)	(363,365)	—	**(363,365)**
Intersegment revenue	1,641	—	—	1,641	(1,641)	**—**
Intersegment expenses	—	(1,011)	(630)	(1,641)	1,641	**—**
Income before income taxes	$ 188,326	$ 16,023	$ 60,899	$ 265,248	$ —	**$ 265,248**
Income tax expense	83,242	34	100	83,376	—	**83,376**
Net income	**$ 105,084**	**$ 15,989**	**$ 60,799**	**$ 181,872**	**$ —**	**$ 181,872**
Total assets	**$ 9,154,201**	**$ 38,261**	**$ 3,304,204**	**$ 12,496,666**	**$ (1,152,213)**	**$ 11,344,453**

Eliminations include interest income and expense for a time deposit opened by the Bank in Oriental Overseas, an international banking entity organized pursuant to the Puerto Rico International Banking Center Regulatory Act, as amended, which operates as a unit within the Bank. The time deposit with a balance of $300.3 million and $470.2 million at December 31, 2023 and 2022, respectively, is included in the Treasury Segment with its corresponding interest expense, to fund Oriental Overseas operations, which is included in the Banking Segment with its corresponding interest income, and are eliminated in the consolidation. Interest income is accrued on the unpaid principal balance. The increase in interest income and interest expense from the prior year was mainly as a result of the FRB federal funds rate increases and higher average balance.

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	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, net	$ 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**

	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, net	$ 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**

NOTE 28 – BANKING AND FINANCIAL SERVICE REVENUES

The following table presents the major categories of banking and financial service revenues for 2023, 2022 and 2021:

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Banking service revenues:			
Electronic banking fees	$ 54,109	$ 54,639	$ 55,968
Checking accounts fees	8,924	8,933	8,593
Savings accounts fees	1,334	1,265	1,141
Credit life commissions	318	724	469
Branch service commissions	1,538	1,456	1,467
Servicing and other loan fees	3,120	3,222	3,256
International fees	720	902	794
Miscellaneous income	15	20	18
Total banking service revenues	**70,078**	**71,161**	**71,706**
Wealth management revenue:			
Insurance income	17,178	15,084	14,647
Broker fees	7,375	6,793	8,213
Trust fees	8,402	10,013	11,303
Retirement plan and administration fees	35	745	881
Total wealth management revenue	**32,990**	**32,635**	**35,044**
Mortgage banking activities:			
Net servicing fees	15,077	18,258	16,818
Net gains on sale of mortgage loans and valuation	2,993	3,786	10,119
Net gain (loss) on repurchased loans and other	717	(115)	(4,429)
Total mortgage banking activities	**18,787**	**21,929**	**22,508**
Total banking and financial service revenues	**$ 121,855**	**$ 125,725**	**$ 129,258**

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

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.

Service charges on checking and saving accounts is recognized as consumer periodic maintenance revenue once the service is rendered, while overdraft and late charges revenues are recorded after 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 generated in the sale of insurance policies issued by unaffiliated insurance companies and sale of annuities are recorded once the sale has been completed. Reinsurance revenue is recorded based on earned premium confirmed by the fronting insurance company. Contingent insurance commissions are recorded once the paying insurance companies confirm the amounts earned.

Broker 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. These generally include payment for trustee services, distribution services, custodial services of plan assets, due diligence services, and investment advisory services. 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 generally collected on an annual or quarterly basis once the administrative service has been completed. Fees do 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. Effective December 31, 2022, OFG sold its retirement plan administration business which was operated under OPC, which thereafter ceased its operations.

Mortgage Banking Activities

Mortgage banking activities such as servicing fees, gain on sale of mortgage loans and valuation, and loss on repurchased loans and other are out of the scope of ASC 606.

NOTE 29 – 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 2023, 2022, and 2021, the Bank paid $45.0 million, $140.0 million and $197.0 million, respectively, in dividends to OFG Bancorp. During 2023, OFG Reinsurance paid $4.0 million in dividends to OFG Bancorp. During 2022, and 2021, Oriental Insurance paid $9.5 million and $11.0 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, 2023 and 2022, and the results of its operations and its cash flows for 2023, 2022 and 2021:

	December 31,	
	2023	2022
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 73,121	$ 82,045
Investment in bank subsidiary, equity method	1,094,581	938,306
Investment in nonbank subsidiaries, equity method	40,145	32,525
Advance to investment dealers	—	6
Deferred tax asset, net	293	924
Due from bank subsidiary, net	56	44
Other assets	371	356
Total assets	**$ 1,208,567**	**$ 1,054,206**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Dividends payable	10,355	9,513
Accrued expenses and other liabilities	4,729	2,287
Due to non-bank subsidiary, net	3	—
Total liabilities	**15,087**	**11,800**
Stockholders' equity	1,193,480	1,042,406
Total liabilities and stockholders' equity	**$ 1,208,567**	**$ 1,054,206**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Income:			
Interest income	$ 3,712	$ 977	$ 55
Investment trading activities, net and other	7,040	6,022	6,765
Total income	**10,752**	**6,999**	**6,820**
Expenses:			
Interest expense	—	521	1,174
Operating expenses	8,230	7,992	8,397
Total expenses	**8,230**	**8,513**	**9,571**
Income (loss) before income taxes	**2,522**	**(1,514)**	**(2,751)**
Income tax expense	3,846	2,782	1,813
Loss before earnings of subsidiaries	**(1,324)**	**(4,296)**	**(4,564)**
Equity in earnings from:			
Bank subsidiary	170,658	162,236	144,089
Nonbank subsidiaries	12,538	8,299	6,626
Net income	**$ 181,872**	**$ 166,239**	**$ 146,151**

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

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Net income	**$ 181,872**	**$ 166,239**	**$ 146,151**
Other comprehensive income (loss) before tax:			
Other comprehensive income (loss) from bank subsidiary	26,396	(98,569)	(5,862)
Other comprehensive income (loss) before taxes	**26,396**	**(98,569)**	**(5,862)**
Income tax effect	—	—	—
Other comprehensive income (loss) after taxes	**26,396**	**(98,569)**	**(5,862)**
Comprehensive income	**$ 208,268**	**$ 67,670**	**$ 140,289**

OFG BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Cash flows from operating activities:			
Net income	$ **181,872**	$ **166,239**	$ **146,151**
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings from banking subsidiary	(170,658)	(162,236)	(144,089)
Equity in earnings from nonbanking subsidiaries	(12,538)	(8,299)	(6,626)
Net decrease in due to non-bank subsidiary, net	3	—	—
Gain on early extinguishment of debt	—	(42)	—
Stock-based compensation	731	652	940
Deferred income tax, net	630	1,703	10
Net decrease (increase) in other assets	1,270	18,829	(13,471)
Net increase (decrease) in accrued expenses and other liabilities	2,149	(488)	950
Dividends from banking subsidiary	45,000	140,000	197,000
Dividends from non-banking subsidiary	4,000	9,500	11,000
Net cash provided by operating activities	**52,459**	**165,858**	**191,865**
Cash flows from investing activities:			
Proceeds from sales of premises and equipment	—	—	240
Capital contribution to non-banking subsidiary	—	—	(9,300)
Additions to premises and equipment	(30)	(233)	(288)
Net cash used in investing activities	**(30)**	**(233)**	**(9,348)**
Cash flows from financing activities:			
Subordinated capital notes	—	(34,958)	—
Exercise of stock options and restricted units lapsed, net	(1,689)	(906)	283
Purchase of treasury stock	(18,653)	(64,110)	(49,872)
Redemption of preferred stock	—	—	(92,000)
Dividends paid	(41,011)	(30,090)	(20,973)
Net cash used in financing activities	**(61,353)**	**(130,064)**	**(162,562)**
Net change in cash and cash equivalents	**(8,924)**	**35,561**	**19,955**
Cash and cash equivalents at beginning of year	82,045	46,484	26,529
Cash and cash equivalents at end of year	$ **73,121**	$ **82,045**	$ **46,484**

NOTE 30 – SUBSEQUENT EVENTS

On January 31, 2024, as part of OFG's capital actions for 2024, the Board of Directors approved the increase of its regular quarterly cash dividend by 13.6%, to $0.25 per common share from $0.22 per share, beginning the quarter ending March 31, 2024. The Board of Directors also approved a new $50.0 million stock repurchase program. The new stock repurchase program, which is open-ended, replaces the prior stock repurchase program, which had been approved by the Board of Directors in January 2022 and had $17.2 million remaining of its $100.0 million repurchase parameters.

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, 2023, 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 2023, that has materially affected, or is reasonably likely to materially affect, OFG's internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

(a) None.

(b) None.

(c) 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, 2013, 2020 and 2023.

The following table shows certain information pertaining to the awards under the Omnibus Plan as of December 31, 2023:

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) 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	427,597 (1)	$ 0.66 (2)	$ 1,685,920
	427,597	**$ 0.66**	**$ 1,685,920**

(1) Includes 16,600 stock options and 410,997 restricted stock units.
(2) Exercise price related to stock options.

OFG recorded $5.0 million, $4.2 million and $6.2 million related to stock-based compensation expense during 2023, 2022 and 2021, 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, 2023 and 2022

Consolidated Statements of Operations for the years ended December 31, 2023, 2022 and 2021

Consolidated Statements of Comprehensive Income for the years ended December 31, 2023, 2022 and 2021

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2023, 2022 and 2021

Consolidated Statements of Cash Flows for the years ended December 31, 2023, 2022 and 2021

Notes to the Consolidated Financial Statements

Financial Statement Schedules

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

ITEM 16. *FORM 10-K SUMMARY*

Not applicable.

Exhibits

Exhibit No.:	Description of Document:
3.1	Composite Certificate of Incorporation. [1]
3.2	Amended and Restated By-Laws.[2]
4.1	Description of Registrant's Securities Registered Under Section 12 of the Securities Exchange Act of 1934, as amended [3]
4.2	Form of Common Stock Certificate [4]
10.1	Amended and Restated Change in Control Compensation Agreement dated as of July 28, 2021 between OFG and José R. Fernández.[5]
10.2	Change in Control Compensation Agreement between OFG and Ganesh Kumar [6]
10.3	Technology Outsourcing Agreement dated as of January 26, 2007, between OFG and Metavante Corporation.[7]
10.4	OFG Bancorp 2007 Omnibus Performance Incentive Plan, as amended and restated[8]
10.5	Form of qualified stock option award and agreement [9]
10.6	Form of restricted stock award and agreement [10]
10.7	Form of restricted unit award and agreement [11]
10.8	Form of performance shares award and agreement [12]
10.9	Employment Agreement dated as of December 21, 2023 between OFG and José R. Fernández [13]
10.10	Amendment, dated as of May 31, 2018, to Technology Outsourcing Agreement between OFG and Metavante Corporation [14]
10.11	Amendment, dated as of November 30, 2020, to Technology Outsourcing Agreement between OFG and FIS.[15]
10.12	OFG Bancorp Nonqualified Deferred Compensation Plan [16]
10.13	OFG Bancorp Nonqualified Deferred Compensation Plan Adoption Agreement[17]
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
97.1	Incentive Compensation Recoupment Policy
101.1	The following materials from OFG's annual report on Form 10-K for the year ended December 31, 2023, 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 3.1 of OFG's annual report on Form 10-K filed with the SEC on February 26, 2021.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

(8) Incorporated herein by reference to Exhibit 4.1 of OFG's registration statement on Form S-8 (File No. 333-276295) filed with the SEC on December 28, 2023.

(9) 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.

(10) 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.

(11) 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.

(12) 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.

(13) Incorporated herein by reference to Exhibit 10.1 of OFG's current report on Form 8-K filed with the SEC on December 22, 2023.

(14) 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.

(15) 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.

(16) Incorporated herein by reference to Exhibit 4.1 of OFG's registration statement on Form S-8 (File No. 333-276296) filed with the SEC on December 28, 2023.

(17) Incorporated herein by reference to Exhibit 4.2 of OFG's registration statement on Form S-8 (File No. 333-276296) filed with the SEC on December 28, 2023.

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 26, 2024
José Rafael Fernández President and Chief Executive Officer	
By: /s/ Maritza Arizmendi Díaz	Dated: February 26, 2024
Maritza Arizmendi Díaz Chief Financial Officer	

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 26, 2024
Julian S. Inclán Chairman of the Board	
By: /s/ José Rafael Fernández	Dated: February 26, 2024
José Rafael Fernández Vice Chairman of the Board	
By: /s/ Jorge Colón Gerena	Dated: February 26, 2024
Jorge Colón Gerena Director	
By: /s/ Annette Franqui	Dated: February 26, 2024
Annette Franqui Director	
By: /s/ Angel Vázquez	Dated: February 26, 2024
Angel Vázquez Director	
By: /s/ Néstor de Jesús	Dated: February 26, 2024
Néstor de Jesús Director	
By: /s/ Susan S. Harnett	Dated: February 26, 2024
Susan S. Harnett Director	
By: /s/ Rafael Vélez	Dated: February 26, 2024
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, 333-84473, 333-276295, and 333-276296) on Form S-8 of our reports dated February 26, 2024, 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 26, 2024

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 26, 2024

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**, 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 26, 2024

By: /s/ Maritza Arizmendi
Maritza Arizmendi
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, 2023, 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 26th day of February 2024.

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, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maritza Arizmendi, 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 26th day of February 2024.

By: /s/ Maritza Arizmendi
Maritza Arizmendi
Chief Financial Officer

COMPENSATION RECOUPMENT POLICY

Oriental

	Policy title:	Compensation Recoupment Policy
OFG-CP-CORP-009	Revision date:	11/2023

Introduction

OFG Bancorp ("OFG") seeks to establish executive compensation practices that promote long-term shareholder interests and best corporate governance practices, as well as comply with applicable laws, rules and regulations. Pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), as codified in Section 10D of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Securities and Exchange Commission (the "SEC") directed national securities exchanges to prohibit the listing of any security of a company that fails to adopt, disclose and enforce a policy in compliance with rules issued by the SEC to implement a mandatory "clawback" policy for incentive-based compensation received by current and former executive officers if the company's financial statements related to the achievement of the relevant incentive payment are later required to be restated. On June 9, 2023, the SEC approved the clawback listing standards proposed by the New York Stock Exchange ("NYSE").

Purpose

The purpose of this Compensation Recoupment Policy ("Policy") is to enable OFG to recover erroneously awarded Incentive Compensation (as defined below) paid to any Executive Officer (as defined below) in the event that OFG is required to prepare an Accounting Restatement (as defined below). This policy is intended to comply with the requirements set forth in Section 10D of Exchange Act and Section 303A.14 of the NYSE Listed Company Manual and shall be construed and interpreted in accordance with such intent.

Applicability

This Policy applies to any Incentive Compensation received by an Executive Officer of OFG during the three (3) completed fiscal years immediately preceding the date on which OFG is required to prepare an Accounting Restatement, including any transition period (that results from a change in OFG's fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year). For purposes of this Policy, "received" shall, with respect to any Incentive Compensation, mean actual or deemed receipt, and Incentive Compensation shall be deemed received in OFG's fiscal period during which the Financial Reporting Measure (as defined below) specified in the Incentive Compensation award is attained, even if the payment or grant of the Incentive Compensation to the Executive Officer occurs after the end of that period.

Revisions

DATE	TYPE	DESCRIPTION/APPROVED BY
01/2013	First Version	Compensation Committee
06/2021	Revision	Compensation Committee
11/2023	Revision	Compensation Committee

Definitions

TERM	DEFINITION
1. Accounting Restatement	An accounting restatement due to the material noncompliance of OFG with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (i.e., a “Big R” restatement), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (i.e., a “little r” restatement).
2. Financial Reporting Measure	Any measure that is determined and presented in accordance with the accounting principles used in preparing OFG’s financial statements, and any measure that is derived wholly or in part from such measure. A Financial Reporting Measure does not have to be presented within OFG’s financial statements or included in a filing with the SEC to qualify as a “Financial Reporting Measure.” It includes, but is not limited to, stock price and total stockholder return (and any measure that is derived wholly or in part from stock price or total stockholder return).
3. Executive Officer	Any person who (i) was or is designated as an OFG “officer” in accordance with Rule 16a-1(f) of the Exchange Act, including OFG’s executive officers designated by resolution of its Board of Directors regardless of whether they continue to be executive officers or employees of OFG, and (ii) served in such capacity at any time during the performance period for the relevant Incentive Compensation.
4. Equity Award	An equity compensation award granted under the OFG 2007 Omnibus Performance Incentive Plan, as amended and restated, or a successor equity incentive plan.
5. Excess Incentive Compensation	With respect to each Executive Officer in connection with an Accounting Restatement, the amount of any Incentive Compensation received that exceeds the amount of Incentive Compensation that otherwise would have been received had it been determined based on the restated amounts, and must be computed without regard to any taxes paid. For Incentive Compensation based on (or derived from) stock price or total stockholder return, where the amount of Excess Incentive Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement: (i) the amount of Excess Incentive Compensation shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total stockholder return upon which the Incentive Compensation was received; and (ii) OFG shall maintain documentation of the determination of that reasonable estimate and provide such documentation to the NYSE.
6. Incentive Compensation	Any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

References

a. Section 303A.14 of the NYSE Listed Company Manual
b. Section 10D of Exchange Act
c. Rule 10D-1 under the Exchange Act

Policy Statement

1. **Excess Incentive Compensation Recoupment Policy**

After OFG is required to prepare an Accounting Restatement, each Executive Officer shall promptly repay or forfeit, and OFG shall endeavor to recover reasonably promptly, all Excess Incentive Compensation. For purposes of this Policy, the date that OFG's is required to prepare an Accounting Restatement means the earlier of: (i) the date the Board of Directors (the "Board"), a Board committee, or the OFG officer or officers authorized to take such action if action by the Board is not required, concludes (or reasonably should have concluded), that OFG is required to prepare an Accounting Restatement; or (ii) the date a court, regulator or other legally authorized body directs OFG to prepare an Accounting Restatement.

Recovery under this Policy with respect to an Executive Officer shall not require the finding of (i) any misconduct by such Executive Officer or (ii) such Executive Officer being found responsible for the accounting error leading to the Accounting Restatement.

The Board's Compensation Committee (the "Committee") shall have discretion to determine the appropriate means of recovering Excess Incentive Compensation based on the particular facts and circumstances. To the extent that an Executive Officer fails to repay all Excess Incentive Compensation when due, OFG shall take all actions reasonable and appropriate to recover such Excess Incentive Compensation from such Executive Officer. These actions may include, without limitation (and as applicable):

- Seek recovery from any amounts realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based Excess Incentive Compensation and the forfeiture of other outstanding Equity Awards;

- Forfeit, reduce or cancel any Excess Incentive Compensation (whether vested or unvested) that has not been distributed or otherwise settled;

- Seek recovery of any Excess Incentive Compensation that was previously paid to the relevant Executive Officer;

- Offset, withhold, eliminate or cause to be forfeited any amount that could be paid or awarded to the Executive Officer after the date that OFG's is required to prepare an Accounting Restatement; and,

- Take any other remedial and recovery action permitted by applicable law, as determined by the Committee.

The applicable Executive Officer shall be required to reimburse OFG for any and all expenses reasonably incurred (including legal fees) by OFG in recovering such Excess Incentive Compensation in accordance with this Policy.

OFG’s recovery obligation hereunder shall not apply to the extent that the Committee, or in the absence of the Committee, a majority of the independent directors serving on the Board, determines that such recovery would be impracticable and:

- The direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Excess Incentive Compensation based on expense of enforcement, OFG must make a reasonable attempt to recover such Excess Incentive Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the NYSE; or

- Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to OFG employees, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

All determinations and decisions made by the Committee pursuant to the provisions of this Policy shall be final, conclusive, and binding on all persons, including OFG, its shareholders and the Executive Officers.

Each Equity Award agreement, the OFG 2007 Omnibus Performance Incentive Plan, as amended and restated, and any other document setting forth the terms and conditions of any Incentive Compensation granted to Executive Officers shall be deemed to include the provisions of this Policy. The remedy specified in this Policy shall not be exclusive and shall be in addition to any other right or remedy at law or in equity that may be available to OFG.

This Policy is binding and enforceable against all applicable Executive Officers and their beneficiaries, heirs, executors, administrators or other legal representatives.

Responsibilities

1. Compensation Committee

The Committee shall have full and final authority to make all determinations under this Policy, including without limitation whether the Policy applies and, if so, the amount of the Excess Incentive Compensation to be paid by the Executive Officer.

The Compensation Committee shall be responsible for enforcing compliance with this Policy and for reviewing this Policy periodically to ensure it meets best corporate governance practices and that it complies with any regulatory or listing standard requirements.

2. Prohibition on Indemnification and Insurance Reimbursement

OFG shall not indemnify any Executive Officer or former Executive Officer against the loss of any Excess Incentive Compensation. Further, OFG shall not pay or reimburse an Executive Officer for purchasing insurance to cover any such loss.

3. Reporting; Disclosure; Monitoring

OFG shall file all disclosures with respect to this Policy in accordance with the requirements of the federal securities laws, including the disclosures required by the applicable SEC filings.

By: /s/ Hugh Gonzalez
Hugh Gonzalez
Legal Counsel

OFGBancorp

Executive Team

José Rafael Fernández

Chief Executive Officer and Vice Chair of the Board

Maritza Arizmendi

Chief Financial Officer

Ada García

Managing Director, Customer Intelligence & Operations

Hugh González

General Counsel

Patrick Haggarty

Managing Director, Commercial Banking

Ganesh Kumar

Chief Strategy Officer, U.S. Business

César A. Ortiz

Chief Risk Officer

Mari Evelyn Rodríguez

Chief Retail Banking Officer

Jennifer Zapata

Managing Director, Human Resources

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

Néstor 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

Rafael Vélez

Member - Audit Committee

Ángel Vázquez

Member - Audit Committee;
Member- Risk and Compliance Committee

Hugh González

Secretary

General Info

Corporate Headquarters

Oriental Center
254 Muñoz Rivera Avenue
San Juan, PR 00918
Telephone: (787) 771-6800

Transfer Agent and Register

EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120
Telephone: (800) 468-9716

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

May 8, 2024 at 10:00 AM (EST)
It can be accessed live on this link:
http://www.virtualshareholdermeeting.com/OFG2024

Business Lines

Banking: Retail, Commercial and Wholesale
Auto Lending
Commercial Lending
Consumer 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 2023, the Sarbanes-Oxley Act Section 302 Certifications of both our CEO and CFO regarding the quality of our public disclosures.

OFGBancorp

www.OFGBancorp.com (NYSE: OFG)
www.orientalbank.com