Menaker Joseph
Form 3
November 19, 2018

# FORM 3

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

| OMB APPROVAL | |
|---|---|
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**INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Â  Menaker Joseph
(Last) (First) (Middle)

2603 CHALLENGER TECH CT,Â SUITE 100
(Street)

ORLANDO,Â FLÂ 32826
(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
11/15/2018

3. Issuer Name **and** Ticker or Trading Symbol
LIGHTPATH TECHNOLOGIES INC [LPTH]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

## Table I - Non-Derivative Securities Beneficially Owned

| 1.Title of Security (Instr. 4) | 2. Amount of Securities Beneficially Owned (Instr. 4) | 3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5) | 4. Nature of Indirect Beneficial Ownership (Instr. 5) |
|---|---|---|---|

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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**Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 4) | 2. Date Exercisable and Expiration Date (Month/Day/Year) | | 3. Title and Amount of Securities Underlying Derivative Security (Instr. 4) | | 4. Conversion or Exercise Price of Derivative Security | 5. Ownership Form of Derivative Security: Direct (D) or Indirect (I) | 6. Nature of Indirect Beneficial Ownership (Instr. 5) |
|---|---|---|---|---|---|---|---|
| | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | | |

(Instr. 5)

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| Menaker Joseph<br>2603 CHALLENGER TECH CT<br>SUITE 100<br>ORLANDO,Â FLÂ 32826 | Â | Â | Â | Â |

# Signatures

| | |
|---|---|
| /s/ Dorothy M. Cipolla attorney-in-fact | 11/19/2018 |
| **Signature of Reporting Person | Date |

# Explanation of Responses:

**No securities are beneficially owned**

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. Consumer

65,363

48,136

35.8%

**Total originated loans and leases**

**1,455,194**

**1,257,728**

**15.7%**

**Acquired loans:**

**Accounted for under ASC 310-20**

Commercial and industrial

315,706

317,632

| | | | |
|---|---|---|---|
| | | | -0.6% |
| Construction and commercial real estate | 19,153 | 20,337 | -5.8% |
| Auto | 417,649 | 457,894 | -8.8% |
| Consumer | 65,388 | 68,878 | -5.1% |

**817,896**

**864,741**

**-5.4%**

**Accounted for under ASC 310-30**

Commercial and industrial

934,843

960,502

-2.7%

Construction and commercial real estate

191,521

198,560

-3.5%

Mortgage

791,537

810,235

-2.3%

Auto

506,613

555,510

-8.8%

Consumer

104,257

118,282

-11.9%

**2,528,771**

**2,643,089**

**-4.3%**

**3,346,667**

**3,507,830**

**-4.6%**

**4,801,861**

**4,765,558**

| | |
|---|---|
| | **0.8%** |
| Deferred loans fees, net | |
| | (2,138) |
| | (3,463) |
| | 38.3% |
| **Loans receivable** | |
| | 4,799,723 |
| | 4,762,095 |
| | **0.8%** |
| Allowance for loan and lease losses on non-covered loans | |
| | (42,720) |
| | (39,921) |
| | -7.0% |
| **Loans receivable, net** | |

| | |
|---|---|
| | **4,757,003** |
| | **4,722,174** |
| | **0.7%** |
| Mortgage loans held-for-sale | |
| | 77,644 |
| | 64,544 |
| | 20.3% |
| **Total loans not covered under shared-loss agreements with FDIC, net** | |
| | **4,834,647** |
| | **4,786,718** |
| | **1.0%** |
| **Loans covered under shared-loss agreements with FDIC:** | |

| | | | |
|---|---|---|---|
| Loans secured by 1-4 family residential properties | 129,472 | 128,811 | 0.5% |
| Construction and development secured by 1-4 family residential properties | 13,971 | 15,969 | -12.5% |
| Commercial and other construction | 278,500 | | |

| | |
|---|---|
| | 289,070 |
| | -3.7% |
| Leasing | |
| | 2,640 |
| | 7,088 |
| | -62.8% |
| Consumer | |
| | 8,125 |
| | 8,493 |
| | -4.3% |
| **Total loans covered under shared-loss agreements with FDIC** | |
| | **432,708** |
| | **449,431** |

| | | | |
|---|---|---|---|
| | | | **-3.7%** |
| Allowance for loan and lease losses on covered loans | (52,974) | (54,124) | 2.1% |
| **Total loans covered under shared-loss agreements with FDIC, net** | **379,734** | **395,307** | **-3.9%** |
| **Total loans receivable, net** | **$ 5,214,381** | **$ 5,182,025** | **0.6%** |

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Explanation of Responses:

**TABLE 6 - LIABILITIES SUMMARY AND COMPOSITION**

| | March 31, 2013 | December 31, 2012 | Variance % |
|---|---|---|---|
| | | (Dollars in thousands) | |
| **Deposits:** | | | |
| Non-interest bearing deposits | $ 753,291 | $ 799,667 | -5.8% |
| NOW accounts | 1,430,091 | 1,647,072 | -13.2% |
| Savings and money market accounts | 891,957 | 634,133 | 40.7% |
| Certificates of deposit | 2,483,844 | 2,603,693 | -4.6% |
| **Total deposits** | **5,559,183** | **5,684,565** | **-2.2%** |
| Accrued interest payable | 4,331 | 4,994 | -13.3% |
| **Total deposits and accrued interest payable** | **5,563,514** | **5,689,559** | **-2.2%** |
| **Borrowings:** | | | |
| Short term borrowings | 60,846 | 92,222 | -34.0% |
| Securities sold under agreements to repurchase | 1,491,675 | 1,695,247 | -12.0% |
| Advances from FHLB | 425,560 | 536,542 | -20.7% |
| Federal funds purchased | 29,612 | 9,901 | 199.1% |
| Other term notes | 7,734 | 7,734 | 0.0% |
| Subordinated capital notes | 98,436 | 146,038 | -32.6% |
| **Total borrowings** | **2,113,863** | **2,487,684** | **-15.0%** |
| **Total deposits and borrowings** | **7,677,377** | **8,177,243** | **-6.1%** |
| | | | |
| Derivative liabilities | 24,024 | 26,260 | -8.5% |
| Acceptances outstanding | 32,512 | 26,996 | 20.4% |
| Other liabilities | 98,396 | 99,263 | -0.9% |
| **Total liabilities** | **$ 7,832,309** | **$ 8,329,762** | **-6.0%** |
| **Deposits portfolio composition percentages:** | | | |
| Non-interest bearing deposits | 13.6% | 14.1% | |
| NOW accounts | 25.7% | 29.0% | |
| Savings and money market accounts | 16.0% | 11.2% | |
| Certificates of deposit | 44.7% | 45.7% | |
| | **100.0%** | **100.0%** | |
| **Borrowings portfolio composition percentages:** | | | |
| Short term borrowings | 2.9% | 3.7% | |
| Securities sold under agreements to repurchase | 70.6% | 68.1% | |
| Advances from FHLB | 20.1% | 21.6% | |
| Federal funds purchased | 1.4% | 0.4% | |
| Other term notes | 0.4% | 0.3% | |
| Subordinated capital notes | 4.6% | 5.9% | |
| | **100.0%** | **100.0%** | |

| | | | | |
|---|---|---|---|---|
| **Securities sold under agreements to repurchase** | | | | |
| Amount outstanding at period-end | $ | 1,491,675 | $ | 1,695,247 |
| Daily average outstanding balance | $ | 1,565,424 | $ | 2,888,558 |
| Maximum outstanding balance at any month-end | $ | 1,556,962 | $ | 3,060,578 |

**Liabilities and Funding Sources**

As shown in Table 6 above, at March 31, 2013, the Company's total liabilities were $7.832 billion, 6.0% less than the $8.330 billion reported at December 31, 2012. Deposits and borrowings, the Company's funding sources, amounted to $7.677 billion at March 31, 2013 versus $8.177 billion at December 31, 2012, a 6.1% decrease.

At March 31, 2013, deposits represented 72% and borrowings represented 28% of interest-bearing liabilities, compared to 70% and 30%, respectively, at December 31, 2012. At March 31, 2013, deposits and accrued interest payable, the largest category of the Company's interest-bearing liabilities, were $5.564 billion, down 2.2% from $5.690 billion at December 31, 2012. On December 18, 2012, the Company assumed $3.494 billion in deposits of BBVAPR Bank. Core deposits remained stable at $4.130 billion at March 31, 2013 from December 31, 2012, and institutional and brokered deposits decreased 11% to $1.434 billion as of March 31, 2013 from $1.531 billion at December 31, 2012.

Borrowings consist mainly of funding sources through the use of repurchase agreements, FHLB advances, subordinated capital notes, and short-term borrowings. At March 31, 2013, borrowings amounted to $2.114 billion, 15.0% lower than the $2.488 billion reported at December 31, 2012. Repurchase agreements as of March 31, 2013 decreased approximately $203.6 million to $1.492 billion from $1.695 billion at December 31, 2012, as the Company used available cash to pay off a $200 million repurchase agreement at maturity.

As a member of the FHLB, the Bank can obtain advances from the FHLB, secured by the FHLB stock owned by the Bank, as well as by certain of the Bank's mortgage loans and investment securities. Advances from FHLB amounted to $425.6 million and $536.5 million as of March 31, 2013 and December 31, 2012, respectively. These advances mature from April 2013 through April 2017.

**Stockholders' Equity**

At March 31, 2013, the Company's total stockholders' equity was $870.2 million, a 0.8% increase when compared to $863.6 million at December 31, 2012.  Increase in stockholders' equity was mainly driven by the income for the quarter, partially offset by changes to other comprehensive income during the quarter.

Tangible common equity to total assets increased to 7.20% from 6.74% at the end of the last year. Tier 1 Leverage Capital Ratio increased to 8.07% from 6.42%, Tier 1 Risk-Based Capital Ratio increased to 13.24% from 12.94%, and Total Risk-Based Capital Ratio increased to 15.26% from 15.15% on December 31, 2012.

The Company maintains capital ratios in excess of regulatory requirements. At March 31, 2013, Tier 1 Leverage Capital Ratio was 2.02 times the minimum requirement of 4.00%, Tier 1 Risk-Based Capital Ratio was 3.31 times the minimum requirement of 4.00%, and Total Risk-Based Capital Ratio was 1.91 times the minimum requirement of 8.00%.

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Explanation of Responses:

The following are the consolidated capital ratios of the Company at March 31, 2013 and December 31, 2012:

**TABLE 7 — CAPITAL, DIVIDENDS AND STOCK DATA**

| | March 31, 2013 | December 31, 2012 | Variance % |
|---|---|---|---|
| | (Dollars in thousands, except per share data) | | |
| **Capital data:** | | | |
| Stockholders' equity | $ 870,242 | $ 863,606 | 0.8% |
| **Regulatory Capital Ratios data:** | | | |
| **Leverage capital ratio** | **8.07%** | **6.42%** | 25.7% |
| Minimum leverage capital ratio required | 4.00% | 4.00% | |
| Actual tier 1 capital | $ 698,786 | $ 678,127 | 3.0% |
| Minimum tier 1 capital required | $ 346,284 | $ 422,307 | -18.0% |
| Excess over regulatory requirement | $ 352,503 | $ 255,820 | 37.8% |
| **Tier 1 risk-based capital ratio** | **13.24%** | **12.94%** | 2.3% |
| Minimum tier 1 risk-based capital ratio required | 4.00% | 4.00% | |
| Actual tier 1 risk-based capital | $ 698,786 | $ 678,127 | 3.0% |
| Minimum tier 1 risk-based capital required | $ 211,080 | $ 209,634 | 0.7% |
| Excess over regulatory requirement | $ 487,707 | $ 468,493 | 4.1% |
| Risk-weighted assets | $ 5,276,992 | $ 5,240,861 | 0.7% |
| **Total risk-based capital ratio** | **15.26%** | **15.15%** | 0.7% |
| Minimum total risk-based capital ratio required | 8.00% | 8.00% | |
| Actual total risk-based capital | $ 805,320 | $ 794,195 | 1.4% |
| Minimum total risk-based capital required | $ 422,159 | $ 419,269 | 0.7% |
| Excess over regulatory requirement | $ 383,161 | $ 374,926 | 2.2% |
| Risk-weighted assets | $ 5,276,992 | $ 5,240,861 | 0.7% |
| **Tangible common equity to total assets** | **7.20%** | **6.74%** | 6.8% |
| **Tangible common equity to risk-weighted assets** | **11.87%** | **11.82%** | 0.4% |
| **Total equity to total assets** | **10.00%** | **9.39%** | 6.5% |
| **Total equity to risk-weighted assets** | **16.49%** | **16.48%** | 0.1% |
| **Tier 1 common equity to risk-weighted assets** | **9.44%** | **9.11%** | 3.6% |
| Tier 1 common equity capital | $ 497,916 | $ 477,241 | 4.3% |
| **Stock data:** | | | |
| Outstanding common shares | 45,621,199 | 45,580,281 | 0.1% |
| Book value per common share | $ 15.44 | $ 15.31 | 0.9% |
| Market price at end of period | $ 15.51 | $ 13.35 | 16.2% |
| Market capitalization at end of period | $ 707,585 | $ 608,497 | 16.3% |

| | 2013 | 2012 | Variance % |
|---|---|---|---|
| | (Dollars in thousands, except per share data) | | |
| **Common dividend data:** | | | |
| Cash dividends declared | $ 2,737 | $ 2,442 | 12.1% |
| Cash dividends declared per share | $ 0.06 | $ 0.06 | 0.0% |
| Payout ratio | 16.22% | 26.14% | -37.9% |
| Dividend yield | 1.55% | 1.98% | -22.0% |

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The table that follows presents a reconciliation of the Company's total stockholders' equity to tangible common equity and total assets to tangible assets at March 31, 2013 and December 31, 2012:

| | | March 31, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| | | (In thousands, except share or per share information) | | |
| Total stockholders' equity | $ | 870,242 | $ | 863,606 |
| Preferred stock | | (176,000) | | (176,000) |
| Preferred stock issuance costs | | 10,131 | | 10,115 |
| Goodwill | | (64,021) | | (64,021) |
| Core deposit intangible | | (9,048) | | (9,463) |
| Customer relationship intangible | | (4,798) | | (5,027) |
| **Total tangible common equity** | **$** | **626,507** | **$** | **619,210** |
| Total assets | | 8,702,551 | | 9,193,368 |
| Goodwill | | (64,021) | | (64,021) |
| Core deposit intangible | | (9,048) | | (9,463) |
| Customer relationship intangible | | (4,798) | | (5,027) |
| **Total tangible assets** | **$** | **8,624,685** | **$** | **9,114,857** |
| **Tangible common equity to tangible assets** | | **7.26%** | | **6.79%** |
| Common shares outstanding at end of period | | 45,621,199 | | 45,580,281 |
| **Tangible book value per common share** | **$** | **13.73** | **$** | **13.59** |

The tangible common equity ratio and tangible book value per common share are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Company calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

The Tier 1 common equity to risk-weighted assets ratio is another non-GAAP measure. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Company's capital position. In connection with the Supervisory Capital Assessment Program, the Federal Reserve Board began supplementing its assessment of the capital adequacy of a large bank holding company based on a variation of Tier 1 capital, known as Tier 1 common equity.

Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Company has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

The table below presents a reconciliation of the Company’s total common equity (GAAP) at March 31, 2013 and December 31, 2012 to Tier 1 common equity (non-GAAP):

| | March 31, 2013 | | December 31 2012 | |
|---|---|---|---|---|
| | (In thousands) | | | |
| Common stockholders' equity | $ | 704,373 | $ | 697,721 |
| Unrealized gains on available-for-sale securities, net of income tax | | (58,393) | | (68,245) |
| Unrealized losses on cash flow hedges, net of income tax | | 11,342 | | 12,365 |
| Disallowed deferred tax assets | | (80,384) | | (85,010) |
| Disallowed servicing assets | | (1,155) | | (1,079) |
| Intangible assets: | | | | |
| Goodwill | | (64,021) | | (64,021) |
| Other disallowed intangibles | | (13,846) | | (14,490) |
| **Total Tier 1 common equity** | **$** | **497,916** | **$** | **477,241** |
| **Tier 1 common equity to risk-weighted assets** | | **9.44%** | | **9.11%** |

The following table presents the Company’s capital adequacy information at March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | (In thousands) | | | |
| Risk-based capital: | | | | |
| Tier 1 capital | $ | 698,786 | $ | 678,127 |
| Supplementary (Tier 2) capital | | 106,544 | | 116,068 |
| **Total risk-based capital** | **$** | **805,330** | **$** | **794,195** |
| Risk-weighted assets: | | | | |
| Balance sheet items | $ | 4,970,561 | $ | 4,927,919 |
| Off-balance sheet items | | 306,431 | | 312,942 |
| **Total risk-weighted assets** | **$** | **5,276,992** | **$** | **5,240,861** |
| Ratios: | | | | |
| Tier 1 capital (minimum required - 4%) | | 13.24% | | 12.94% |
| Total capital (minimum required - 8%) | | 15.26% | | 15.15% |
| Leverage ratio | | 8.07% | | 6.42% |
| Equity to assets | | 10.00% | | 9.39% |
| Tangible common equity to assets | | 7.20% | | 6.74% |

The Federal Reserve Board has risk-based capital guidelines for bank holding companies. Under the guidelines, the minimum ratio of qualifying total capital to risk-weighted assets is 8%. At least half of the total capital is to be comprised of qualifying common stockholders' equity, qualifying noncumulative perpetual preferred stock (including related surplus), minority interests related to qualifying common or noncumulative perpetual preferred stock directly issued by a consolidated U.S. depository institution or foreign bank subsidiary, and restricted core capital elements (collectively, "Tier 1 Capital"). Banking organizations are expected to maintain at least 50% of their Tier 1 Capital as common equity. Except as otherwise discussed below in light of the Dodd-Frank Act in connection with certain debt or equity instruments issued on or after May 19, 2010, not more than 25% of qualifying Tier 1 Capital may consist of qualifying cumulative perpetual preferred stock, trust preferred securities or other so-called restricted core capital elements. "Tier 2 Capital" may consist, subject to certain limitations, of allowance for loan and lease losses; perpetual preferred stock and related surplus; hybrid capital instruments, perpetual debt, and mandatory convertible debt securities; term subordinated debt and intermediate-term preferred stock, including related surplus; and unrealized holding gains on equity securities. "Tier 3 Capital" consists of qualifying unsecured subordinated debt.

The sum of Tier 2 and Tier 3 Capital may not exceed the amount of Tier 1 Capital. At March 31, 2013 and December 31, 2012, the Company was a "well capitalized" institution for regulatory purposes.

The Federal Reserve Board has regulations with respect to risk-based and leverage capital ratios that require most intangibles, including goodwill and core deposit intangibles, to be deducted from Tier 1 Capital. The only types of identifiable intangible assets that may be included in, that is, not deducted from, an organization's capital are readily marketable mortgage servicing assets, nonmortgage servicing assets, and purchased credit card relationships.

In addition, the Federal Reserve Board has established minimum leverage ratio (Tier 1 Capital to total assets) guidelines for bank holding companies and member banks. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies and member banks that meet certain specified criteria, including that they have the highest regulatory rating. All other bank holding companies and member banks are required to maintain a minimum ratio of Tier 1 Capital to total assets of 4%. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines state that the Federal Reserve Board will continue to consider a "tangible Tier 1 leverage ratio" and other indicators of capital strength in evaluating proposals for expansion or new activities.

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 (i.e., Section 171), which is commonly known as the Collins Amendment, applies to bank holding companies the same leverage and risk based capital requirements that apply to insured depository institutions. Because the capital requirements must be the same for insured depository institutions and their holding companies, the Collins Amendment generally excludes certain debt or equity instruments, such as cumulative perpetual preferred stock and trust preferred securities, from Tier 1 Capital, subject to a three-year phase-out from Tier 1 qualification for such instruments issued before May 19, 2010, with the phase-out commencing on January 1, 2013. However, such instruments issued before May 19, 2010 by a bank holding company, such as the Company, with total consolidated assets of less than $15 billion as of December 31, 2009, are not affected by the Collins Amendment and may continue to be included in Tier 1 Capital as a restricted core capital element.

On June 12, 2012, the Office of the Comptroller of the Currency (the "OCC"), the Federal Reserve Board, and the FDIC issued three notices of proposed rulemaking ("NPRs") that would revise and replace the agencies' current capital rules. The agencies also announced the finalization of the market risk capital rule that was proposed in 2011.

In the first Basel III NPR, "Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions" (the "Basel III NPR"), the agencies are proposing to revise their risk-based and leverage capital requirements consistent with agreements reached by the Basel Committee on Banking Supervision ("Basel III"). The Basel III NPR would apply to all insured banks and savings associations, top-tier bank holding companies domiciled in the United States with more than $500 million in assets, and savings and loan holding companies that are domiciled in the United States. Provisions of the Basel III NPR that would apply to such banking organizations include implementation of a new common equity Tier 1 minimum capital requirement, a higher minimum Tier 1 capital requirement, and, for banking organizations subject to the advanced approaches capital rules, a supplementary leverage ratio that incorporates a broader set of exposures. Additionally, consistent with Basel III, the agencies propose to apply limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified "buffer" of common equity Tier 1 capital in addition to the minimum risk-based capital requirements. The revisions set forth in the Basel III NPR are consistent with Section 171 of the Dodd-Frank Act, which requires the agencies to establish minimum risk-based and leverage capital requirements.

The Basel III NPR also would revise the agencies' prompt corrective action framework by incorporating the new regulatory capital minimums and updating the definition of tangible common equity. Prompt corrective action is an enforcement framework that constrains the activities of insured depository institutions based on their level of regulatory capital.

The second Basel III NPR, "Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule" (the "Advanced Approaches and Market Risk NPR"), would revise the advanced approaches risk-based capital rules consistent with Basel III and other changes to the Basel Committee's capital standards. The agencies also propose revising the advanced approaches risk-based capital rules to be consistent with Section 939A and Section 171 of the Dodd-Frank Act. Additionally in the Advanced Approaches and Market Risk NPR, the OCC and the FDIC propose that the market risk capital rules apply to federal and state savings associations, and the Federal Reserve Board proposes that the advanced approaches and market risk capital rules apply to top-tier savings and loan holding companies domiciled in the United States, if stated thresholds for trading activity are met. Generally, the



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advanced approaches rules would apply to such institutions with $250 billion or more in consolidated assets or $10 billion or more in foreign exposure, and the market risk rule would apply to savings and loan holding companies with significant trading activity.

In the third capital NPR, "Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements" (the "Standardized Approach NPR"), the agencies propose to revise and harmonize rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, including by incorporating aspects of the Basel II standardized framework, and alternatives to credit ratings, consistent with Section 939A of the Dodd-Frank Act. The revisions include methods for determining risk-weighted assets for residential mortgages, securitization exposures, and counterparty credit risk. The Standardized Approach NPR also would introduce disclosure requirements that would apply to U.S. banking organizations with $50 billion or more in total assets. The Standardized Approach NPR would apply to the same set of institutions as the Basel III NPR.

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At March 31, 2013 and December 31, 2012, the Company's market capitalization for its outstanding common stock was $707.6 million ($15.51 per share) and $608.5 million ($13.35 per share), respectively.

The following table provides the high and low prices and dividends per share of the Company's common stock for each quarter in 2013, 2012 and 2011:

| | Price | | Cash Dividend |
|---|---|---|---|
| | **High** | **Low** | **Per share** |
| **2013** | | | |
| March 31, 2013 | $ 15.83 | $ 13.85 | $ 0.06 |
| **2012** | | | |
| December 31, 2012 | $ 13.35 | $ 9.98 | $ 0.06 |
| September 30, 2012 | $ 11.49 | $ 10.02 | $ 0.06 |
| June 30, 2012 | $ 12.37 | $ 9.87 | $ 0.06 |
| March 31, 2012 | $ 12.69 | $ 11.25 | $ 0.06 |
| **2011** | | | |
| December 31, 2011 | $ 12.35 | $ 9.19 | $ 0.06 |
| September 30, 2011 | $ 13.20 | $ 9.18 | $ 0.05 |
| June 30, 2011 | $ 13.07 | $ 11.26 | $ 0.05 |
| March 31, 2011 | $ 12.84 | $ 11.40 | $ 0.05 |

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The Bank is considered “well capitalized” under the regulatory framework for prompt corrective action. The table below shows the Bank’s regulatory capital ratios at March 31, 2013 and at December 31, 2012:

| | March 31, 2013 | | December 31, 2012 | | Variance % |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Oriental Bank Regulatory Capital Ratios:** | | | | | |
| **Total Tier 1 Capital to Total Assets** | | **7.34%** | | **5.75%** | **27.6%** |
| Actual tier 1 capital | $ | 630,498 | $ | 604,997 | 4.2% |
| Minimum capital requirement (4%) | $ | 343,805 | $ | 420,298 | -18.2% |
| Minimum to be well capitalized (5%) | $ | 429,756 | $ | 525,373 | -18.2% |
| **Tier 1 Capital to Risk-Weighted Assets** | | **12.19%** | | **11.80%** | **3.4%** |
| Actual tier 1 risk-based capital | $ | 630,498 | $ | 604,997 | 4.2% |
| Minimum capital requirement (4%) | $ | 206,808 | $ | 205,134 | 0.8% |
| Minimum to be well capitalized (6%) | $ | 310,212 | $ | 307,701 | 0.8% |
| **Total Capital to Risk-Weighted Assets** | | **14.23%** | | **14.03%** | **1.4%** |
| Actual total risk-based capital | $ | 735,713 | $ | 719,675 | 2.2% |
| Minimum capital requirement (8%) | $ | 413,616 | $ | 410,268 | 0.8% |
| Minimum to be well capitalized (10%) | $ | 517,020 | $ | 512,835 | 0.8% |

**Company’s Financial Assets Managed**

The Company’s financial assets managed include those managed by the Company’s trust division, retirement plan administration subsidiary, and its broker-dealer subsidiaries.  Assets managed by the trust division and the broker-dealer subsidiaries increased to $5.387 billion at March 31 2013 from $5.237 billion at December 31, 2012, mainly as a result of assets managed by the broker-dealer subsidiary acquired in the BBVAPR Acquisition amounting to $507.9 million at March 31 2013, and an increase in employer and employee account contributions and capital market appreciation.

The Company’s trust division offers various types of IRAs and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while the retirement plan administration subsidiary, CPC, manages private retirement plans.  At March 31, 2013, total assets managed by the Company’s trust division and CPC amounted to $2.595 billion, compared to $2.514 billion at December 31 2012.  Oriental Financial Services and OFS Securities offer a wide array of investment alternatives to their client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs.  At March 31, 2013, total assets gathered by Oriental Financial Services and OFS Securities from their customer investment accounts increased to $2.793 billion, compared to $2.722 billion in assets gathered at December 31 2012.

**Allowance for Loan and Lease Losses and Non-Performing Assets**

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. Tables 8 through 13 set forth an analysis of activity in the allowance for loan and lease losses and present selected loan loss statistics. In addition, refer to Table 5 for the composition of the loan portfolio.

***Non-covered Loans***

At March 31, 2013, the Company's allowance for non-covered loan and lease losses amounted to $42.7 million. $42.3 million of such allowance corresponded to originated loans, or 2.91% of total non-covered originated loans at March 31, 2013 compared to $39.9 million or 3.17% of total non-covered originated loans at December 31, 2012. The allowance for residential mortgage loans, consumer loans, and auto and leases increased by 8.5% (or $1.8 million), 53.4% (or $457 thousand), and 226.6% (or $1.2 million), respectively, when compared with balances recorded at December 31, 2012. The allowance for commercial loans decreased by 4.4%, or $758 thousand, when compared with balances recorded at December 31, 2012. The unallocated allowance at March 31, 2013 decreased by 79.1%, or $291 thousand, when compared with balances recorded at December 31, 2012.

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

Loans acquired in a business acquisition are recorded at their fair value at the acquisition date. Credit cards, floor plans, revolving lines of credit, and auto loans with FICO scores over 660, acquired as part of the BBVAPR Acquisition are accounted for under the guidance of ASC 310-20, which requires that any differences between contractually required loan payment receivable in excess of the Company’s initial investment in the loans be accreted into interest income on a level-yield basis over the life of the loan. Allowance for loan and lease losses recorded for acquired loans as of March 31, 2013 was $386 thousand.

The remaining loans acquired in the BBVAPR Acquisition are accounted for under ASC-310-30 and were recognized at fair value as of December 18, 2012. The Company does not believe differences between cash flows collected on the loans acquired in the BBVAPR Acquisition accounted for under ASC-310-30 and those anticipated at December 18, 2012 are the result of credit deterioration from our original estimates and thus no allowance for these loans was recorded as of March 31, 2013.

There have been no material changes in criteria or estimation techniques as compared to prior periods that impacted the determination of the current period allowance for loan and lease losses, except for the inclusion of the loans acquired under BBVAPR Acquisition.

The Company’s non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At March 31 2013 and December 31, 2012, the Company had $132.2 million and $146.6 million, respectively, of non-accrual non-covered loans, including acquired loans accounted under ASC 310-20 (loans with revolving feature and/or acquired at a premium). Covered loans and loans acquired from BBVAPR with credit deterioration are considered to be performing due to the application of the accretion method under ASC 310-30. At March, 31 2013 and December 31, 2012, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $48.3 million and $52.0 million, respectively.

At March 31 2013, the Company’s non-performing assets decreased 3.2% to $221.3 million (3.84% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) from $228.5 million (3.72% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) at December 31, 2012. The Company does not expect non-performing loans to result in significantly higher losses as most are well-collateralized with adequate loan-to-value ratios. At March 31 2013, the allowance for non-covered originated loans and lease losses to non-performing loans coverage ratio was 32.45% (27.13% at December 31, 2012).

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

The following items comprise non-performing assets:

1. Originated 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. At March 31 2013, the Company's originated non-performing mortgage loans totaled $99.1 million (75.0% of the Company's non-performing loans), a 13.8% decrease from $115.0 million (78.4% of the Company's non-performing loans) at December 31, 2012. Non-performing loans in this category are primarily residential mortgage loans. On April 1, 2011, the Bank changed on a prospective basis its policy to place on non-accrual status residential mortgage loans well collateralized and in process of collection when reaching 90 days past due. All loans that were between 90 and 365 days past due when the policy was changed were also placed on non-accrual status. The interest receivable on such loans is evaluated on a periodic basis against the collateral underlying the loans, and written-down, if necessary. On December 31, 2012, the Bank further revised its policy to reverse against income all interest recorded on residential mortgage loans reaching 90 days past due, including the remaining interest on loans that were between 90 and 365 days past due as of April 1, 2011. On December 31, 2012, the Bank also charged-off this remaining accrued interest on residential mortgage loans over 90 days past due. This change in estimate was considered necessary to comply with guidance received from the Company's regulators.

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- Commercial loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At March 31 2013, the Company's originated non-performing commercial loans amounted to $30.8 million (23.3% of the Company's non-performing loans), a 4.2% increase when compared to non-performing commercial loans of $29.5 million at December 31, 2012 (20.1% of the Company's non-performing loans). Most of this portfolio is collateralized by commercial real estate properties.

- Consumer loans — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days in personal loans and 180 days in credit cards and personal lines of credit. At March 31 2013, the Company's originated non-performing consumer loans amounted to $371 thousand (0.3% of the Company's total non-performing loans), a 16.1% decrease from $442 thousand at December 31, 2012 (0.3% of the Company's total non-performing loans).

- Auto and leases — are placed on non-accrual status when they become 90 days past due and partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At March 31 2013, the Company's originated non-performing auto and leases amounted to $219 thousand (0.2% of the Company's total non-performing loans), an increase of 67.2% from $131 thousand at December 31, 2012 (0.1% of the Company's total non-performing loans).

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

- Commercial lines of credit - are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At March 31 2013, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $153 thousand (0.1% of the Company's non-performing loans), a 20.7% decrease when compared to non-performing commercial lines of credit accounted for under ASC 310-20 of $193 thousand at December 31, 2012 (0.1% of the Company's non-performing loans).

- Auto loans - are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days. At March 31 2013, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled $605 thousand (0.5% of the Company's non-performing loans), a 120.0% increase when compared to non-performing auto loans accounted for under ASC 310-20 of $275 thousand at December 31, 2012 (0.2% of the Company's non-performing loans).

- Consumer lines of credit and credit cards — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 180 days. At March 31 2013, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $1.0 million (0.8% of the Company's non-performing loans), a 8.6% decrease when compared to non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 of $1.1 million at December 31, 2012 (0.7% of the Company's non-performing loans).

3. Acquired loans accounted for under ASC 310-30: are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.

4. Foreclosed real estate: is initially recorded at the lower of the related loan balance or fair value less cost to sell as of the date of foreclosure. Any excess of the loan balance over the fair value of the property is charged against the allowance for loan and lease losses. Subsequently, any excess of the carrying value over the estimated fair value less disposition cost is charged to operations. Net losses on the sale of foreclosed real estate for the quarter ended March 31, 2013 amounted to $1.8 million, compared to $398 thousand for the same period in 2012.

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

The Loss Mitigation Program helps mortgage borrowers who are or will become financially unable to meet the current or scheduled mortgage payments. Loans that qualify under this program are those guaranteed by FHA, VA, RHS, "Banco de la

Vivienda de Puerto Rico," conventional loans guaranteed by Mortgage Guaranty Insurance Corporation (MGIC), conventional loans sold to the FNMA and FHLMC, and conventional loans retained by the Company. The program offers diversified alternatives such as regular or reduced payment plans, payment moratorium, mortgage loan modification, partial claims (only FHA), short sale, and payment in lieu of foreclosure.

The Non-traditional Mortgage Loan Program is for non-traditional mortgages, including balloon payment, interest only/interest first, variable interest rate, adjustable interest rate and other qualified loans. Non-traditional mortgage loan portfolios are segregated into the following categories: performing loans that meet secondary market requirement and are refinanced by the credit underwriting guidelines of FHA/VA/FNMA/FMAC, and performing loans not meeting secondary market guidelines, processed by the Company's current credit and underwriting guidelines. The Company achieved an affordable and sustainable monthly payment by taking specific, sequential, and necessary steps such as reducing the interest rate, extending the loan term, capitalizing arrearages, deferring the payment of principal or, if the borrower qualifies, refinancing the loan.

There may not be a foreclosure sale scheduled within 60 days prior to a loan modification under any such programs. This requirement does not apply to loans where the foreclosure process has been stopped by the Company. In order to apply for any of the loan modification programs, the borrower may not be in active bankruptcy or have been discharged from Chapter 7 bankruptcy since the loan was originated. Loans in these programs will be evaluated by management for troubled debt restructuring classification if the Company grants a concession for legal or economic reasons due to the debtor's financial difficulties.

***Covered Loans***

The allowance for loan and lease losses on covered loans acquired in the FDIC-assisted acquisition of Eurobank is accounted under the provisions of ASC 310-30. Under this accounting guidance, the allowance for loan and lease losses on covered loans is evaluated at each financial reporting period, based on forecasted cash flows. Credit related decreases in expected cash flows, compared to those previously forecasted, are recognized by recording a provision for credit losses on covered loans when it is probable that all cash flows expected at acquisition will not be collected. The portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC shared-loss indemnification asset.

During the quarter ended March 31, 2013, the assessment of actual versus expected cash flows resulted in a net provision of $672 thousand as certain pools of real estate backed loans and of commercial and industrial loans underperformed. The net provision also included the reversal of a previously recorded allowance in certain commercial real estate and commercial and industrial pools whose loans the Company has managed to workout with better outcomes than forecasted. The loss share portion of the reversal of allowance during the quarter ended March 31, 2013 was proportionally higher than the allowance reversal recorded on the impaired loans. This resulted from the fact that there were some pools in which an additional allowance was recognized but no offsetting adjustment was done to the FDIC shared-loss indemnification asset as these losses were not covered by a loss share agreement. As a result of such reversal, the allowance for covered loans decreased from $54.1 million at December 31, 2012 to $53.0 million at March 31, 2013.

**TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY**

| | Quarter Ended March 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **Variance %** |
| | | (Dollars in thousands) | |
| **Non-covered loans** | | | |
| **Originated loans:** | | | |
| **Balance at beginning of period** | $ 39,921 | $ 37,010 | 7.9% |
| Provision for non-covered loan and lease losses | 5,795 | 3,000 | 93.2% |
| Charge-offs | (3,482) | (2,772) | 25.6% |
| Recoveries | 100 | 123 | -18.7% |
| | 42,334 | 37,361 | 13.3% |
| **Acquired loans accounted for under ASC 310-20:** | | | |
| Provision for non-covered loan and lease losses | 2,120 | - | 100.0% |
| Charge-offs | (3,171) | - | 100.0% |
| Recoveries | 1,437 | - | 100.0% |
| | 386 | - | 100.0% |
| **Total non-covered loans balance at end of period** | **$ 42,720** | **$ 37,361** | **14.3%** |
| **Allowance for loans and lease losses on originated loans to:** | | | |
| Total originated loans | **2.91%** | **3.03%** | **-4.0%** |
| Non-performing originated loans | **32.45%** | **30.54%** | **6.3%** |
| **Allowance for loans and lease losses on acquired loans accounted for under ASC 310-20:** | | | |
| Total acquired loans accounted for under ASC 310-20 | **0.05%** | **-** | **100.0%** |
| Non-performing acquired loans | **21.94%** | **-** | **100.0%** |

| | | | | | |
|---|---|---|---|---|---|
| accounted for under ASC 310-20 | | | | | |
| **<u>Covered loans</u>** | | | | | |
| **Balance at beginning of period** | $ | 54,124 | $ | 37,256 | 45.3% |
| Provision for covered loan and lease losses, net | | 672 | | 7,157 | -90.6% |
| FDIC shared-loss portion on (provision for) recapture of loan and lease losses | | (1,822) | | 12,024 | -115.2% |
| **Balance at end of period** | **$** | **52,974** | **$** | **56,437** | **-6.1%** |

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**TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN**

| | March 31, 2013 | December 31, 2012 | Variance % |
|---|---|---|---|
| | (Dollars in thousands) | | |
| **Originated loans** | | | |
| **Allowance balance:** | | | |
| Mortgage | $ 22,889 | $ 21,092 | 8.5% |
| Commercial | 16,314 | 17,072 | -4.4% |
| Auto and leasing | 1,741 | 533 | 226.6% |
| Consumer | 1,313 | 856 | 53.4% |
| Unallocated allowance | 77 | 368 | -79.1% |
| **Total allowance balance** | **$ 42,334** | **$ 39,921** | **6.0%** |
| **Allowance composition:** | | | |
| Mortgage | 54.07% | 52.83% | 2.3% |
| Commercial | 38.54% | 42.76% | -9.9% |
| Auto and leasing | 4.11% | 1.34% | 206.7% |
| Consumer | 3.10% | 2.14% | 44.9% |
| Unallocated allowance | 0.18% | 0.93% | -80.6% |
| | **100.00%** | **100.00%** | |
| **Allowance coverage ratio at end of period applicable to:** | | | |
| Mortgage | 2.89% | 2.62% | 10.2% |
| Commercial | 3.62% | 4.82% | -24.9% |
| Auto and leasing | 1.19% | 1.05% | 12.9% |
| Consumer | 2.01% | 1.78% | 13.0% |
| Unallocated allowance to total originated loans | 0.01% | 0.03% | -81.9% |
| **Total allowance to total originated loans** | **2.91%** | **3.17%** | **-8.2%** |
| **Allowance coverage ratio to non-performing loans:** | | | |
| Mortgage | 23.09% | 18.34% | 25.9% |
| Commercial | 53.04% | 57.86% | -8.3% |
| Auto and leasing | 794.98% | 406.87% | 95.4% |
| Consumer | 353.91% | 193.67% | 82.7% |
| **Total** | **32.45%** | **27.52%** | **17.9%** |
| **Acquired loans accounted for under ASC 310-20** | | | |
| **Allowance balance:** | | | |
| Commercial | $ 386 | $ - | 100.0% |
| **Total allowance balance** | **$ 386** | **$ -** | **100.0%** |
| **Allowance composition:** | | | |
| Commercial | 100.00% | 0.00% | 100.0% |

| | | | |
|---|---|---|---|
| | **100.00%** | **0.00%** | |
| **Allowance coverage ratio at end of period applicable to:** | | | |
| Commercial | 0.12% | 0.00% | 100.0% |
| **Total allowance to total acquired loans** | **0.05%** | **0.00%** | **100.0%** |
| **Allowance coverage ratio to non-performing loans:** | | | |
| Commercial | 252.29% | 0.00% | 100.0% |

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**TABLE 10 — NET CREDIT LOSSES STATISTICS ON NON-COVERED ORIGINATED LOAN AND LEASES**

| | Quarter Ended March 31, | | |
|---|---|---|---|
| | 2013 | 2012 | Variance % |
| | (In thousands) | | |
| **Mortgage** | | | |
| Charge-offs | $ (2,588) | $ (922) | 180.7% |
| Recoveries | - | - | 0.0% |
| **Total** | **(2,588)** | **(922)** | **180.7%** |
| **Commercial** | | | |
| Charge-offs | (557) | (1,637) | -66.0% |
| Recoveries | 28 | 67 | -58.2% |
| **Total** | **(529)** | **(1,570)** | **-66.3%** |
| **Consumer** | | | |
| Charge-offs | (246) | (182) | 35.2% |
| Recoveries | 65 | 52 | 25.0% |
| **Total** | **(181)** | **(130)** | **39.2%** |
| **Auto and leasing** | | | |
| Charge-offs | (91) | (31) | 193.5% |
| Recoveries | 7 | 4 | 75.0% |
| **Total** | **(84)** | **(27)** | **211.1%** |
| **Net credit losses** | | | |
| Total charge-offs | (3,482) | (2,772) | 25.6% |
| Total recoveries | 100 | 123 | -18.7% |
| **Total** | **$ (3,382)** | **$ (2,649)** | **27.7%** |
| **Net credit losses to average loans outstanding:** | | | |
| Mortgage | 1.26% | 0.44% | 186.4% |
| Commercial | 0.56% | 2.13% | -73.7% |
| Consumer | 1.32% | 1.26% | 4.8% |
| Auto and leasing | 0.34% | 0.40% | -15.0% |
| **Total** | **1.00%** | **0.88%** | **13.6%** |
| **Recoveries to charge-offs** | **2.87%** | **4.44%** | **-35.3%** |
| **Average originated loans:** | | | |
| Mortgage | $ 823,356 | $ 835,592 | -1.5% |
| Commercial | 376,676 | 295,043 | 27.7% |
| Consumer | 55,047 | 41,194 | 33.6% |
| Auto and leasing | 98,752 | 26,878 | 267.4% |
| **Total** | **$ 1,353,831** | **$ 1,198,707** | **12.9%** |

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**TABLE 11 — NON-PERFORMING ASSETS**

| | March 31, 2013 | December 31, 2012 (Dollars in thousands) | Variance (%) |
|---|---|---|---|
| **Non-performing assets:** | | | |
| Non-accruing loans | | | |
| Troubled Debt Restructuring loans | $ 46,492 | $ 50,468 | -7.9% |
| Other loans | 85,723 | 96,176 | -10.9% |
| Accruing loans | | | |
| Troubled Debt Restructuring loans | - | - | 0.0% |
| Other loans | - | - | 0.0% |
| Total non-performing loans | $ 132,215 | $ 146,644 | -9.8% |
| Foreclosed real estate not covered under the shared-loss agreements with the FDIC | 87,899 | 75,447 | 16.5% |
| Other repossessed asset | 1,178 | 6,084 | -80.6% |
| Mortgage loans held for sale | - | 319 | -100.0% |
| | **$ 221,292** | **$ 228,494** | **-3.2%** |
| **Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)** | **3.84%** | **3.73%** | **3.0%** |
| **Non-performing assets to total capital** | **25.43%** | **26.46%** | **-3.9%** |

| | Quarter Ended March 31, 2013 | Quarter Ended March 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans** | $ 1,524 | $ 1,714 |

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**TABLE 12 — NON-PERFORMING LOANS**

| | March 31, 2013 | December 31, 2012 (Dollars in thousands) | Variance % |
|---|---|---|---|
| **Non-performing loans:** | | | |
| **Originated loans** | | | |
| Mortgage | $ 99,110 | $ 115,002 | -13.8% |
| Commercial | 30,756 | 29,506 | 4.2% |
| Consumer | 371 | 442 | -16.1% |
| Auto and leasing | 219 | 131 | 67.2% |
| **Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)** | | | |
| Commercial lines of credit | 153 | 193 | -20.7% |
| Auto loans | 605 | 275 | 120.0% |
| Consumer lines of credit and credit cards | 1,001 | 1,095 | -8.6% |
| **Total** | **$ 132,215** | **$ 146,644** | **-9.8%** |
| **Non-performing loans composition percentages:** | | | |
| **Originated loans** | | | |
| Mortgage | 75.0% | 78.4% | |
| Commercial | 23.3% | 20.1% | |
| Consumer | 0.3% | 0.3% | |
| Auto and leasing | 0.2% | 0.1% | |
| **Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)** | | | |
| Commercial lines of credit | 0.1% | 0.1% | |
| Auto loans | 0.5% | 0.2% | |
| Consumer lines of credit and credit cards | 0.8% | 0.7% | |
| **Total** | **100.0%** | **100.0%** | |
| **Non-performing loans to:** | | | |
| Total loans, excluding covered loans and loans accounted for under ASC 310-30 (including those by analogy) | **5.73%** | **6.84%** | **-16.2%** |
| Total assets, excluding covered assets and loans accounted for | **2.29%** | **2.39%** | **-4.1%** |

| | | | |
|---|---|---|---|
| under ASC 310-30 (including those by analogy) | | | |
| Total capital | **15.19%** | **16.98%** | **-10.5%** |
| **Non-performing loans with partial charge-offs to:** | | | |
| Total loans, excluding covered loans and loans accounted for | | | |
| under ASC 310-30 (including those by analogy) | **1.95%** | **2.00%** | **-2.5%** |
| Non-performing loans | **33.93%** | **29.17%** | **16.3%** |
| **Other non-performing loans ratios:** | | | |
| Charge-off rate on non-performing loans to non-performing loans | | | |
| on which charge-offs have been taken | **29.45%** | **27.86%** | **5.7%** |
| Allowance for loan and lease losses to non-performing | | | |
| loans on which no charge-offs have been taken | **48.90%** | **38.24%** | **27.9%** |

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**TABLE 13 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS**

| | March 31, 2013 Higher-Risk Residential Mortgage Loans* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Junior Lien Mortgages | | | Interest Only Loans | | | High Loan-to-Value Ratio Mortgages LTV 90% and over | | |
| | Carrying Value | Allowance | Coverage | Carrying Value | Allowance | Coverage | Carrying Value | Allowance | Coverage |
| | | | | | (In thousands) | | | | |
| **Delinquency:** | | | | | | | | | |
| 0 - 89 days | $ 14,723 | $ 257 | 1.75% | $ 27,500 | $ 1,183 | 4.30% | $ 74,297 | $ 2,239 | 3.01% |
| 120 - 179 days | 459 | 32 | 6.97% | 269 | 60 | 22.30% | 3,506 | 139 | 3.96% |
| 180 - 364 days | 500 | 34 | 6.80% | 1,153 | 258 | 22.38% | 7,655 | 312 | 4.08% |
| 365+ days | 1,963 | 173 | 8.81% | 2,983 | 1,026 | 34.39% | 16,398 | 1,721 | 10.50% |
| Total | $ 17,645 | $ 496 | 2.81% | $ 31,905 | $ 2,527 | 7.92% | $ 101,856 | $ 4,411 | 4.33% |
| Percentage of total loans excluding acquired loans accounted for under ASC 310-30 | 0.75% | | | 1.36% | | | 4.33% | | |
| **Refinanced or Modified Loans:** | | | | | | | | | |
| Amount | $ 2,493 | $ 177 | 7.10% | $ - | $ - | 0.00% | $ 20,195 | $ 1,402 | 6.94% |
| Percentage of Higher-Risk Loan Category | 14.13% | | | 0.00% | | | 19.83% | | |
| **Loan-to-Value Ratio:** | | | | | | | | | |
| Under 70% | $ 13,292 | $ 378 | 2.84% | $ 5,064 | $ 218 | 4.30% | $ - | $ - | - |
| 70% - 79% | 2,851 | 46 | 1.61% | 6,737 | 763 | 11.33% | - | - | - |
| 80% - 89% | 1,051 | 39 | 3.71% | 8,463 | 598 | 7.07% | - | - | - |
| 90% and over | 451 | 33 | 7.32% | 11,641 | 948 | 8.14% | 101,856 | 4,411 | 4.33% |
| | $ 17,645 | $ 496 | 2.81% | $ 31,905 | $ 2,527 | 7.92% | $ 101,856 | $ 4,411 | 4.33% |

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

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Explanation of Responses:

Explanation of Responses:

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

**Background**

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

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

**Market Risk**

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

**Interest Rate Risk**

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

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

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

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

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

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

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



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These simulations are highly complex, and use many simplifying assumptions that are intended to reflect the general behavior of the Company over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates. The following table presents the results of the simulations at March 31, 2013 for the most likely scenario, assuming a one-year time horizon:

| | Net Interest Income Risk (one year projection) | | | | | |
|---|---|---|---|---|---|---|
| | Static Balance Sheet | | | Growing Simulation | | |
| | Amount Change | | Percent Change | Amount Change | | Percent Change |
| **Change in interest rate** | (Dollars in thousands) | | | | | |
| + 200 Basis points | $ | 9,571 | 2.57% | $ | 9,663 | 2.64% |
| + 100 Basis points | $ | 5,768 | 1.55% | $ | 6,054 | 1.65% |
| - 50 Basis points | $ | (3,669) | -0.98% | $ | (3,999) | -1.09% |

The impact of -100 and -200 basis point reductions in interest rates is not presented in view of current level of the federal funds rate and other short-term interest rates.

Future net interest income could be affected by the Company’s investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed securities, and its structured repurchase agreements and advances from the FHLB. As part of the strategy to limit the interest rate risk and reduce the re-pricing gaps of the Company’s assets and liabilities, the maturity and the re-pricing frequency of the liabilities has been extended to longer terms and the amounts of its structured repurchase agreements and advances from the FHLB has been reduced

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

Derivative instruments that are used as part of the Company's interest risk management strategy include interest rate swaps, forward-settlement swaps, futures contracts, and option contracts that have indices related to the pricing of specific balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties based on a common notional principal amount and maturity date. Interest rate futures generally involve exchanged-traded contracts to buy or sell U.S. Treasury bonds and notes in the future at specified prices. Interest rate options represent contracts that allow the holder of the option to (i) receive cash or (ii) purchase, sell, or enter into a financial instrument at a specified price within a specified period. Some purchased option contracts give the Company the right to enter into interest rate swaps and cap and floor agreements with the writer of the option. In addition, the Company enters into certain transactions that contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value. Please refer to Note 7 to the accompanying unaudited consolidated financial statements for further information concerning the Company's derivative activities.

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

Interest rate swaps — The Company entered into hedge-designated forward-settlement swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings, attributable to changes in the one-month LIBOR rate. Once the forecasted wholesale borrowings transactions occurred, the interest rate swap effectively fix the Company's interest payments on an amount of forecasted

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interest expense attributable to the one-month LIBOR rate corresponding to the swap notional stated rate. A derivative liability of $16.2 million was recognized at March 31, 2013, related to the valuation of these swaps. Refer to Note 7 of the unaudited consolidated financial statements for a description of these swaps.

As part of the BBVAPR Acquisition, the Company assumed certain derivative contracts from BBVAPR, including interest rate swaps not designated as hedging instruments which are utilized to convert certain fixed-rate loans to variable rates, and the mirror-images of these interest rate swaps in which BBVAPR entered into to minimize its interest rate risk exposure that results from offering the derivatives to clients. These interest rate swaps are marked to market through earnings. At March 31, 2013, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of $7.6 million, and the mirror-image interest rate swaps in which BBVAPR entered into represented a derivative liability of $7.5 million. Refer to Note 7 of the unaudited consolidated financial statements for a description of these swaps.

S&P options — The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. At the end of five years, the depositor receives a minimum return or a specified percentage of the average increase of the month-end value of the S&P 500 Index. The Company uses option agreements with major money center banks and major broker-dealer companies to manage its exposure to changes in that index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of S&P 500 Index in exchange for a fixed premium. The changes in fair value of the options purchased and the options embedded in the certificates of deposit are recorded in earnings.

At March 31, 2013 and December 31, 2012, the fair value of the purchased options used to manage the exposure to the S&P 500 Index on stock-indexed certificates of deposit represented an asset of $15.4 million and $13.2 million, respectively, and the options sold to customers embedded in the certificates of deposit represented a liability of $14.8 million and $12.7 million, respectively.

Wholesale borrowings — The Company uses interest rate swaps to hedge the variability of interest cash flows of certain advances from FHLB that are tied to a variable rate index. The interest rate swaps effectively fix the Company’s interest payments on these borrowings. As of March 31, 2013, the Company had $225 million in interest rate swaps at an average rate of 2.63% designated as cash flow hedges for $225 million in advances from FHLB that reprice or are being rolled over on a monthly basis.

In addition, the Company has outstanding structured repurchase agreements and advances from FHLB in which the counterparty has the right to put back the borrowing to the Company before their stated maturity under certain conditions.

**Credit Risk**

Credit risk is the possibility of loss arising from a borrower or counterparty in a credit-related contract failing to perform in accordance with its terms. The principal source of credit risk for the Company is its lending activities. In Puerto Rico, the Company's principal market, economic growth remains a challenge due to the lack of significant employment growth, a housing sector that remains under pressure and the Puerto Rico government's large structural deficit.

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

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

Management's Executive Credit Committee, composed of the Company's Chief Executive Officer, Chief Credit Risk Officer and other senior executives, has primary responsibility for setting strategies to achieve the Company's credit risk goals and objectives. Those goals and objectives are set forth in the Company's Credit Policy as approved by the Board.

**Liquidity Risk**

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

The Company’s business requires continuous access to various funding sources. While the Company is able to fund its operations through deposits as well as through advances from the FHLB of New York and other alternative sources, the Company’s business is dependent upon other wholesale funding sources. Although the Company has selectively reduced its use of wholesale funding sources, such as repurchase agreements and brokered deposits, it is still significantly dependent on repurchase agreements. The Company’s repurchase agreements have been structured with initial terms that mature from one month to two years for seven repurchase agreements amounting to $989.3 million, and a $500 million repurchase agreement that matures on March 2, 2017 in which the counterparty has the right to exercise at par on a quarterly basis its put option before the contractual maturity.

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

The Company participates in the Federal Reserve Bank’s Borrower-in custody Program which allows it to pledge certain type of loans while keeping physical control of the collateral.

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

As of March 31, 2013, the Company had approximately $561.4 million in cash and cash equivalents, $205million in investment securities, $600 million in borrowing capacity at the FHLB of New York and $397 million in borrowing capacity at the Federal Reserve's Discount Window available to cover liquidity needs.



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**Operational Risk**

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

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

The Company classifies operational risk into two major categories: business specific and corporate-wide affecting all business lines. For business specific risks, a risk assessment group works with the various business units to ensure consistency in policies, processes and assessments. With respect to corporate-wide risks, such as information security, business recovery, legal and compliance, the Company has specialized groups, such as Information Security, Enterprise Risk Management, Corporate Compliance, Information Technology and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups. All these matters are reviewed and discussed in the Information Technology Steering Committee, and the Risk Management and Compliance Committee.

The Company is subject to extensive United States federal and Puerto Rico regulation, and this regulatory scrutiny has been significantly increasing over the last several years. The Company has established and continues to enhance procedures based on legal and regulatory requirements that are reasonably designed to ensure compliance with all applicable statutory and regulatory requirements. The Company has a corporate compliance function headed by a Compliance Director who reports to the Chief Risk Officer and is responsible for the oversight of regulatory compliance and implementation of a company-wide compliance program.

**Concentration Risk**

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

**ITEM 4.** ***CONTROLS AND PROCEDURES***

**Disclosure Controls and Procedures**

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

**Internal Control over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d -15 (f) under the Exchange Act) during the quarter ended March 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART – II OTHER INFORMATION

### ITEM 1. *LEGAL PROCEEDINGS*

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their business. The Company is vigorously contesting such claims. Based upon a review by legal counsel and the development of these matters to date, management is of the opinion that the ultimate aggregate liability, if any, resulting from these claims will not have a material adverse effect on the Company's financial condition or results of operations.

### ITEM 1A. *RISK FACTORS*

There have been no material changes to the risk factors previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2012. In addition to other information set forth in this report, you should carefully consider the risk factors included in the Company's annual report on Form 10-K, as updated by this report or other filings the Company makes with the SEC under the Exchange Act. Additional risks and uncertainties not presently known to the Company at this time or that the Company currently deems immaterial may also adversely affect the Company's business, financial condition or results of operations.

### Item 2. *UNREGISTERED SALES OF EQUITY SECURITES AND USE OF PROCEEDS*

None

### Item 3. *DEFAULTS UPON SENIOR SECURITIES*

None.

### ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

**ITEM 5.** ***OTHER INFORMATION***

None.

**Item 6. Exhibits**

| **Exhibit No.** | **Description of Document:** |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from OFG Bancorp's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Statements of Financial Condition, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Changes in Stockholders' Equity, (v) Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements. |

Explanation of Responses:

**Signatures**

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

**OFG Bancorp**

**(Registrant)**

| | | |
|---|---|---|
| By: | /s/ José Rafael Fernández | Date: May 9, 2013 |
| | José Rafael Fernández<br>President and Chief Executive Officer | |
| By: | /s/ Ganesh Kumar | Date: May 9, 2013 |
| | Ganesh Kumar<br>Executive Vice President and Chief Financial Officer | |

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Explanation of Responses: