Risk Factors Comparison 2024-02-26 to 2023-02-24 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

In addition to other information set forth in this annual report on Form 10- K, you should carefully consider the following risk factors, as updated by other filings OFG makes with the SEC under the Exchange Act. Additional risks and uncertainties not presently known to us at this time or that OFG currently deems immaterial may also adversely affect OFG' s business, financial condition or results of operations. ECONOMIC AND MARKET CONDITIONS RISK Most of our business is conducted in Puerto Rico, where economic and government fiscal and liquidity challenges, as well as the impact of natural disasters and ~~the Covid- 19 pandemic~~ **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 ~~decades~~ , Puerto Rico has experienced ~~a~~ significant economic contraction ~~in several years~~ **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~~ **Various** significant natural disasters, including hurricanes and earthquakes, as well as the Covid- 19 pandemic ~~that began in 2020~~ **have also impacted Puerto Rico' s economy** . Although federal disaster ~~recovery~~ **reconstruction** assistance **is** ~~and related insurance payouts are~~ 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. ~~In addition, there is no assurance that the government will be able to satisfy its obligations as restructured.~~ Puerto Rico also continues to be vulnerable to hurricanes and earthquakes and may continue to be impacted by natural disasters in the future, including those as a result of climate change ~~. Deterioration in local economic conditions or in the financial condition of an industry on which the local market depends could adversely affect factors such as unemployment rates and real estate vacancy and values. This could result in, among other things, a reduction of creditworthy borrowers seeking loans, an increase in loan delinquencies, defaults and foreclosures, an increase in classified and non- accrual loans, a decrease in the value of collateral for loans, and a decrease in core deposits. Any of these factors could materially impact our business~~ . Puerto Rico and the USVI are susceptible to earthquakes, hurricanes and major storms, the severity of which could be heightened by the effect of climate change, which could further deteriorate their economy and infrastructure. Our branch network and business are concentrated in Puerto Rico and the USVI, which are susceptible to earthquakes, hurricanes and major storms that affect the local economy and the demand for our loans and financial services, as well as the ability of our customers to repay their loans. Any such natural disasters may further adversely affect Puerto Rico' s and the USVI' s critical infrastructure, which are generally weak and necessitating capital investment. This makes us vulnerable to downturns in Puerto Rico' s and the USVI' s economy as a result of natural disasters, such as earthquakes in 2020, and hurricanes Irma and Maria in 2017, and Hurricane Fiona in ~~September~~ 2022, the severity of which could increase as a result of the effects of climate change. Any subsequent earthquakes, hurricanes, major storms or other natural disasters could further deteriorate the economy and infrastructure of Puerto Rico and USVI, as well as negatively affect or disrupt our operations and customer base and materially impact our business. Climate change presents both immediate and long- term risks to OFG and its clients, and these risks are expected to increase over time. Climate change presents multi- faceted risks, including: operational risk from the physical effects of climate events on OFG and its clients' facilities and other assets; credit risk from borrowers with significant exposure to climate risk; transition risks associated with the transition to a less carbon- dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, OFG' s carbon footprint, and its business relationships with clients who operate in carbon- intensive industries. Terrorist attacks and armed conflicts may impact all aspects of our operations, revenues, costs and stock price. Geopolitical and macroeconomic uncertainty, including the military actions taken by the Russian Federation against Ukraine that began in early 2022 **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 ~~Federal Open Market Committee of the Board of Governors of the Federal Reserve System ("~~ FRB ~~") has~~ tightened monetary policy and ~~has~~ increased the federal funds rate **considerably since March** ~~seven times during fiscal year~~ 2022 **through** ~~, with the latest increases of 50 basis points each made on June 15, 2022,~~ July ~~27, 2022~~ **2023 . In** ~~, September 21, 2022, November 2, 2022 and~~ December ~~14, 2022. In February 1,~~ 2023, the FRB **held interest** ~~furthered increased federal funds rate~~ **rates steady at a** ~~by 25 basis points updating the federal funds~~ target rate range between ~~4~~ **5. 25 % to 5** . 50 % **and suggested the possibility of** ~~to 4. 75 %. We expect that incremental interest~~ rate ~~increases announced by the~~ **cuts during 2024. Notwithstanding** FRB **' s announcements** ~~will continue to occur throughout 2023~~ , ~~but~~ the amount, timing, and frequency of ~~such increases~~ **any decrease in the federal funds rate** are not fully known at this time. If market interest rates ~~continue to rise~~ **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 ~~loan~~ **loans** ~~prepayments and higher investment portfolio cash flows, resulting in a lower yield on earning assets~~ . OFG' s earnings can also be impacted by the spread between short- term and long- term market interest rates. ~~Changes~~ **Any downgrade** in ~~the method pursuant to which the LIBOR and other~~ -- **the** ~~benchmark rates are determined could adversely impact~~ **credit rating of the U. S. government** ~~our~~ - **or default by** ~~business and results of operations. Our floating- rate funding, certain hedging transactions and certain of~~ the **U. S. government** ~~products that we offer, such~~ as ~~floating- rate loans and mortgages, determine the applicable interest rate or payment amount by reference to~~ a **result of political conflicts over legislation** ~~benchmark rate, such as LIBOR, or~~ to **raise** ~~an index, or other~~ -- **the** ~~financial metric. LIBOR and certain other benchmark rates are the subject of several national, international, and other regulatory guidance and proposals for reform. In July 2017, the Chief Executive of the Financial Conduct Authority (" FCA ") announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. However, the administrator of LIBOR has proposed to extend publication of the most commonly used~~ U. S. ~~Dollar LIBOR settings until June 30, 2023 and has ceased publishing other LIBOR settings on December 31, 2021. The U. S. federal banking agencies have issued guidance strongly encouraging banking organizations to cease using the U. S. Dollar LIBOR as a reference rate in " new " contracts as soon as practicable and in any event by December 31, 2021. It is not possible to predict the effects of any changes in views or the acceptance of alternative rates on the markets for LIBOR- linked financial instruments. There is considerable uncertainty as to how the financial services industry will address the discontinuance of LIBOR in financial instruments. Specifically, the discontinuation of LIBOR could result in changes to our risk exposures (for example, if the anticipated discontinuation of LIBOR adversely affects the availability or cost of floating- rate funding and, therefore, our exposure to fluctuations in interest rates) or otherwise result in losses on a product. There can be no assurance that legislative or regulatory actions will dictate what happens if LIBOR ceases or is no longer representative or viable, or what those actions might be. Although OFG believes that its exposure to LIBOR is not material, as it represents only 3 % of total assets, LIBOR- based contracts that will be impacted by the cessation of LIBOR have been under review to ensure they contain adequate fallback language. OFG has discontinued the origination of loans that use LIBOR as a reference rate and also been working to transition to alternative reference rates (" ARR ") and / or fallback language in both existing as well as new contracts to prepare for the cessation of LIBOR. Furthermore, management has a LIBOR transition team to leads OFG in the execution of its project plan and is monitoring the development and adoption of Secured Overnight Financing Rate (" SOFR ") alternatives as well as other credit sensitive ARR and their liquidity in the market, and provided oversight of business and system readiness to originate SOFR- based loans. CREDIT RISK We are exposed to credit risk in connection with our loans to certain government agencies and municipalities of Puerto Rico, and the restructuring of Puerto Rico~~ government' s debt **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** ~~the value of such loans. At December 31~~ , **financial condition** ~~2022, we have approximately $ 73. 7 million of direct credit exposure to four Puerto Rico municipalities, a $ 13. 6 million decrease from December 31, 2021. At December 31, 2021, total loan exposure to the Puerto Rico government included a $ 1. 1 million purchased credit- deteriorated (" PCD ") loan granted to a public corporation classified as non- accrual, which was repaid during 2022. The total credit exposure at December 31, 2022 consists of general obligations of municipalities secured by ad~~ **and results** ~~valorem property taxes, without limitation~~

~~as to rate~~ of **operations** ~~amount, on all taxable property within the issuing municipalities in current status~~ . **CREDIT RISK** ~~The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the repayment of its general obligations. Under Title III of PROMESA, the Puerto Rico central government has begun to implement the plan of adjustment approved by the Title III bankruptcy court on January 18, 2022, setting the stage for its exit from bankruptcy. Nevertheless, the Puerto Rico government still faces a number of severe economic and fiscal challenges that are expected to require additional austerity measures to balance its budget. If the government restructuring affects the ability of the municipalities to pay their obligations to us as they become due, or under certain other circumstances, we may be required to adversely classify such loans and increase the provision for loan losses in connection therewith. Such provision may significantly impact our earnings.~~ Heightened credit risk could require us to increase our provision for credit losses, which could have a material adverse effect on our results of operations and financial condition. Originating loans is an essential element of our business, and there is a risk that the loans will not be repaid. This default risk is affected by a number of factors, including: • the duration of the loan; • credit risks of a particular borrower; • changes in economic or industry conditions; and • in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral. Our customers might not repay their loans according to the original terms, and the collateral securing the payment of those loans might be insufficient to pay any remaining loan balance. Hence, we may experience significant loan losses, which could have a materially adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the amount of the **ACL** ~~allowance for credit losses~~ , we rely on loan quality reviews, past and expected loss experience, and an evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, our **ACL** ~~allowance for credit losses~~ may not be enough to cover losses inherent in our loan portfolio, resulting in additions to the ~~allowance~~ **ACL** . Material additions to the ~~allowance~~ **ACL** would materially decrease our net income. Our emphasis on the origination of ~~business~~ **commercial** and retail loans is one of the more significant factors in evaluating our **ACL** ~~allowance for credit losses~~ . As we continue to increase the amount of these loans, additional or increased provisions for credit losses may be necessary and as a result would decrease our earnings. We strive to maintain an appropriate **ACL** ~~allowance for credit losses~~ to provide for probable **and expected** losses inherent in the loan portfolio. We periodically determine the amount of the ~~allowance~~ **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 ~~allowance~~ **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** ~~allowance for credit losses~~ is currently sufficient given the constant monitoring of the risk inherent in the loan portfolio, there is no precise method of predicting loan losses and therefore we always face the risk that charge- offs in future periods will exceed the **ACL** ~~allowance for credit losses~~ and that additional increases in the **ACL** ~~allowance for credit losses~~ will be required. Additions to the **ACL** ~~allowance for credit losses~~ would result in a decrease of net earnings and capital and could hinder our ability to pay dividends. If the economic conditions in Puerto Rico **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** ~~allowances for credit losses~~ that could adversely affect our financial condition and results of operations in the future. Bank regulators periodically review our **ACL** ~~allowance for credit losses~~ and may require us to increase our provision for credit losses or loan charge- offs. Any increase in our **ACL** ~~allowance for credit losses~~ or loan charge- offs as required by these regulatory authorities could have a materially adverse effect on our results of operations and / or financial condition. We are subject to default and other risks in connection with mortgage loan originations. From the time that we fund the mortgage loans originated to the time that they are sold, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loans, the risk of loss from mortgage loan defaults and foreclosures passes to the purchaser or insurer of the mortgage loans. However, in the ordinary course of business, we make representations and warranties to the purchasers and insurers of mortgage loans relating to the validity of such loans. If there is a breach of any such representations or warranties, we may be required to repurchase the mortgage loan and bear any subsequent loss on the mortgage loan. We also may be required to repurchase mortgage loans in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. Any such repurchases in the future may negatively impact our liquidity and operating results. Termination of our ability to sell mortgage products to U. S government-sponsored entities would have a material adverse effect on our results of operations and financial condition. In addition, we may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of our representations and warranties and in various other circumstances, including securities fraud claims, and the amount of such losses could exceed the purchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans. In addition, we incur higher liquidity risk with respect to mortgage loans not eligible to be purchased or insured by FNMA, GNMA or FHLMC, due to a lack of secondary market in which to sell these loans. During ~~2022~~ **2023** , we repurchased $ ~~24~~ **9** . ~~2~~ **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 ~~continuing~~ decline in the real estate market would likely result in an increase in delinquencies, defaults and foreclosures and in a reduction in loan origination activity, which would adversely affect our financial results. The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and industry- wide losses. The market for residential mortgage loan originations in Puerto Rico is currently in decline, and this trend could also reduce the level of mortgage loans that we may originate in the future and may adversely impact our business. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values. There is a risk that a reduction in housing values could negatively impact our loss levels on the mortgage loan portfolio because the value of the homes underlying the loans is a primary source of repayment in the event of foreclosure. **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 ~~economic~~ **economy enters into a** recession ~~continues~~ **,** or **if** ~~worsens. If~~ there is ~~another~~ **a** decline in economic activity, additional increases in the **ACL** ~~allowance for credit losses~~ could be necessary with further adverse effects on our profitability. Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the price received on the sale of such loans, and the value of the mortgage loan portfolio, all of which could have a negative impact on our results of operations and financial condition. In addition, any material decline in real estate values would weaken our collateral loan- to- value ratios and increase the possibility of loss if a borrower default. OPERATIONS AND BUSINESS RISK We may experience losses related to fraud and theft. OFG has experienced, and may experience in the future, losses incurred due to customer or employee fraud and theft. These losses may be material and negatively affect OFG' s results of operations, financial condition or prospects. These losses could also lead to significant reputational risks and other effects. The sophistication of external fraud actors continues to increase, and in some cases includes large criminal rings, which increases the resources and infrastructure needed to thwart these attacks. The industry fraud threat continues to evolve, including but not limited to card fraud, check fraud, social engineering and phishing attacks for identity theft and account takeover. OFG continues to invest in fraud prevention in the forms of people and systems designed to prevent, detect and mitigate the customer and financial impacts. We are subject to security and operational risks related to our use of technology, including the risk of cyber- attack or cyber theft. Financial institutions like us, as well as our customers, colleagues, regulators, service providers and other third parties, have experienced a significant increase in information and cyber security risk in recent years and will likely continue to be the target of increasingly sophisticated cyberattacks, including computer viruses, malicious or destructive code, ransomware, social engineering attacks (including phishing, impersonation and identity takeover attempts), corporate espionage, hacking, website defacement, denial- of- service attacks, exploitation of vulnerabilities and other attacks and similar disruptions from the misconfiguration or unauthorized use of or access to computer system. **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 ~~, part of our mortgage loan servicing~~ , internet and mobile banking, and electronic fund transfer systems. The failure or interruption of such systems, or the termination of a third- party software license or any service agreement on which any of these systems or services is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third- party systems, we could experience service denials if demand for such services exceeds capacity, or such systems fail or experience interruptions. In addition, replacing third party service providers could also entail significant delay and expense. Service disruptions or degradations could prevent access to our online services and account information, compromise or limit access to company or customer data, impede or prevent transaction processing and financial reporting, and lead to regulatory investigations and fines, increased regulatory oversight, and litigation. Any such service disruption or degradation could adversely affect the perception of the reliability of our products and services and materially adversely affect our overall business, reputation and results of operations. If sustained or repeated, a failure, denial or termination of such systems or services could result in a deterioration of our ability to process new loans, service existing loans, gather deposits and / or provide customer service. It could also compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and / or subject us to additional regulatory scrutiny and possible financial liability. Any of the foregoing could have a material adverse effect on our financial condition and results of operations. Non- Compliance with the USA Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines and other sanctions. Financial institutions are generally required under the USA Patriot Act and the Bank Secrecy Act to develop programs to prevent such financial institutions from being used for money- laundering and terrorist financing activities. Financial institutions are generally also required to file suspicious activity reports with the Financial Crimes Enforcement Network of the US Treasury ~~Department~~ if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. We have developed a compliance program reasonably designed to ensure compliance with such laws and regulations. Our failure or the inability to comply with these regulations could result in enforcement actions, fines or penalties, curtailment of expansion opportunities, intervention or sanctions by regulators, costly litigation, or expensive additional internal controls and systems **. 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 ~~Consumer Financial Protection Bureau ("~~ CFPB ~~")~~ with powers to supervise and enforce federal consumer protection laws. The CFPB has broad rule- making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit" unfair, deceptive or abusive acts and practices. " The CFPB also has examination and enforcement authority over all banks and savings institutions with more than $ 10 billion in assets for certain designated consumer laws and regulations. The other federal banking agencies enforce such consumer laws and regulations for banks and savings institutions under $ 10 billion in assets. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices and restrict our ability to raise interest rates and charge non- sufficient funds (" NSF ") fees. A significant portion of our noninterest income is derived from service charge income, including NSF fees. Violations of applicable consumer protection laws could result in enforcement actions and significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. In addition, the Durbin Amendment is a provision in the ~~larger~~ Dodd- Frank Act that gave the Federal Reserve the authority to establish rates on debit card transactions. The Durbin Amendment aims to control debit card interchange fees and restrict anti-competitive practices. ~~The~~ **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. ~~If~~ OFG' s assets ~~were to exceed~~ **exceeded** $ 10 billion as of December 31 ~~of any calendar year~~ **, 2023, and therefore, we estimate that beginning in July 1, 2024** , the Durbin Amendment ~~would~~ **will** reduce OFG' s income from debit card interchange fees by approximately $ ~~8~~ **10** to $ ~~10~~ **11** million on an annual basis ~~in subsequent years~~ based on current volume ~~. Prior to the COVID- 19 pandemic, there was little or no likelihood that OFG or the Bank would surpass $ 10 billion in total assets for several years. However, with the CARES Act, stimulus payments to households, and artificially high household savings rates, our deposits and assets have grown significantly during the pandemic. OFG and the Bank exceeded $ 10 billion in assets for the first time during the first quarter of 2021, and even though OFG ended 2022 with less than $ 10 billion in total assets, thereby postponing the applicability of the Durbin Amendment and other regulatory changes, OFG has commenced preparing for the increased regulatory oversight and other requirements that will apply as a result of crossing such size threshold in the future. To the extent that OFG continues to increase its core deposits market share, OFG and the Bank could eventually cross the asset thresholds that would trigger the applicability of the Durbin Amendment~~ . Our risk management policies, procedures and systems may be inadequate to mitigate all risks inherent in our various businesses. A comprehensive risk management function is essential to the financial and operational success of our business. The types of risk we monitor and seek to manage include, but are not limited to, operational, technological, organizational, market, fiduciary, legal, compliance, liquidity and credit risks. We have adopted various policies, procedures and systems to monitor and manage these risks. There can be no assurance that those policies, procedures and systems are adequate to identify and mitigate all risks inherent in our various businesses. Our businesses and the markets in which we operate are also continuously evolving. If we fail to fully understand the implications of changes in our business or the financial markets and to adequately or timely enhance the risk framework to address those changes, we could incur losses. In addition, in a difficult or less liquid market environment, our risk management strategies may not be effective because other market participants may be attempting to use the same or similar strategies to deal with the challenging market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants. **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** ~~1of~~ - **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 ~~and /~~ or expanded. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by FASB. Market conditions have prompted accounting standard setters to promulgate new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. See " Note 1 – Summary of Significant Accounting Policies " to our consolidated financial statements included herein for a discussion of any accounting developments that have been issued but not yet implemented. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our consolidated financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that applies to the consolidated financial statements and that such changes could have a material effect on our financial condition and results of operations. Our goodwill and other intangible assets could be determined to be impaired in the future and could decrease OFG' s earnings. We are required to test our goodwill, core deposit intangible, customer relationship intangible and other intangible assets for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities, and information concerning the terminal valuation of similarly situated insured depository institutions. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment. If an impairment loss is recorded, it will have little or no impact on the tangible book value of our common shares or our regulatory capital levels, but such an impairment loss could significantly restrict OFG' s ability to make dividend payments without prior regulatory approval. Based on our annual goodwill impairment test **and our impairment evaluation of intangibles** , we determined that no impairment charges were necessary **as** ~~. As~~ of December 31, ~~2022~~ **2023** ~~, we had on our consolidated balance sheet $ 84~~ . **However** ~~2 million of goodwill in connection with the BBVAPR Acquisition and the FDIC- assisted acquisition of Eurobank in 2010~~ , ~~$ 21. 1 million of core deposit intangible in connection with the Scotiabank Acquisition and a $ 6. 5 million of customer relationship intangible in connection with the Scotiabank Acquisition. There~~ **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** ~~In an effort to address the Commonwealth' s ongoing fiscal problems, the~~ Puerto Rico government has enacted tax reforms in the past providing, among other things, for changes in income tax rates and the expansion of certain taxes, such as the sales and use tax, and may do so again in the future. We operate an IBE unit and an IBE subsidiary pursuant to the IBE Act which provides significant tax advantages. The IBEs have an exemption from Puerto Rico income taxes on interest earned on, or gain realized from the sale of, non- Puerto Rico assets, including U. S. government obligations and certain mortgage- backed securities. This exemption has allowed us to have an effective tax rate below the maximum statutory tax rate. In the past, the Legislature of Puerto Rico has considered proposals to curb the tax benefits afforded to IBEs. For example, Puerto Rico enacted legislation in 2012 under which no new IBEs may be organized and newly organized " international financial entities " are generally subject to a 4 % Puerto Rico income tax rate. In the event other legislation is enacted by the Puerto Rico government to eliminate or modify the tax exemption provided to IBEs, the consequences could have a materially adverse impact on our financial results, including an increase in income tax expense and consequently our effective tax rate, adversely affecting our financial condition, results of operations and cash flows.