OFG BANCORP
Form 10-Q
May 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

Incorporated in the Commonwealth of Puerto Rico, IRS Employer Identification No. 66-0538893

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large Accelerated Filer ý Accelerated Filer o Non-Accelerated Filer ¨ Smaller Reporting Company ¨
(Do not check if a smaller reporting company)

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

Number of shares outstanding of the registrant’s common stock, as of the latest practicable date:

44,572,219 common shares ($1.00 par value per share) outstanding as of April 30, 2015

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FORWARD-LOOKING STATEMENTS

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

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

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- the fiscal and monetary policies of the federal government and its agencies;
- a credit default or potential restructuring by the Commonwealth of Puerto Rico or any of its agencies, municipalities or instrumentalities;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on the Company's businesses, business practices and cost of operations;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in Puerto Rico;
- the performance of the securities markets;
- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation ("FDIC") assessments; and
- possible legislative, tax or regulatory changes.

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

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

ITEM 1. *FINANCIAL STATEMENTS*

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF MARCH 31, 2015 AND DECEMBER 31, 2014

		March 31, 2015		December 31, 2014
		(In thousands)		
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$	672,744	$	568,752
Money market investments		6,158		4,675
Total cash and cash equivalents		**678,902**		**573,427**
Restricted cash		15,406		8,407
Investments:				
Trading securities, at fair value, with amortized cost of $1,327 (December 31, 2014 - $2,419)		964		1,594
Investment securities available-for-sale, at fair value, with amortized cost of $1,092,040 (December 31, 2014 - $1,187,679)		1,125,702		1,216,538
Investment securities held-to-maturity, at amortized cost, with fair value of $175,856 (December 31, 2014 - $164,154)		172,847		162,752
Federal Home Loan Bank (FHLB) stock, at cost		21,148		21,169
Other investments		3		3
Total investments		**1,320,664**		**1,402,056**
Loans:				
Mortgage loans held-for-sale, at lower of cost or fair value		23,464		14,539
Non-covered loans, net of allowance for loan and lease losses of $96,375 (December 31, 2014 - $69,517)		4,443,308		4,513,196
Covered loans, net of allowance for loan and lease losses of $70,651 (December 31, 2014 - $64,245)		257,807		298,911
Total loans, net		**4,724,579**		**4,826,646**
Other assets:				
FDIC indemnification asset		75,221		97,378
Foreclosed real estate covered under shared-loss agreements with the FDIC		48,461		47,514
Foreclosed real estate not covered under shared-loss agreements with the FDIC		46,106		48,147
Accrued interest receivable		19,594		21,345
Deferred tax asset, net		121,930		108,708

Premises and equipment, net			78,745		80,599
Customers' liability on acceptances			21,848		17,989
Servicing assets			12,164		13,992
Derivative assets			6,211		8,107
Goodwill			86,069		86,069
Other assets			108,256		108,725
Total assets		$	**7,364,156**	$	**7,449,109**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Demand deposits		$	2,025,291		1,997,108
Savings accounts			1,431,603		1,385,824
Time deposits			1,437,339		1,541,474
Total deposits			**4,894,233**		**4,924,406**
Borrowings:					
Securities sold under agreements to repurchase			927,168		980,087
Advances from FHLB			333,857		334,331
Subordinated capital notes			101,846		101,584
Other borrowings			1,740		4,004
Total borrowings			**1,364,611**		**1,420,006**
Other liabilities:					
Derivative liabilities			11,113		11,221
Acceptances executed and outstanding			21,848		17,989
Accrued expenses and other liabilities			135,972		133,290
Total liabilities			**6,427,777**		**6,506,912**
Commitments and contingencies (See Note 20)					
Stockholders' equity:					
Preferred stock; 10,000,000 shares authorized;					
1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D					
issued and outstanding, (December 31, 2014 - 1,340,000; 1,380,000; and 960,000) $25 liquidation value			92,000		92,000
84,000 shares of Series C issued and outstanding (December 31, 2014 - 84,000); $1,000 liquidation value			84,000		84,000
Common stock, $1 par value; 100,000,000 shares authorized; 52,625,869 shares issued:					
44,664,693 shares outstanding (December 31, 2014 - 52,625,869; 44,613,615)			52,626		52,626
Additional paid-in capital			539,222		539,311
Legal surplus			70,097		70,467
Retained earnings			170,605		181,152
Treasury stock, at cost, 7,961,176 shares (December 31, 2014 - 8,012,254 shares)			(96,495)		(97,070)
Accumulated other comprehensive income, net of			24,324		19,711

tax of $692 (December 31, 2014 $447)				
Total stockholders' equity		**936,379**		**942,197**
Total liabilities and stockholders' equity	$	**7,364,156**	$	**7,449,109**
See notes to unaudited consolidated financial statements.				

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS ENDED MARCH 31, 2015 AND 2014

	March 31,				
	2015			2014	
	(In thousands, except per share data)				
Interest income:					
Non-covered loans	$	81,979		$	85,243
Covered loans		15,504			23,388
Total interest income from loans		**97,483**			**108,631**
Mortgage-backed securities		8,590			12,417
Investment securities and other		928			2,026
Total interest income		**107,001**			**123,074**
Interest expense:					
Deposits		7,104			8,978
Securities sold under agreements to repurchase		7,164			7,411
Advances from FHLB and other borrowings		2,235			2,295
Subordinated capital notes		863			992
Total interest expense		**17,366**			**19,676**
Net interest income		**89,635**			**103,398**
Provision for non-covered loan and lease losses		37,384			10,062
Provision for covered loan and lease losses, net		4,809			1,629
Total provision for loan and lease losses		**42,193**			**11,691**
Net interest income after provision for loan and lease losses		**47,442**			**91,707**
Non-interest income:					
Banking service revenue		10,205			10,557
Wealth management revenue		7,155			6,867
Mortgage banking activities		1,863			1,695
Total banking and financial service revenues		**19,223**			**19,119**
FDIC shared-loss expense, net:					
FDIC indemnification asset expense		(12,221)			(17,622)
Change in true-up payment obligation		(863)			(865)
		(13,084)			(18,487)
Net gain (loss) on:					
Sale of securities		2,572			4,366
Derivatives		(90)			(223)
Other non-interest (loss) income		(1,740)			454

Total non-interest income, net		**6,881**		**5,229**
Non-interest expense:				
Compensation and employee benefits		20,180		21,787
Professional and service fees		4,181		4,206
Occupancy and equipment		8,636		8,309
Insurance		1,953		2,074
Electronic banking charges		5,367		4,652
Information technology expenses		1,454		1,815
Advertising, business promotion, and strategic initiatives		1,629		1,781
Foreclosure, repossession and other real estate expenses		5,447		6,387
Loan servicing and clearing expenses		2,353		2,060
Taxes, other than payroll and income taxes		1,479		3,735
Communication		691		957
Printing, postage, stationary and supplies		637		554
Director and investor relations		294		251
Other		2,031		2,836
Total non-interest expense		**56,332**		**61,404**
(Loss) income before income taxes		**(2,009)**		**35,532**
Income tax expense		979		11,785
Net (loss) income		**(2,988)**		**23,747**
Less: dividends on preferred stock		(3,465)		(3,465)
Net (loss) income available to common shareholders	$	**(6,453)**	$	**20,282**
(Loss) earnings per common share:				
Basic	$	**(0.14)**	$	**0.45**
Diluted	$	**(0.14)**	$	**0.42**
Average common shares outstanding and equivalents		**51,977**		**52,598**
Cash dividends per share of common stock	$	**0.10**	$	**0.08**
See notes to unaudited consolidated financial statements.				

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS ENDED MARCH 31, 2015 AND 2014

	Quarter Ended March 31,			
	2015			2014
	(In thousands)			
Net (loss) income	$	**(2,988)**	$	**23,747**
Other comprehensive income before tax:				
Unrealized gain on securities available-for-sale		7,375		9,563
Realized gain on investment securities included in net income		(2,572)		(4,366)
Unrealized gain on cash flow hedges		55		378
Other comprehensive income before taxes		**4,858**		**5,575**
Income tax effect		(245)		(744)
Other comprehensive income after taxes		**4,613**		**4,831**
Comprehensive income	$	**1,625**	$	**28,578**

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE QUARTERS ENDED MARCH 31, 2015 AND 2014

	Quarter Ended March 31,				
	2015			**2014**	
	(In thousands)				
Preferred stock:					
Balance at beginning of period	$	176,000		$	176,000
Balance at end of period		**176,000**			**176,000**
Common stock:					
Balance at beginning of period		52,626			52,707
Exercised stock options		-			7
Balance at end of period		**52,626**			**52,714**
Additional paid-in capital:					
Balance at beginning of period		539,311			538,071
Stock-based compensation expense		347			439
Exercised stock options		-			71
Lapsed restricted stock units		(436)			(294)
Balance at end of period		**539,222**			**538,287**
Legal surplus:					
Balance at beginning of period		70,467			61,957
Transfer (to) from retained earnings		(370)			2,335
Balance at end of period		**70,097**			**64,292**
Retained earnings:					
Balance at beginning of period		181,152			133,629
Net (loss) income		(2,988)			23,747
Cash dividends declared on common stock		(4,464)			(3,657)
Cash dividends declared on preferred stock		(3,465)			(3,465)
Transfer from (to) legal surplus		370			(2,335)
Balance at end of period		**170,605**			**147,919**
Treasury stock:					
Balance at beginning of period		(97,070)			(80,642)
Stock repurchased		-			(10,393)
Lapsed restricted stock units		575			292
Balance at end of period		**(96,495)**			**(90,743)**
Accumulated other comprehensive income, net of tax:					
Balance at beginning of period		19,711			3,191
Other comprehensive income, net of tax		4,613			4,831

Balance at end of period		**24,324**			**8,022**
Total stockholders' equity	**$**	**936,379**		**$**	**896,491**
See notes to unaudited consolidated financial statements.					

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE QUARTERS ENDED MARCH 31, 2015 AND 2014

	Quarter Ended March 31,				
	2015			**2014**	
	(In thousands)				
Cash flows from operating activities:					
Net (loss) income	$	**(2,988)**		$	**23,747**
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Amortization of deferred loan origination fees, net of costs		860			601
Amortization of fair value premiums, net of discounts, on acquired loans		2,295			3,634
Amortization of investment securities premiums, net of accretion of discounts		2,500			412
Amortization of core deposit and customer relationship intangibles		476			542
Amortization of fair value premiums on acquired deposits		346			1,897
FDIC shared-loss expense, net		13,084			18,487
Depreciation and amortization of premises and equipment		2,714			2,399
Deferred income tax expense (benefit), net		(613)			(826)
Provision for covered and non-covered loan and lease losses, net		42,193			11,691
Stock-based compensation		347			439
(Gain) loss on:					
Sale of securities		(2,572)			(4,366)
Sale of mortgage loans held-for-sale		(1,258)			(1,242)
Derivatives		(18)			478
Foreclosed real estate		(567)			1,500
Sale of other repossessed assets		2,148			1,973
Sale of premises and equipment		4			(2)
Originations of loans held-for-sale		(54,615)			(50,843)
Proceeds from sale of loans held-for-sale		22,613			24,653
Net (increase) decrease in:					
Trading securities		630			(41)
Accrued interest receivable		1,751			(235)
Servicing assets		1,828			(169)

Other assets		(801)			4,935
Net increase (decrease) in:					
Accrued interest on deposits and borrowings		(765)			(1,382)
Accrued expenses and other liabilities		4,573			2,362
Net cash provided by operating activities		**34,165**			**40,644**
Cash flows from investing activities:					
Purchases of:					
Investment securities available-for-sale		(948)			(127,373)
Investment securities held-to-maturity		(14,221)			-
FHLB stock		-			(48,600)
Maturities and redemptions of:					
Investment securities available-for-sale		55,605			153,340
Investment securities held-to-maturity		3,925			-
FHLB stock		21			48,620
Proceeds from sales of:					
Investment securities available-for-sale		67,075			139,152
Foreclosed real estate and other repossessed assets		15,635			13,392
Premises and equipment		-			10
Origination and purchase of loans, excluding loans held-for-sale		(184,834)			(161,182)
Principal repayment of loans, including covered loans		228,993			141,118
Reimbursements from the FDIC on shared-loss agreements		15,462			8,236
Additions to premises and equipment		(864)			(2,532)
Net change in securities purchased under agreements to resell		-			60,000
Net change in restricted cash		(6,999)			67,029
Net cash provided by investing activities		**178,850**			**291,210**

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE QUARTERS ENDED MARCH 31, 2015 AND 2014 – (Continued)

	Quarter Ended March 31,				
	2015			**2014**	
	(In thousands)				
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits		(44,468)			(79,572)
Securities sold under agreements to repurchase		(52,816)			(255,000)
FHLB advances, federal funds purchased, and other borrowings		(2,728)			23,311
Subordinated capital notes		262			394
Exercise of stock options and restricted units lapsed, net		139			76
Purchase of treasury stock		-			(10,393)
Termination of derivative instruments		-			(181)
Dividends paid on preferred stock		(3,465)			(3,465)
Dividends paid on common stock		(4,464)			(3,657)
Net cash used in financing activities		**(107,540)**			**(328,487)**
Net change in cash and cash equivalents		**105,475**			**3,367**
Cash and cash equivalents at beginning of period		573,427			621,269
Cash and cash equivalents at end of period	**$**	**678,902**		**$**	**624,636**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:					
Interest paid	$	17,893		$	22,620
Mortgage loans securitized into mortgage-backed securities	$	25,820		$	23,228
Transfer from loans to foreclosed real estate and other repossessed assets	$	13,618		$	25,106
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	1,485		$	1,747
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	-		$	33,125
See notes to unaudited consolidated financial statements.					

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

OFG Bancorp (the “Company”) is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. The Company operates through various subsidiaries including, a commercial bank, Oriental Bank (or the “Bank”), a securities broker-dealer, Oriental Financial Services Corp. (“Oriental Financial Services”), an insurance agency, Oriental Insurance, Inc. (“Oriental Insurance”) and a retirement plan administrator, Oriental Pension Consultants, Inc. (“OPC”), formerly known as Caribbean Pension Consultants, Inc.. Through these subsidiaries and their respective divisions, the Company provides a wide range of banking and financial services such as commercial, consumer and mortgage lending, auto loans, financial planning, insurance sales, money management and investment banking and brokerage services, as well as corporate and individual trust services.

On April 30, 2010, the Bank acquired certain assets and assumed certain deposits and other liabilities of Eurobank, a Puerto Rico commercial bank, in an FDIC-assisted acquisition. On December 18, 2012, the Company acquired a group of Puerto Rico based entities that included Banco Bilbao Vizcaya Argentaria Puerto Rico (“BBVAPR”), a Puerto Rico commercial bank, as well as a securities broker-dealer and an insurance agency, which is referred to herein as the “BBVAPR Acquisition.” The businesses acquired in these acquisitions have been integrated with the Company’s existing business.

Recent Accounting Developments

In January 2015, the Financial Accounting Standard Board (“FASB”) issued a standard that simplifies income statement presentation by eliminating the concept of extraordinary items from U.S. GAAP. However, the new guidance does not affect current presentation and disclosure requirements for material events or transactions that are unusual in nature or infrequent in occurrence. Companies also will continue to evaluate whether items are unusual in nature or infrequent in occurrence when estimating the annual effective tax rate for interim reporting purposes. For all entities, this standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with earlier adoption permitted. The adoption of this standard will have no material impact on our financial position or results of operations.

Other than the accounting pronouncement disclosed above, there was no other new accounting pronouncement issued during the first quarter of 2015 that could have a material impact on the Company’s financial position, operating results or financials statement disclosures.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

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

	March 31, 2015		December 31, 2014	
	(In thousands)			
Cash pledged as collateral to other financial institutions to secure:				
Securities sold under agreements to repurchase	$	7,000	$	-
Derivatives		2,980		2,980
Obligations under agreement of loans sold with recourse		5,426		5,427
	$	**15,406**	**$**	**8,407**

At March 31, 2015 and December 31, 2014, OIB and Oriental Overseas, each, held unencumbered certificates of deposit in the amount of $300 thousand as the legal reserve required for international banking entities under Puerto Rico law. Each certificate of deposit cannot be withdrawn by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions ("OCFI").

The Company delivers cash as collateral to meet margin calls for some long term securities sold under agreements to repurchase. At March 31, 2015, the Company had cash pledged as collateral for securities sold under agreements to repurchase amounting to $7.0 million. At December 31, 2014, there was no cash pledged as collateral.

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At both March 31, 2015 and December 31, 2014, the Company had delivered $3.0 million of cash as collateral for such derivatives activities.

As part of the BBVA Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At March 31, 2015 and December 31, 2014, the Company delivered as collateral cash amounting to $5.4 million.

The Company's bank subsidiary, Oriental Bank, is required by Puerto Rico law to maintain average weekly reserve balances to cover government demand deposits. The amount of those minimum average reserve balances for the week that covered March 31, 2015 was $149.3 million (December 31, 2014 - $141.5 million). As of March 31, 2015 and December 31, 2014, the Bank complied with the requirement. Cash and due from bank as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

NOTE 3 – INVESTMENT SECURITIES

Money Market Investments

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At March 31, 2015 and December 31, 2014, money market instruments included as part of cash and cash equivalents amounted to $6.2 million and $4.7 million, respectively.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015					
	Amortized Cost		Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)					
Available-for-sale						
Mortgage-backed securities						
FNMA and FHLMC certificates	$ 888,723		$ 40,112	$ 226	$ 928,609	3.06%
GNMA certificates	4,086		290	-	4,376	4.99%
CMOs issued by US government-sponsored agencies	168,607		214	1,992	166,829	1.82%
Total mortgage-backed securities	**1,061,416**		**40,616**	**2,218**	**1,099,814**	2.87%
Investment securities						
Obligations of US government-sponsored agencies	6,678		35	-	6,713	1.34%
Obligations of Puerto Rico government and political subdivisions	20,963		-	4,941	16,022	5.41%
Other debt securities	2,983		170	-	3,153	2.99%
Total investment securities	**30,624**		**205**	**4,941**	**25,888**	4.29%
Total securities available for sale	**$ 1,092,040**		**$ 40,821**	**$ 7,159**	**$ 1,125,702**	2.91%
Held-to-maturity						
Mortgage-backed securities						
FNMA and FHLMC certificates	172,847		3,014	5	175,856	2.42%
Total	**$ 1,264,887**		**$ 43,835**	**$ 7,164**	**$ 1,301,558**	2.84%

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 972,836	$ 37,876	$ 1,203	$ 1,009,509	3.12%
GNMA certificates	4,473	288	8	4,753	4.94%
CMOs issued by US government-sponsored agencies	179,146	136	3,153	176,129	1.81%
Total mortgage-backed securities	**1,156,455**	**38,300**	**4,364**	**1,190,391**	**2.92%**
Investment securities					
Obligations of US government-sponsored agencies	7,148	33	-	7,181	1.34%
Obligations of Puerto Rico government and public instrumentalities	20,939	-	5,267	15,672	5.41%
Other debt securities	3,137	157	-	3,294	2.95%
Total investment securities	**31,224**	**190**	**5,267**	**26,147**	**4.23%**
Total securities available-for-sale	**$ 1,187,679**	**$ 38,490**	**$ 9,631**	**$ 1,216,538**	**2.96%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	162,752	1,402	-	164,154	2.48%
Total	**$ 1,350,431**	**$ 39,892**	**$ 9,631**	**$ 1,380,692**	**2.90%**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The amortized cost and fair value of the Company's investment securities at March 31, 2015, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2015			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)		(In thousands)	
Mortgage-backed securities				
Due after 5 to 10 years				
FNMA and FHLMC certificates	$ 19,651	$ 20,106	$ -	$ -
Total due after 5 to 10 years	**19,651**	**20,106**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	869,072	908,503	172,847	175,856
GNMA certificates	4,086	4,376	-	-
CMOs issued by US government-sponsored agencies	168,607	166,829	-	-
Total due after 10 years	**1,041,765**	**1,079,708**	**172,847**	**175,856**
Total mortgage-backed securities	**1,061,416**	**1,099,814**	**172,847**	**175,856**
Investment securities				
Due from 1 to 5 years				
Obligations of Puerto Rico government and political subdivisions	10,497	9,068	-	-
Total due from 1 to 5 years	**10,497**	**9,068**	**-**	**-**
Due after 5 to 10 years				
Obligations of US government and sponsored agencies	6,678	6,713	-	-
Total due after 5 to 10 years	**6,678**	**6,713**	**-**	**-**
Due after 10 years				
Obligations of Puerto Rico government and political subdivisions	10,466	6,954	-	-

Other debt securities		2,983			3,153			-			-
Total due after 10 years		**13,449**			**10,107**			**-**			**-**
Total investment securities		**30,624**			**25,888**			**-**			**-**
Total securities available-for-sale	**$**	**1,092,040**		**$**	**1,125,702**		**$**	**172,847**		**$**	**175,856**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the first quarter of 2015 and 2014, the Company sold $26.8 million and $24.0 million, respectively, of available-for-sale Government National Mortgage Association (“GNMA”) certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period.

The table below presents the gross realized gains by category for the quarters ended March 31, 2015 and 2014.

	Quarter Ended March 31, 2015							
Description		Sale Price		Book Value at Sale		Gross Gains		Gross Losses
	(In thousands)							
Sale of securities available-for-sale								
Mortgage-backed securities								
FNMA and FHLMC certificates	$	40,307	$	37,735	$	2,572	$	-
GNMA certificates		26,768		26,768		-		-
Total	**$**	**67,075**	**$**	**64,503**	**$**	**2,572**	**$**	**-**

	Quarter Ended March 31, 2014							
Description		Sale Price		Book Value at Sale		Gross Gains		Gross Losses
	(In thousands)							
Sale of securities available-for-sale								
Mortgage-backed securities								
FNMA and FHLMC certificates	$	115,159	$	110,792	$	4,366	$	-
GNMA certificates		23,993		23,993		-		-
Total		**139,152**		**134,785**		**4,366**		**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at March 31, 2015 and December 31, 2014:

	March 31, 2015					
	12 months or more					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	121,308	$	1,992	$	119,316
Obligations of Puerto Rico government and political subdivisions		20,963		4,941		16,022
	$	**142,271**	$	**6,933**	$	**135,338**
	Less than 12 months					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
FNMA and FHLMC certificates	$	73,069	$	226	$	72,842
Securities held-to-maturity						
FNMA and FHLMC Certificates		7,833		5		7,829
	$	**80,902**	**$**	**231**	**$**	**80,671**
	Total					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	121,308	$	1,992	$	119,316
FNMA and FHLMC certificates		73,069		226		72,842
Obligations of Puerto Rico government and political subdivisions		20,963		4,941		16,022
		215,340		**7,159**		**208,180**
Securities held-to-maturity						
FNMA and FHLMC Certificates		7,833		5		7,829
	$	**223,173**	**$**	**7,164**	**$**	**216,009**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014					
	12 months or more					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico government and political subdivisions	$	20,939	$	5,267	$	15,672
CMOs issued by US government-sponsored agencies		143,928		3,086		140,842
FNMA and FHLMC certificates		113,376		1,172		112,204
GNMA certificates		77		8		69
	$	**278,320**	**$**	**9,533**	**$**	**268,787**
	Less than 12 months					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies		15,172		67		15,105
FNMA and FHLMC certificates		63,736		31		63,705
	$	**78,908**	**$**	**98**	**$**	**78,810**
	Total					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies		159,100		3,153		155,947
FNMA and FHLMC certificates		177,112		1,203		175,909
Obligations of Puerto Rico government and political subdivisions		20,939		5,267		15,672
GNMA certificates		77		8		69
	$	**357,228**	**$**	**9,631**	**$**	**347,597**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company performs valuations of the investment securities on a monthly basis. Moreover, the Company conducts quarterly reviews to identify and evaluate each investment in an unrealized loss position for other-than-temporary impairment. Any portion of a decline in value associated with credit loss is recognized in income with the remaining noncredit-related component recognized in other comprehensive income. A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered by comparing the present value of cash flows expected to be collected from the security, discounted at the rate equal to the yield used to accrete current and prospective beneficial interest for the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the “credit loss.” Other-than-temporary impairment analysis is based on estimates that depend on market conditions and are subject to further change over time. In addition, while the Company believes that the methodology used to value these exposures is reasonable, the methodology is subject to continuing refinement, including those made as a result of market developments. Consequently, it is reasonably possible that changes in estimates or conditions could result in the need to recognize additional other-than-temporary impairment charges in the future.

Most of the investments ($202.2 million, amortized cost, or 91%) with an unrealized loss position at March 31, 2015 consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The remaining investments ($21.0 million, amortized cost, or 9%) with an unrealized loss position at March 31, 2015 consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. Moreover, the negative rating decisions taken by the credit rating agencies have affected the market value and liquidity of these securities.

As of March 31, 2015, the Company applied a discounted cash flow analysis to the Puerto Rico government bonds to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of these investments was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investments, and included the following components:

- The contractual future cash flows of the bonds are projected based on the key terms as set forth in the official statements for each investment. Such key terms include among others the interest rate, amortization schedule, if any, and maturity date.

- The risk-adjusted cash flows are calculated based on a monthly default probability and recovery rate assumptions based on the credit rating of each investment. Constant monthly default rates are assumed throughout the life of the bonds which are based on the respective security's credit rating as of the date of the analysis.

- The adjusted future cash flows are then discounted at the original effective yield of each investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of each investment.

The discounted cash flow analysis for the investments showed a cumulative default probability at maturity in the range of 4.930% to 30.733%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 69.267% and 95.07%). Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in the Puerto Rico government bonds and is therefore not required to recognize a credit loss as of March 31, 2015.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

The Company's loan portfolio is composed of covered loans and non-covered loans. Covered loans are subject to loss sharing agreements with the FDIC and non-covered loans are not subject to FDIC loss sharing agreements. The risks of covered loans are different from the risks of non-covered loans because of the loss protection provided by the FDIC to covered loans. Loans acquired in the BBVAPR Acquisition are included as non-covered loans in the unaudited consolidated statements of financial condition. Non-covered loans are further subdivided between originated and other loans, acquired loans accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium), and acquired loans accounted for under ASC 310-30 (loans acquired with deteriorated credit quality, including those by analogy).

The composition of the Company's loan portfolio at March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015			December 31, 2014	
	(In thousands)				
Non-covered loans:					
Originated and other loans and leases held for investment:					
Mortgage	$	789,545		$	791,751
Commercial		1,324,904			1,289,732
Consumer		193,658			186,760
Auto and leasing		601,963			575,582
		2,910,070			**2,843,825**
Acquired loans:					
Accounted for under ASC 310-20 (Loans with revolving feature and/or					
acquired at a premium)					
Commercial		9,506			12,675
Consumer		42,922			45,344
Auto		162,194			184,782
		214,622			**242,801**
Accounted for under ASC 310-30 (Loans acquired with deteriorated					
credit quality, including those by analogy)					
Mortgage		645,918			656,122
Commercial		423,989			452,201
Construction		95,820			106,361

Consumer		23,841			29,888
Auto		220,990			247,233
		1,410,558			**1,491,805**
		4,535,250			**4,578,431**
Deferred loan cost , net		4,433			4,282
Loans receivable		**4,539,683**			**4,582,713**
Allowance for loan and lease losses on non-covered loans		(96,375)			(69,517)
Loans receivable, net		**4,443,308**			**4,513,196**
Mortgage loans held-for-sale		23,464			14,539
Total non-covered loans, net		**4,466,772**			**4,527,735**
Covered loans:					
Loans secured by 1-4 family residential properties		115,745			117,171
Construction and development secured by 1-4 family residential properties		17,932			19,562
Commercial and other construction		190,734			221,917
Consumer		4,047			4,506
Total covered loans		**328,458**			**363,156**
Allowance for loan and lease losses on covered loans		(70,651)			(64,245)
Total covered loans, net		**257,807**			**298,911**
Total loans, net	**$**	**4,724,579**		**$**	**4,826,646**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-covered Loans

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

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

The following tables present the aging of the recorded investment in gross originated and other loans held for investment as of March 31, 2015 and December 31, 2014 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	March 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 5,085	$ 1,797	$ 3,240	$ 10,122	$ 52,783	$ 62,905	$ 76
Years 2003 and 2004	9,000	4,104	5,996	19,100	87,653	106,753	-
Year 2005	4,243	2,354	4,293	10,890	48,138	59,028	-
Year 2006	5,338	3,097	8,393	16,828	66,813	83,641	460
Years 2007, 2008 and 2009	2,611	3,510	11,794	17,915	78,220	96,135	1,771

Years 2010, 2011, 2012, 2013 2014 and 2015	1,631	1,582	9,147	12,360	200,082	212,442	1,132
	27,908	16,444	42,863	87,215	533,689	620,904	3,439
Non-traditional	948	1,028	3,376	5,352	29,364	34,716	-
Loss mitigation program	8,010	8,722	13,298	30,030	66,017	96,047	3,193
	36,866	26,194	59,537	122,597	629,070	751,667	6,632
Home equity secured personal loans	-	-	-	-	420	420	-
GNMA's buy-back option program	-	-	37,458	37,458	-	37,458	-
	36,866	**26,194**	**96,995**	**160,055**	**629,490**	**789,545**	**6,632**
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	152,386	152,386	-
Institutional	-	-	-	-	36,007	36,007	-
Middle market	1,330	-	935	2,265	182,182	184,447	-
Retail	617	1,697	7,073	9,387	173,782	183,169	-
Floor plan	89	-	-	89	2,989	3,078	-
Real estate	-	-	-	-	14,196	14,196	-
	2,036	1,697	8,008	11,741	561,542	573,283	-
Other commercial and industrial:							
Corporate	-	-	-	-	47,760	47,760	-
Institutional	-	-	-	-	477,932	477,932	-
Middle market	-	-	-	-	99,303	99,303	-
Retail	362	176	959	1,497	86,348	87,845	-
Floor plan	182	-	98	280	38,501	38,781	-
	544	176	1,057	1,777	749,844	751,621	-
	2,580	**1,873**	**9,065**	**13,518**	**1,311,386**	**1,324,904**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	March 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	323	139	366	828	18,268	19,096	-
Overdrafts	17	-	-	17	290	307	-
Personal lines of credit	33	52	89	174	1,882	2,056	-
Personal loans	2,176	949	795	3,920	152,051	155,971	-
Cash collateral personal loans	252	16	-	268	15,960	16,228	-
	2,801	**1,156**	**1,250**	**5,207**	**188,451**	**193,658**	**-**
Auto and leasing	51,167	13,120	7,195	**71,482**	530,481	**601,963**	-
Total	**$ 93,414**	**$ 42,343**	**$ 114,505**	**$ 250,262**	**$ 2,659,808**	**$ 2,910,070**	**$ 6,632**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 4,128	$ 3,157	$ 4,395	$ 11,680	$ 54,064	$ 65,744	$ 134
Years 2003 and 2004	10,484	4,735	6,489	21,708	87,961	109,669	-
Year 2005	3,824	2,205	4,454	10,483	49,989	60,472	-
Year 2006	5,706	3,298	8,667	17,671	67,879	85,550	89
Years 2007, 2008 and 2009	5,283	1,809	7,646	14,738	78,751	93,489	-
Years 2010, 2011, 2012, 2013 and 2014	3,684	2,992	6,900	13,576	190,848	204,424	365
	33,109	18,196	38,551	89,856	529,492	619,348	588
Non-traditional	1,477	584	3,223	5,284	30,916	36,200	-
Loss mitigation program	8,199	7,106	14,114	29,419	64,024	93,443	2,766
	42,785	25,886	55,888	124,559	624,432	748,991	3,354
Home equity secured personal loans	-	-	-	-	517	517	-
GNMA's buy-back option program	-	-	42,243	42,243	-	42,243	-
	42,785	**25,886**	**98,131**	**166,802**	**624,949**	**791,751**	**3,354**

Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	133,076	133,076	-
Institutional	-	-	-	-	36,611	36,611	-
Middle market	-	645	396	1,041	163,009	164,050	-
Retail	330	561	7,275	8,166	167,462	175,628	-
Floor plan	-	-	-	-	1,650	1,650	-
Real estate	-	-	-	-	12,628	12,628	-
	330	1,206	7,671	9,207	514,436	523,643	-
Other commercial and industrial:							
Corporate	-	-	-	-	63,746	63,746	-
Institutional	-	-	-	-	478,935	478,935	-
Middle market	-	-	618	618	91,716	92,334	-
Retail	866	412	1,061	2,339	87,832	90,171	-
Floor plan	-	-	-	-	40,903	40,903	-
	866	412	1,679	2,957	763,132	766,089	-
	1,196	**1,618**	**9,350**	**12,164**	**1,277,568**	**1,289,732**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	360	139	375	874	18,197	19,071	-
Overdrafts	20	-	-	20	287	307	-
Personal lines of credit	102	25	102	229	1,971	2,200	-
Personal loans	1,822	743	678	3,243	144,696	147,939	-
Cash collateral personal loans	275	39	9	323	16,920	17,243	-
	2,579	**946**	**1,164**	**4,689**	**182,071**	**186,760**	**-**
Auto and leasing	47,658	16,916	7,420	**71,994**	503,588	**575,582**	-
Total	**$ 94,218**	**$ 45,366**	**$ 116,065**	**$ 255,649**	**$ 2,588,176**	**$ 2,843,825**	**$ 3,354**

At March 31, 2015 and December 31, 2014, the Company had $425.0 million and $450.2 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All loans granted to Puerto Rico government were current at March 31, 2015 and December 31, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Credit cards, retail and commercial revolving lines of credits, floor plans and performing auto loans with FICO scores over 660 acquired at a premium as part of the non-covered portfolio are accounted for under the guidance of ASC 310-20, which requires that any contractually required loan payment receivable in excess of the Company's initial investment in the loans be accreted into interest income on a level-yield basis over the life of the loan. Loans accounted for under ASC 310-20 are placed on non-accrual status when past due in accordance with the Company's non-accrual policy and any accretion of discount or amortization of premium is discontinued. Loans acquired in the non-covered portfolio that were accounted for under the provisions of ASC 310-20 are removed from the acquired loan category at the end of the reporting period upon refinancing, renewal or normal re-underwriting.

The following tables present the aging of the recorded investment in gross acquired loans accounted for under ASC 310-20 as of March 31, 2015 and December 31, 2014, by class of loans:

	March 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Retail	$ -	$ -	$ 363	$ 363	$ -	$ 363	$ -
Floor plan	-	-	392	392	2,320	2,712	-
	-	-	755	755	2,320	3,075	-
Other commercial and industrial							
Retail	116	117	143	376	3,573	3,949	-

Floor plan		350		-		108		458		2,024		2,482		-
		466		117		251		834		5,597		6,431		-
		466		**117**		**1,006**		**1,589**		**7,917**		**9,506**		**-**
Consumer														
Credit cards		847		585		1,247		2,679		36,905		39,584		-
Personal loans		175		9		107		291		3,047		3,338		-
		1,022		**594**		**1,354**		**2,970**		**39,952**		**42,922**		**-**
Auto		**11,204**		**2,523**		**959**		**14,686**		**147,508**		**162,194**		**-**
Total	**$**	**12,692**	**$**	**3,234**	**$**	**3,319**	**$**	**19,245**	**$**	**195,377**	**$**	**214,622**	**$**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Retail	$ -	$ -	$ 351	$ 351	$ -	$ 351	$ -
Floor plan	-	62	345	407	3,724	4,131	-
	-	62	696	758	3,724	4,482	-
Other commercial and industrial							
Retail	155	67	192	414	3,707	4,121	-
Floor plan	202	134	223	559	3,513	4,072	-
	357	201	415	973	7,220	8,193	-
	357	**263**	**1,111**	**1,731**	**10,944**	**12,675**	**-**
Consumer							
Credit cards	1,376	654	1,399	3,429	38,419	41,848	-
Personal loans	151	47	77	275	3,221	3,496	-
	1,527	**701**	**1,476**	**3,704**	**41,640**	**45,344**	**-**
Auto	**11,003**	**3,453**	**1,262**	**15,718**	**169,064**	**184,782**	**-**
Total	**$ 12,887**	**$ 4,417**	**$ 3,849**	**$ 21,153**	**$ 221,648**	**$ 242,801**	**$ -**

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

Acquired loans that are part of the non-covered portfolio, except for credit cards, retail and commercial revolving lines of credits, floor plans and performing auto loans with FICO scores over 660 acquired at a premium, are accounted for by the Company in accordance with ASC 310-30.

The carrying amount corresponding to non-covered loans acquired with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at March 31, 2015 and December 31, 2014 is as follows:

	March 31, 2015	December 31, 2014
	(In thousands)	
Contractual required payments receivable	$ 2,275,099	$ 2,394,378
Less: Non-accretable discount	450,511	456,627
Cash expected to be collected	1,824,588	1,937,751
Less: Accretable yield	414,030	445,946
Carrying amount, gross	1,410,558	1,491,805
Less: allowance for loan and lease losses	14,166	13,481
Carrying amount, net	$ 1,396,392	$ 1,478,324

At March 31, 2015 and December 31, 2014, the Company had $168.3 million and $168.8 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its non-covered acquired loans accounted for under ASC 310-30. This entire amount was current at March 31, 2015 and December 31, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables describe the accretable yield and non-accretable discount activity of acquired loans accounted for under ASC 310-30 for the quarters ended March, 31, 2015 and 2014, excluding covered loans:

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

	Quarter Ended March 31, 2014					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 287,841	$ 96,139	$ 42,993	$ 77,845	$ 12,735	$ 517,553
Accretion	(9,369)	(12,717)	(4,486)	(11,825)	(1,872)	(40,269)
Transfer (to) from non-accretable discount	(4)	(785)	(3,502)	8,615	393	4,717
	$ 278,468	**$ 82,637**	**$ 35,005**	**$ 74,635**	**$ 11,256**	**$ 482,001**

Balance at end of period												
Non-Accretable Discount Activity:												
Balance at beginning of period	$	463,166	$	42,515	$	5,851	$	39,645	$	28,410	$	579,587
Change in actual and expected losses		(4,522)		(1,749)		(2,105)		(1,702)		(1,498)		(11,576)
Transfer from (to) accretable yield		4		785		3,502		(8,615)		(393)		(4,717)
Balance at end of period	**$**	**458,648**	**$**	**41,551**	**$**	**7,248**	**$**	**29,328**	**$**	**26,519**	**$**	**563,294**

Covered Loans

The carrying amount of covered loans at March 31, 2015 and December 31, 2014 is as follows:

	March 31,			**December 31,**	
	2015			**2014**	
	(In thousands)				
Contractual required payments receivable	$	477,458		$	535,425
Less: Non-accretable discount		32,712			62,410
Cash expected to be collected		444,746			473,015
Less: Accretable yield		116,288			109,859
Carrying amount, gross		328,458			363,156
Less: Allowance for covered loan and lease losses		70,651			64,245
Carrying amount, net	**$**	**257,807**		**$**	**298,911**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables describe the accretable yield and non-accretable discount activity of covered loans for the quarters ended March 31, 2015 and 2014:

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

	Quarter Ended March 31, 2014					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential	Leasing	Consumer	Total

			Properties			
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 53,250	$ 95,093	$ 1,690	$ 10,238	$ 2,688	$ 162,959
Accretion	(4,164)	(14,852)	(1,080)	(3,011)	(281)	(23,388)
Transfer from (to) non-accretable discount	5,533	2,959	(401)	105	-	8,196
Balance at end of period	**$ 54,619**	**$ 83,200**	**$ 209**	**$ 7,332**	**$ 2,407**	**$ 147,767**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 39,182	$ 81,092	$ -	$ -	$ 9,203	$ 129,477
Change in actual and expected losses	(2,309)	(10,997)	(401)	105	(356)	(13,958)
Transfer (to) from accretable yield	(5,533)	(2,959)	401	(105)	-	(8,196)
Balance at end of period	**$ 31,340**	**$ 67,136**	**$ -**	**$ -**	**$ 8,847**	**$ 107,323**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

The following table presents the recorded investment in loans in non-accrual status by class of loans as of March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014	
	(In thousands)				
Originated and other loans and leases held for investment					
Mortgage					
Traditional (by origination year):					
Up to the year 2002	$	3,246		$	4,427
Years 2003 and 2004		6,132			7,042
Year 2005		4,427			4,585
Year 2006		8,280			9,274
Years 2007, 2008 and 2009		10,023			8,579
Years 2010, 2011, 2012, 2013, 2014 and 2015		8,081			7,365
		40,189			41,272
Non-traditional		3,376			3,224
Loss mitigation program		22,454			20,934
		66,019			**65,430**
Commercial					
Commercial secured by real estate					
Middle market		10,442			9,534
Retail		9,722			9,000
		20,164			18,534
Other commercial and industrial					
Institutional		199,982			-
Middle market		547			618
Retail		2,029			2,527
Floor plan		98			-
		202,656			3,145
		222,820			**21,679**
Consumer					
Credit cards		366			375
Personal lines of credit		108			110
Personal loans		1,131			1,092

Cash collateral personal loans		-			13
		1,605			**1,590**
Auto and leasing		**8,482**			**8,668**
	$	**298,926**		$	**97,367**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	March 31, 2015		December 31, 2014	
	(In thousands)			
Acquired loans accounted under ASC 310-20				
Commercial				
Commercial secured by real estate				
Retail	$	363	$	351
Floor plan		392		407
		755		758
Other commercial and industrial				
Retail		146		195
Floor plan		115		234
		261		429
		1,016		**1,187**
Consumer				
Credit cards		1,247		1,399
Personal loans		107		77
		1,354		**1,476**
Auto		**1,196**		**1,512**
		3,566		**4,175**
Total non-accrual loans	**$**	**302,492**	**$**	**101,542**

Loans accounted for under ASC 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.

Delinquent residential mortgage loans insured or guaranteed under applicable FHA and VA programs are placed in non-accrual status when they become 18 months or more past due, since they are insured loans.

During the quarter ended March 31, 2015, the revolving line of credit to PREPA was classified as non-accrual. At March 31, 2015, this line of credit had an unpaid principal balance of $200.0 million.

At March 31, 2015 and December 31, 2014, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $87.6 million and $274.4 million, respectively, as they are performing under their new terms.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

The Company evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans was $244.1 million and $236.9 million at March 31, 2015 and December 31, 2014, respectively. Impaired commercial loans at March 31, 2015 and December 31, 2014 included the PREPA line of credit with an unpaid principal balance of $200.0 million. The impaired commercial loans were measured based on the fair value of collateral or the present value of cash flows, including those identified as troubled-debt restructurings. The valuation allowance for impaired commercial loans amounted to $25.7 million and $841 thousand at March 31, 2015 and December 31, 2014, respectively. The total investment in impaired mortgage loans was $88.8 million and $94.2 million at March 31, 2015 and December 31, 2014, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to approximately $8.4 million and $9.0 million at March 31, 2015 and December 31, 2014, respectively.

Originated and Other Loans and Leases Held for Investment

The Company's recorded investment in non-covered commercial and mortgage loans categorized as originated and other loans and leases held for investment that were individually evaluated for impairment and the related allowance for loan and lease losses at March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015									
	Unpaid			**Recorded**			**Related**			
	Principal			**Investment**			**Allowance**			**Coverage**
	(In thousands)									
Impaired loans with specific allowance:										
Commercial	$	214,131		$	212,960		$	25,744		12%
Residential troubled-debt restructuring		94,979			88,805			8,366		9%
Impaired loans with no specific allowance:										
Commercial		33,197			29,460			N/A		N/A
Total investment in impaired loans	**$**	**342,307**		**$**	**331,225**		**$**	**34,110**		10%

	December 31, 2014			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 6,349	$ 6,226	$ 841	14%
Residential troubled-debt restructuring	99,947	94,185	8,968	10%
Impaired loans with no specific allowance				
Commercial	237,806	230,044	N/A	N/A
Total investment in impaired loans	**$ 344,102**	**$ 330,455**	**$ 9,809**	3%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company's recorded investment in non-covered commercial loans categorized as non-covered acquired loans accounted for under ASC 310-20 that were individually evaluated for impairment and the related allowance for loan and lease losses at March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015									
	Unpaid			**Recorded**			**Related**			
	Principal			**Investment**			**Allowance**			**Coverage**
	(In thousands)									
Impaired loans with no specific allowance										
Commercial	$	1,644		$	1,641			N/A		N/A
Total investment in impaired loans	**$**	**1,644**		**$**	**1,641**		**$**	**-**		**0%**
	December 31, 2014									
	Unpaid			**Recorded**			**Specific**			
	Principal			**Investment**			**Allowance**			**Coverage**
	(In thousands)									
Impaired loans with no specific allowance										
Commercial	$	672		$	672			N/A		N/A
Total investment in impaired loans	**$**	**672**		**$**	**672**		**$**	**-**		**0%**

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

The Company's recorded investment in non-covered acquired loan pools accounted for under ASC 310-30 and their related allowance for non-covered loan and lease losses at March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015

	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired non-covered loan pools:				
Mortgage	$ 19,368	$ 20,618	$ 473	2%
Commercial	249,252	221,943	5,795	3%
Construction	90,246	84,453	7,892	9%
Consumer	29,498	23,843	5	0%
Total investment in impaired non-covered loan pools	**$ 388,364**	**$ 350,857**	**$ 14,165**	4%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired non-covered loan pools:				
Commercial	289,228	255,619	5,506	2%
Construction	90,786	83,751	7,970	10%
Consumer	35,812	29,888	5	0%
Total investment in impaired non-covered loan pools	**$ 415,826**	**$ 369,258**	**$ 13,481**	4%

The following table presents the interest recognized in non-covered commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30, for the quarters ended March 31, 2015 and 2014:

	Quarter Ended March 31,			
	2015		2014	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Originated and other loans held for investment:				
Impaired loans with specific allowance				
Commercial	$ 3,695	$ 79,873	$ 24	$ 6,259
Residential troubled-debt restructuring	733	93,391	645	87,052
Impaired loans with no specific allowance				
Commercial	241	161,568	78	21,629
	4,669	**334,832**	**747**	**114,940**
Acquired loans accounted for under ASC 310-20:				
Impaired loans with no specific allowance				

Commercial		12			2,401			-			208
Total interest income from impaired loans	**$**	**4,681**		**$**	**337,233**		**$**	**747**		**$**	**115,148**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

The Company's recorded investment in covered loan pools that have recorded impairments and their related allowance for covered loan and lease losses as of March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015								
									Coverage
	Unpaid			Recorded					to Recorded
	Principal			Investment			Allowance		Investment
	(In thousands)								
Impaired covered loan pools:									
Loans secured by 1-4 family residential properties	$	131,084	$	105,037	$	17,341			17%
Construction and development secured by 1-4 family residential properties		46,732		17,932		10,842			60%
Commercial and other construction		162,616		120,049		42,079			35%
Consumer		6,434		2,262		389			17%
Total investment in impaired covered loan pools	**$**	**346,866**	**$**	**245,280**	**$**	**70,651**			29%

	December 31, 2014							
								Coverage
	Unpaid			Recorded		Specific		to Recorded
	Principal			Investment		Allowance		Investment
	(In thousands)							
Impaired covered loan pools with specific allowance								
Loans secured by 1-4 family residential properties	$	134,579	$	106,116	$	15,522		15%
Construction and development secured by 1-4 family residential properties		57,123		19,562		10,724		55%

Commercial and other construction		93,894			74,069			37,610		51%
Consumer		7,992			4,506			389		9%
Total investment in impaired covered loan pools	**$**	**293,588**		**$**	**204,253**		**$**	**64,245**		31%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

The following tables present the troubled-debt restructurings during the quarters ended March 31, 2015 and 2014:

	Quarter Ended March 31, 2015					
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modificat Weighted Average Term Months)
	(Dollars in thousands)						
Mortgage	51	$ 6,182	4.00%	356	$ 6,054	4.02%	3
Commercial	3	4,505	6.83%	80	4,505	7.00%	1
Consumer	11	146	14.67%	75	182	14.80%	

	Quarter Ended March 31, 2014						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modificat Weighted Average Term Months)
	(Dollars in thousands)						
Mortgage	34	$ 4,009	6.43%	347	$ 3,910	4.35%	3
Commercial	5	42	12.97%	67	44	12.95%	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents troubled-debt restructurings for which there was a payment default during the quarters ended March 31, 2015 and 2014:

	Quarter Ended March 31,								
	2015					2014			
	Number of Contracts		Recorded Investment			Number of Contracts		Recorded Investment	
	(Dollars in thousands)								
Mortgage	60		$	6,963		19		$	2,592
Consumer	6		$	81		1		$	11

Credit Quality Indicators

The Company categorizes non-covered originated commercial loans and acquired commercial loans accounted for under ASC 310-20 into risk categories based on relevant information about the ability of borrowers to service their debt, such as economic conditions, portfolio risk characteristics, and prior loss experience, and the results of periodic credit reviews of individual loans.

The Company uses the following definitions for risk ratings:

Pass: Loans classified as “pass” have a well defined primary source of repayment very likely to be sufficient, with no apparent risk, strong financial position, minimal operating risk, profitability, liquidity and capitalization better than industry standards.

Special Mention: Loans classified as “special mention” have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

Substandard: Loans classified as “substandard” are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as "doubtful" have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, questionable and improbable.

Loss: Loans classified as "loss" are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be effected in the future.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of March 31, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of gross non-covered originated and other loans and acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

	March 31, 2015					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 152,386	$ 134,584	$ 15,385	$ -	$ -	$ 2,417
Institutional	36,007	26,915	8,864	-	-	228
Middle market	184,447	158,396	7,898	-	-	18,153
Retail	183,169	164,433	4,979	3,924	-	9,833
Floor plan	3,078	2,793	196	-	-	89
Real estate	14,196	14,196	-	-	-	-
	573,283	501,317	37,322	3,924	-	30,720
Other commercial and industrial:						
Corporate	47,760	42,100	-	-	-	5,660
Institutional	477,932	277,950	-	-	-	199,982
Middle market	99,303	94,093	2,238	-	-	2,972
Retail	87,845	84,556	373	1,699	-	1,217
Floor plan	38,781	35,322	1,583	7	-	1,869
	751,621	534,021	4,194	1,706	-	211,700
Total	1,324,904	1,035,338	41,516	5,630	-	242,420
Commercial - acquired loans (under ASC 310-20)						

Commercial secured by real estate:						
Retail	363	-	-	363	-	-
Floor plan	2,712	1,465	-	-	-	1,247
	3,075	1,465	-	363	-	1,247
Other commercial and industrial:						
Retail	3,949	3,926	8	15	-	-
Floor plan	2,482	2,088	-	-	-	394
	6,431	6,014	8	15	-	394
Total	9,506	7,479	8	378	-	1,641
Total	**$ 1,334,410**	**$ 1,042,817**	**$ 41,524**	**$ 6,008**	**$ -**	**$ 244,061**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 133,076	$ 109,282	$ 15,615	$ -	$ -	$ 8,179
Institutional	36,611	27,089	9,284	-	-	238
Middle market	164,050	148,360	2,817	-	-	12,873
Retail	175,628	159,209	3,690	2,637	-	10,092
Floor plan	1,650	692	958	-	-	-
Real estate	12,628	12,628	-	-	-	-
	523,643	457,260	32,364	2,637	-	31,382
Other commercial and industrial:						
Corporate	63,746	63,746	-	-	-	-
Institutional	478,935	278,953	-	-	-	199,982
Middle market	92,334	87,126	2,815	-	-	2,393
Retail	90,171	85,941	259	2,575	-	1,396
Floor plan	40,903	38,413	1,247	126	-	1,117
	766,089	554,179	4,321	2,701	-	204,888
Total	1,289,732	1,011,439	36,685	5,338	-	236,270
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	351	-	-	351	-	-

Floor plan	4,131	3,724	-	-	-	407
	4,482	3,724	-	351	-	407
Other commercial and industrial:						
Retail	4,121	4,080	8	33	-	-
Floor plan	4,072	3,807	-	-	-	265
	8,193	7,887	8	33	-	265
Total	12,675	11,611	8	384	-	672
Total	**$ 1,302,407**	**$ 1,023,050**	**$ 36,693**	**$ 5,722**	**$ -**	**$ 236,942**

All loans individually measured for impairment are classified as substandard at March 31, 2015 and December 31, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At March 31, 2015 and December 31, 2014, the Company had outstanding credit facilities of approximately $593.3 million and $619.0 million, respectively, granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities. A substantial portion of our credit exposure with the government of Puerto Rico consists of collateralized loans or obligations that have a specific source of income or revenues identified for its repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services, such as water and electric power utilities. Public corporations have varying degrees of independence from the central government and many have received appropriations or are due other payments from central government. The Company also has loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all their general obligation bonds and notes. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

The Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”) enacted in 2014 established procedures for the adjustment of debts of certain public corporations owned by the Commonwealth of Puerto Rico. As Puerto Rico governmental instrumentalities, the prevailing view is that such public corporations, including, for example, PREPA, are not currently eligible for federal bankruptcy relief under any chapter of the U.S. Bankruptcy Code. The Recovery Act states in its preamble that it further promotes the government’s public policy of no longer providing financial support to such public corporations and promoting their economic independence. As a result of the enactment of the Recovery Act, the three principal rating agencies further downgraded to below investment grade most of Puerto Rico’s debt obligations. However, in February 2015, the United States District Court for the District of Puerto Rico held that the Recovery Act is pre-empted by the U.S Bankruptcy Code and is therefore void pursuant to the Supremacy Clause of the United States Constitution. It further held that the Commonwealth is permanently enjoined from enforcing the Recovery Act. The Commonwealth has since appealed the District Court’s decision. The Commonwealth’s ability to restructure the debts of some of its public corporations, such as PREPA, remains uncertain, and a broad disorderly restructuring is possible.

Oriental Bank is part of a four bank syndicate providing a $550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of PREPA, a public corporation authorized to seek relief under the Recovery Act. The Bank’s participation in the line of credit has an unpaid principal balance of $200.0 million as of December 31, 2014. We, as part of the bank syndicate, agreed in August 2014 to extend our credit facilities with PREPA to March 31, 2015. In connection with such extension, PREPA appointed a Chief Restructuring Officer to work alongside the Executive Director to develop, organize and manage a financial and operational restructuring of PREPA subject to the approval of PREPA’s Board of Directors. PREPA also committed to deliver a full debt-restructuring plan by March 2, 2015, which it failed to deliver. After the extension, the Company classified the credit as substandard and a troubled-debt restructuring. The Company conducted an impairment analysis considering the probability of collection of principal and interest, which included a financial model to project the future liquidity status of PREPA under various scenarios and its capacity to service its financial obligations, and concluded that the PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company’s analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual and recorded a $24 million provision during the first quarter of 2015 as a result of PREPA's reluctance to commit to the full repayment of the line of credit in ongoing negotiations.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of March 31, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of non-covered gross originated and other loans and acquired loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

	March 31, 2015							
		Delinquency						
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 62,905	$ 52,075	$ 5,087	$ 1,797	$ 672	$ 1,091	$ 1,368	$ 815
Years 2003 and 2004	106,754	86,030	8,832	4,104	1,049	3,057	1,889	1,793
Year 2005	59,028	47,194	4,243	2,354	262	1,549	2,215	1,211
Year 2006	83,642	63,403	5,338	3,097	553	2,954	4,753	3,544
Years 2007, 2008 and 2009	96,134	74,618	2,380	3,549	629	5,013	5,881	4,064
Years 2010, 2011, 2012	212,440	197,375	1,630	1,581	417	3,403	3,283	4,751

2013, 2014 and 2015								
	620,903	520,695	27,510	16,482	3,582	17,067	19,389	16,178
Non-traditional	34,716	29,412	948	1,028	796	553	1,979	-
Loss mitigation program	96,048	15,161	2,649	1,646	1,437	1,143	1,385	72,627
	751,667	565,268	31,107	19,156	5,815	18,763	22,753	88,805
Home equity secured personal loans	420	420	-	-	-	-	-	-
GNMA's buy-back option program	37,458	-	-	-	6,610	18,082	12,766	-
	789,545	**565,688**	**31,107**	**19,156**	**12,425**	**36,845**	**35,519**	**88,805**
Consumer								
Credit cards	19,096	18,268	323	139	187	179	-	-
Overdrafts	307	290	17	-	-	-	-	-
Unsecured personal lines of credit	2,056	1,882	33	52	60	29	-	-
Unsecured personal loans	155,971	152,051	2,176	949	732	63	-	-
Cash collateral personal loans	16,228	15,960	252	16	-	-	-	-
	193,658	**188,451**	**2,801**	**1,156**	**979**	**271**	**-**	**-**
Auto and Leasing	**601,963**	**530,481**	**51,167**	**13,120**	**4,684**	**2,511**	**-**	**-**
	1,585,166	**1,284,620**	**85,075**	**33,432**	**18,088**	**39,627**	**35,519**	**88,805**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	39,584	36,905	847	585	573	674	-	-
Personal loans	3,338	3,046	175	9	32	76	-	-
	42,922	**39,951**	**1,022**	**594**	**605**	**750**	**-**	**-**
Auto	**162,194**	**147,508**	**11,204**	**2,523**	**672**	**287**	**-**	**-**
	205,116	**187,459**	**12,226**	**3,117**	**1,277**	**1,037**	**-**	**-**
Total	**$ 1,790,282**	**$ 1,472,079**	**$ 97,301**	**$ 36,549**	**$ 19,365**	**$ 40,664**	**$ 35,519**	**$ 88,805**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014							
	Delinquency							
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 65,744	$ 53,432	$ 3,963	$ 3,083	$ 1,044	$ 1,360	$ 1,975	$ 887
Years 2003 and 2004	109,669	86,941	10,391	4,362	1,657	3,215	1,330	1,773
Year 2005	60,472	49,275	3,824	2,205	389	1,673	1,893	1,213
Year 2006	85,550	65,113	5,263	2,967	1,242	2,801	4,624	3,540
Years 2007, 2008 and 2009	93,489	76,246	4,230	1,809	337	3,986	2,813	4,068
Years 2010, 2011, 2012 2013 and 2014	204,424	190,650	2,988	2,490	938	1,397	1,296	4,665
	619,348	521,657	30,659	16,916	5,607	14,432	13,931	16,146
Non-traditional	36,200	30,916	1,477	584	478	600	2,096	49
Loss mitigation program	93,443	10,882	995	1,123	802	405	1,246	77,990

	748,991	563,455	33,131	18,623	6,887	15,437	17,273	94,185
Home equity secured personal loans	517	517	-	-	-	-	-	-
GNMA's buy-back option program	42,243	-	-	-	6,416	20,729	15,098	-
	791,751	**563,972**	**33,131**	**18,623**	**13,303**	**36,166**	**32,371**	**94,185**
Consumer								
Credit cards	19,071	18,198	360	139	171	203	-	-
Overdrafts	307	287	20	-	-	-	-	-
Unsecured personal lines of credit	2,200	1,970	102	25	38	62	3	-
Unsecured personal loans	147,939	144,696	1,822	743	623	55	-	-
Cash collateral personal loans	17,243	16,920	275	39	9	-	-	-
	186,760	**182,071**	**2,579**	**946**	**841**	**320**	**3**	**-**
Auto and Leasing	**575,582**	**503,588**	**47,658**	**16,916**	**5,196**	**2,224**	**-**	**-**
	1,554,093	**1,249,631**	**83,368**	**36,485**	**19,340**	**38,710**	**32,374**	**94,185**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	41,848	38,419	1,376	654	589	810	-	-
Personal loans	3,496	3,221	151	47	39	38	-	-
	45,344	**41,640**	**1,527**	**701**	**628**	**848**	**-**	**-**
Auto	**184,782**	**169,064**	**11,003**	**3,453**	**767**	**495**	**-**	**-**
	230,126	**210,704**	**12,530**	**4,154**	**1,395**	**1,343**	**-**	**-**
Total	**$ 1,784,219**	**$ 1,460,335**	**$ 95,898**	**$ 40,639**	**$ 20,735**	**$ 40,053**	**$ 32,374**	**$ 94,185**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the Company's allowance for loan and lease losses at March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015			December 31, 2014	
	(In thousands)				
Allowance for loans and lease losses on non-covered loans:					
Originated and other loans and leases held for investment:					
Mortgage	$	18,086		$	19,679
Commercial		33,123			8,432
Consumer		9,405			9,072
Auto and leasing		15,762			14,255
Unallocated		383			1
		76,759			**51,439**
Acquired loans:					
Accounted for under ASC 310-20 (Loans with revolving feature and/or					
acquired at a premium)					
Commercial		49			65
Consumer		1,885			1,211
Auto		3,516			3,321
		5,450			**4,597**
Accounted for under ASC 310-30 (Loans acquired with deteriorated					
credit quality, including those by analogy)					
Commercial		13,687			13,476
Consumer		479			5
		14,166			**13,481**
		96,375			**69,517**
Allowance for loans and lease losses on covered loans:					
Loans secured by 1-4 family residential properties		17,340			15,522
Commercial and other construction		52,922			48,334
Consumer		389			389
		70,651			**64,245**
Total allowance for loan and lease losses	**$**	**167,026**		**$**	**133,762**

Non-Covered Loans

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company’s allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors. While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Company’s control. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Originated and Other Loans and Leases Held for Investment

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

	Quarter March 31, 2015					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 19,679	$ 8,432	$ 9,072	$ 14,255	$ 1	$ 51,439
Charge-offs	(1,414)	(992)	(1,676)	(8,136)	-	(12,218)
Recoveries	-	89	153	3,384	-	3,626
Provision (recapture) for non-covered loan and lease losses	(179)	25,594	1,856	6,259	382	33,912
Balance at end of period	**$ 18,086**	**$ 33,123**	**$ 9,405**	**$ 15,762**	**$ 383**	**$ 76,759**

	March 31, 2015					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses on non-covered originated and other loans:						

Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 8,366	$ 25,744	$ -	$ -	$ -	$ 34,110
Collectively evaluated for impairment	9,720	7,379	9,405	15,762	383	42,649
Total ending allowance balance	**$ 18,086**	**$ 33,123**	**$ 9,405**	**$ 15,762**	**$ 383**	**$ 76,759**
Loans:						
Individually evaluated for impairment	$ 88,805	$ 242,420	$ -	$ -	$ -	$ 331,225
Collectively evaluated for impairment	700,740	1,082,484	193,658	601,963	-	2,578,845
Total ending loan balance	**$ 789,545**	**$ 1,324,904**	**$ 193,658**	**$ 601,963**	**$ -**	**$ 2,910,070**

During the quarter ended March 31, 2015, the Company placed its $200 million participation in a line of credit to PREPA on non-accrual status and recorded a $24.0 million provision for loan and lease losses, which is part of the overall quarterly provision for loan and lease losses.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended March 31, 2014					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 19,937	$ 14,897	$ 6,006	$ 7,866	$ 375	$ 49,081
Charge-offs	(1,214)	(419)	(838)	(4,645)	-	(7,116)
Recoveries	148	98	147	1,524	-	1,917
Provision (recapture) for non-covered originated and other loan and lease losses	640	(582)	1,820	3,986	(239)	5,625
Balance at end of period	**$ 19,511**	**$ 13,994**	**$ 7,135**	**$ 8,731**	**$ 136**	**$ 49,507**

	December 31, 2014					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 8,968	$ 841	$ -	$ -	$ -	$ 9,809
Collectively evaluated for impairment	10,711	7,591	9,072	14,255	1	41,630

Total ending allowance balance	**$**	**19,679**	**$**	**8,432**	**$**	**9,072**	**$**	**14,255**	**$**	**1**	**$**	**51,439**
Loans:												
Individually evaluated for impairment	$	94,185	$	236,270	$	-	$	-	$	-	$	330,455
Collectively evaluated for impairment		697,566		1,053,462		186,760		575,582		-		2,513,370
Total ending loans balance	**$**	**791,751**	**$**	**1,289,732**	**$**	**186,760**	**$**	**575,582**	**$**	**-**	**$**	**2,843,825**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	March 31, 2015				
	Commercial	Consumer	Auto	Unallocated	Total
_	(In thousands)				
Allowance for loan and lease losses on non-covered acquired loans accounted					

for under ASC 310-20:										
Ending allowance balance attributable to loans:										
Collectively evaluated for impairment	$	49	$	1,885	$	3,516	$	-	$	5,450
Total ending allowance balance	**$**	**49**	**$**	**1,885**	**$**	**3,516**	**$**	**-**	**$**	**5,450**
Loans:										
Individually evaluated for impairment	$	1,641	$	-	$	-	$	-	$	1,641
Collectively evaluated for impairment		7,865		42,922		162,194		-		212,981
Total ending loan balance	**$**	**9,506**	**$**	**42,922**	**$**	**162,194**	**$**	**-**	**$**	**214,622**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended March 31, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
_	(In thousands)									
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:										
Balance at beginning of period	$	926	$	-	$	1,428	$	-	$	2,354
Charge-offs		(174)		(2,058)		(1,296)		-		(3,528)
Recoveries		-		100		450		-		550
Provision (recapture)for non-covered acquired loan and lease losses accounted for under ASC 310-20		115		2,462		1,665		-		4,242
Balance at end of period	**$**	**867**	**$**	**504**	**$**	**2,247**	**$**	**-**	**$**	**3,618**

	December 31, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
_	(In thousands)									
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:										
Ending allowance balance attributable to loans:										
Collectively evaluated for impairment	$	65	$	1,211	$	3,321	$	-	$	4,597

Total ending allowance balance	**$ 65**	**$ 1,211**	**$ 3,321**	**$ -**	**$ 4,597**
Loans:					
Individually evaluated for impairment	$ 672	$ -	$ -	$ -	$ 672
Collectively evaluated for impairment	12,003	45,344	184,782	-	242,129
Total ending loan balance	**$ 12,003**	**$ 45,344**	**$ 184,782**	**$ -**	**$ 242,801**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	Quarter Ended March 31, 2014					
	Mortgage	Commercial	Construction	Consumer	Auto	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:						
Balance at beginning of period	$ -	$ 1,713	$ -	$ 418	$ 732	$ 2,863
Provision for non-covered acquired	-	940	-	(13)	(732)	195

loan and lease losses accounted for under ASC 310-30												
Balance at end of period	**$**	**-**	**$**	**2,653**	**$**	**-**	**$**	**405**	**$**	**-**	**$**	**3,058**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

For covered loans, as part of the evaluation of actual versus expected cash flows, the Company assesses on a quarterly basis the credit quality of these loans based on delinquency, severity factors and risk ratings, among other assumptions. Migration and credit quality trends are assessed at the pool level, by comparing information from the latest evaluation period through the end of the reporting period.

The changes in the allowance for loan and lease losses on covered loans for the quarters ended March 31, 2015 and 2014 were as follows:

	Quarter Ended March 31, 2015									
	Mortgage		Commercial		Consumer		Leasing		Total	
_	(In thousands)									
Allowance for loan and lease losses for covered loans:										
Balance at beginning of period	$	15,522	$	48,334	$	389	$	-	$	64,245
Provision for covered loan and lease losses, net		1,818		2,991		-		-		4,809
FDIC shared-loss portion of provision for covered loan and lease losses, net		-		1,597		-		-		1,597
Balance at end of period	**$**	**17,340**	**$**	**52,922**	**$**	**389**	**$**	**-**	**$**	**70,651**
	Quarter Ended March 31, 2014									
	Mortgage		Commercial		Consumer		Leasing		Total	
_	(In thousands)									
Allowance for loan and lease losses for covered loans:										
Balance at beginning of period	$	12,495	$	39,619	$	615	$	-	$	52,729
Provision for (recapture) covered loan and lease losses, net		1,898		(269)		-		-		1,629
FDIC shared-loss portion of provision for covered loan and lease losses, net		(172)		212		-		-		40

Balance at end of period	**$**	**14,221**		**$**	**39,562**		**$**	**615**		**$**	**-**		**$**	**54,398**

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

Net provision for covered loans includes both additional reserves and reserve releases for different pools. The pools for which there were releases are also subject to a reduction to the FDIC shared-loss indemnification asset because of lower expected losses which are recognized as recaptures.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6- FDIC INDEMNIFICATION ASSET AND TRUE-UP PAYMENT OBLIGATION

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

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

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the quarters ended March 31, 2015 and 2014:

	Quarter Ended March 31,				
	2015			2014	
FDIC indemnification asset:					
Balance at beginning of period	$	97,378		$	189,240
Shared-loss agreements reimbursements from the FDIC		(17,172)			(8,236)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net		1,597			40
FDIC indemnification asset expense		(12,221)			(17,622)
Incurred expenses to be reimbursed under shared-loss agreements		5,639			2,772
Balance at end of period	**$**	**75,221**		**$**	**166,194**
True-up payment obligation:					
Balance at beginning of period	$	21,981		$	18,510
Change in true-up payment obligation		863			865
Balance at end of period	**$**	**22,844**		**$**	**19,375**

The FDIC shared- loss expense bears an inverse relationship with a change in the yield of covered loan pools in accordance with ASC 310-30. ASC 310-30 dictates that such pools should be subject to increases in their yield when the present value of the expected cash flows is higher than the pool's carrying balance. When the increases in cash flow expectations are driven by reductions in the expected credit losses, the Bank recognizes that such losses are no longer expected to be collected from the FDIC. Accordingly, the Bank reduces the FDIC indemnification asset by amortizing the reduction in expected collections throughout the remaining life of the underlying pools. This amortization is recognized in the FDIC shared-loss expense. During the fourth quarter of 2014, the FDIC and the Company agreed to a methodology for the determination of the fair value of covered assets. This change resulted in higher claims to the FDIC from the previously expected. As a result, lower amortization of the indemnification asset was required during the first quarter of 2015 compared to 2014.

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

Shared-loss agreements reimbursements from the FDIC for the quarter ended March 31, 2015, include $16.7 million corresponding to the fourth quarter of 2014 loss-share certification that was received during April 2015. This was also recorded as an account receivable from the FDIC and included in other assets in the unaudited consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The FDIC indemnification asset expense of $12.2 million for the quarter ended March 31, 2015 decreased when compared to $17.6 million for the same quarter in 2014. These changes were partially driven by a reduction of $1.9 million in additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction, commercial, and leasing pools, which amounted to $1.6 million and $3.5 million for the quarters ended March 31, 2015 and 2014, respectively. The reduction of the expense was also affected by an increase in expected collections from the FDIC during the first quarter of 2015 when compared to the first quarter of 2014. Change in expected collections from FDIC results from the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and the improved accretable yield on covered loans. Despite an increase in the first quarter of 2015, forecasted losses have shown a decreasing trend over the course of the indemnification period. The net reduction in claimable losses amortizes the FDIC indemnification asset through the shorter of the life of the shared loss agreements or the loan holding period. This amortization is net of accretion of the discount recorded to reflect the expected claimable loss at its net present value. Additional amortization of the FDIC indemnification asset may be recorded, should the Company continue to experience reduced expected losses. A significant portion of the FDIC indemnification asset, approximately $52.2 million, is recorded for projected claimable losses on non-single family residential loans whose loss share period ends in the second quarter of 2015, although the period during which recoveries are shared extends for additional three-years.

Also in connection with the FDIC assisted acquisition, the Bank agreed to make a true-up payment, also known as clawback liability or clawback provision, to the FDIC on the date that is 45 days following the last day (such day, the “True-Up Measurement Date”) of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of $906.0 million (or $181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or $227.5 million); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of $22.8 million and $22.0 million, net of discount, as of March 31, 2015 and December 31, 2014, respectively. The estimated liability is included within accrued expenses and other liabilities in the unaudited consolidated statements of financial condition.

The true-up payment obligation, also known as clawback liability, may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value. During the quarters ended March 31, 2015 and 2014 the fair value of the true-up payment obligation increased by $863 thousand and $865 thousand, respectively. These changes in fair value are included as change in true-up payment obligation within FDIC shared-loss expense, net in the consolidated statements of operations.

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at March 31, 2015 and December 31, 2014:

	March 31, 2015		December 31, 2014
	(In thousands)		
Carrying amount (fair value)	$ 22,884		$ 21,981
Undiscounted amount	$ 38,771		$ 40,266

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7 - SERVICING ASSETS

The Company periodically sells or securitizes mortgage loans while retaining the obligation to perform the servicing of such loans. In addition, the Company may purchase or assume the right to service mortgage loans originated by others. Whenever the Company undertakes an obligation to service a loan, management assesses whether a servicing asset and/or liability should be recognized. A servicing asset is recognized whenever the compensation for servicing is expected to more than adequately compensate the Company for servicing the loans and leases. Likewise, a servicing liability would be recognized in the event that servicing fees to be received are not expected to adequately compensate the Company for its expected cost.

All separately recognized servicing assets are recognized at fair value using the fair value measurement method. Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date, reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and includes these changes, if any, with mortgage banking activities in the consolidated statements of operations. The fair value of servicing rights is subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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

At March 31, 2015, the servicing asset amounted to $12.2 million ($14.0 million — December 31, 2014) related to mortgage loans servicing rights.

At March 31, 2015, the Company has entered into an agreement to sell mortgage servicing rights. During the quarter ended March 31, 2015, the Company recognized a loss of $1.9 million related to this transaction, which is included as other non-interest (loss) income in the unaudited consolidated statements of operations.

The following table presents the changes in servicing rights measured using the fair value method for the quarters ended March 31, 2015 and 2014:

		Quarter Ended March 31,

		2015			2014
		(In thousands)			
Fair value at beginning of year	$	13,992		$	13,801
Servicing from mortgage securitizations or asset transfers		531			563
Changes due to payments on loans		(418)			(196)
Changes in fair value due to changes in valuation model inputs or assumptions		(59)			(198)
Changes in fair value due to sales price of mortgage servicing rights held-for-sale		(1,882)			-
Fair value at end of year	**$**	**12,164**		**$**	**13,970**

The following table presents key economic assumption ranges used in measuring the mortgage-related servicing asset fair value for the quarters ended March 31, 2015 and 2014:

	Quarter Ended March 31,		
	2015		2014
Constant prepayment rate	4.51% - 11.39%		5.60% - 10.08%
Discount rate	10.00% - 12.00%		10.00% - 12.00%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	March 31, 2015	
	(In thousands)	
Mortgage-related servicing asset		
Carrying value of mortgage servicing asset	$	12,164
Constant prepayment rate		
Decrease in fair value due to 10% adverse change	$	(406)
Decrease in fair value due to 20% adverse change	$	(792)
Discount rate		
Decrease in fair value due to 10% adverse change	$	(639)
Decrease in fair value due to 20% adverse change	$	(1,226)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption.

Changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or offset the sensitivities. Mortgage banking activities, a component of total banking and financial service revenue in the consolidated statements of operations, include the changes from period to period in the fair value of the mortgage loan servicing rights, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, including changes due to collection/realization of expected cash flows.

Servicing fee income is based on a contractual percentage of the outstanding principal balance and is recorded as income when earned. Servicing fees on mortgage loans for the quarters ended March 31, 2015 and 2014 totaled $1.8 million and $1.7 million, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8 — DERIVATIVES

The following table presents the Company’s derivative assets and liabilities at March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014	
	(In thousands)				
Derivative assets:					
Options tied to S&P 500 Index	$	3,734		$	5,555
Interest rate swaps not designated as hedges		2,380			2,399
Interest rate caps		97			152
Other		-			1
	$	**6,211**		**$**	**8,107**
Derivative liabilities:					
Interest rate swaps designated as cash flow hedges		8,531			8,585
Interest rate swaps not designated as hedges		2,380			2,399
Interest rate caps		97			152
Other		105			85
	$	**11,113**		**$**	**11,221**

Interest Rate Swaps

The Company enters into interest rate swap contracts to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in a predetermined variable index rate. The interest rate swaps effectively fix the Company’s interest payments on an amount of forecasted interest expense attributable to the variable index rate corresponding to the swap notional stated rate. These swaps are designated as cash flow hedges for the forecasted wholesale borrowing transactions, are properly documented as such, and therefore, qualify for cash flow hedge accounting. Any gain or loss associated with the effective portion of the cash flow hedges was recognized in other comprehensive income and is subsequently reclassified into earnings in the period during which the hedged forecasted transactions affect earnings. Changes in the fair value of these derivatives are recorded in accumulated other comprehensive income to the extent there is no significant ineffectiveness in the cash flow hedging relationships. Currently, the Company does not expect to reclassify any amount included in other comprehensive income related to these interest rate swaps to earnings in the next twelve months.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these swaps and their terms at March 31, 2015:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
Interest Rate Swaps	$ 25,000	2.4365%	1-Month LIBOR	05/05/11	05/04/12	05/04/16
	25,000	2.6200%	1-Month LIBOR	05/05/11	07/24/12	07/24/16
	25,000	2.6350%	1-Month LIBOR	05/05/11	07/30/12	07/30/16
	50,000	2.6590%	1-Month LIBOR	05/05/11	08/10/12	08/10/16
	100,000	2.6750%	1-Month LIBOR	05/05/11	08/16/12	08/16/16
	38,989	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$ 263,989					

An unrealized loss of $8.5 million and $8.6 million was recognized in accumulated other comprehensive income related to the valuation of these swaps at March 31, 2015 and December 31, 2014, respectively, and the related liability is being reflected in the accompanying unaudited consolidated statements of financial condition.

For both March 31, 2015 and December 31, 2014, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $2.4 million, and were included as part of derivative assets in the unaudited consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At March 31, 2015 and December 31, 2014, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $2.4 million for both periods, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition.

The following table shows a summary of these interest rate swaps not designated as hedging instruments and their terms at March 31, 2015:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
Interest Rate Swaps - Derivatives Offered to Clients	$ 3,911	5.1300%	1-Month LIBOR	07/03/06	07/03/16
	12,500	5.5050%		04/11/09	04/11/19

				1-Month LIBOR		
	$	**16,411**				
Interest Rate Swaps - Mirror Image Derivatives	$	3,911	5.1300%	1-Month LIBOR	07/03/06	07/03/16
		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,411**				

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. The Company uses option agreements with major broker-dealers to manage its exposure to changes in this index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the index in exchange for a fixed premium. The changes in fair value of the option agreements used to manage the exposure in the stock market in the certificates of deposit are recorded in earnings. At March 31, 2015 and December 31, 2014, the purchased options used to manage exposure to the S&P 500 Index on stock indexed deposits represented an asset of $3.7 million (notional amount of $8.2 million) and $5.6 million (notional amount of $10.7 million), respectively, and the options sold to customers embedded in the certificates of deposit and recorded as deposits in the unaudited consolidated statements of financial condition, represented a liability of $3.6 million (notional amount of $7.9 million) and $5.5 million (notional amount of $10.5 million), respectively.

Interest rate caps

The Company has entered into interest rate cap transactions with various clients with floating-rate debt who wish to protect their financial results against increases in interest rates. In these cases, the Company simultaneously enters into mirror-image interest rate cap transactions with financial counterparties. None of these cap transactions qualify for hedge accounting, and therefore, they are marked to market through earnings. For both March 31, 2015 and December 31, 2014, the outstanding total notional amount of interest rate caps was $110.0 million. At March 31, 2015 and December 31, 2014, the interest rate caps sold to clients represented a liability of $97 thousand and $152 thousand, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition. At March 31, 2015 and December 31, 2014, the interest rate caps purchased as mirror-images represented an asset of $97 thousand and $152 thousand, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial condition.

NOTE 9 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at March 31, 2015 and December 31, 2014 consists of the following:

	March 31, 2015		December 31, 2014
	(In thousands)		

Non-covered loans	$	15,582	$	17,005
Investments		4,012		4,340
	$	**19,594**	**$**	**21,345**

Other assets at March 31, 2015 and December 31, 2014 consist of the following:

		March 31,		**December 31,**
		2015		**2014**
		(In thousands)		
Prepaid expenses	$	11,264	$	16,018
Core deposit and customer relationship intangibles		9,267		9,743
Other repossessed assets		19,296		21,800
Mortgage tax credits		6,277		6,277
Investment in Statutory Trust		1,083		1,083
Accounts receivable, net and other assets		61,069		53,804
	$	**108,256**	**$**	**108,725**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Prepaid expenses amounting to $11.3 million and $16.0 million at March 31, 2015 and December 31, 2014, respectively, include prepaid municipal, property and income taxes aggregating to $5.7 million and $9.6 million, respectively.

In connection with the FDIC-assisted acquisition and the BBVAPR Acquisition, the Company recorded a core deposit intangible representing the value of checking and savings deposits acquired. At March 31, 2015 and December 31, 2014, this core deposit intangible amounted to $6.2 million and $6.5 million, respectively. In addition, the Company recorded a customer relationship intangible amounting to $5.0 million representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition as of December 31, 2012. At March 31, 2015 and December 31, 2014, this customer relationship intangible amounted to $3.1 million and $3.3 million, respectively.

Other repossessed assets totaled $19.3 million and $21.8 million at March 31, 2015 and December 31, 2014, respectively, include repossessed automobiles amounting to $18.0 million and $20.7 million, respectively, which are recorded at their net realizable value.

At March 31, 2015 and December 31, 2014, tax credits for the Company totaled $6.3 million for both periods. These tax credits do not have an expiration date.

NOTE 10— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of March 31, 2015 and December 31, 2014 consist of the following:

	March 31, 2015		December 31, 2014	
	(In thousands)			
Non-interest bearing demand deposits	$	808,590	$	745,142
Interest-bearing savings and demand deposits		2,552,910		2,544,665
Individual retirement accounts		289,786		303,049
Retail certificates of deposit		385,814		452,150
Institutional certificates of deposit		290,011		260,090
Total core deposits		**4,327,111**		**4,305,096**

Brokered deposits		567,122			619,310
Total deposits	$	**4,894,233**		$	**4,924,406**

Brokered deposits include $471.7 million in certificates of deposits and $95.4 million in money market accounts at March 31, 2015, and $526.2 million in certificates of deposits and $93.1 million in money market accounts at December 31, 2014.

The weighted average interest rate of the Company's deposits was 0.69% at March 31, 2015 and 0.66% at December 31, 2014. Interest expense for the quarters ended March 31, 2015 and 2014 were as follows:

	Quarter Ended March 31,				
	2015			**2014**	
	(In thousands)				
Demand and savings deposits	$	3,382		$	5,028
Certificates of deposit		3,722			3,950
	$	**7,104**		**$**	**8,978**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At March 31, 2015 and December 31, 2014, demand and interest-bearing deposits and certificates of deposit included deposits of Puerto Rico Cash & Money Market Fund, Inc., which amounted to $107.9 million and $96.8 million, respectively, with a weighted average rate of 0.77% and 0.78%, and were collateralized with investment securities with a fair value of $87.6 million and $76.3 million, respectively.

At March 31, 2015 and December 31, 2014, time deposits in denominations of $100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $576.7 million and $608.1 million, respectively. Such amounts include public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of $7.0 million at a weighted average rate of 0.50% at March 31, 2015, and $6.9 million at a weighted average rate of 0.50% at December 31, 2014.

At March 31, 2015 and December 31, 2014, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $256.3 million and $318.5 million, respectively. These public funds were collateralized with commercial loans amounting to $413.0 million and $549.0 million at March 31, 2015 and December 31, 2014, respectively.

Excluding equity indexed options in the amount of $3.6 million, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interest of $1.1 million and unamortized deposit discount in the amount of $518 thousand, the scheduled maturities of certificates of deposit at March 31, 2015 are as follows:

	March 31, 2015	
	(In thousands)	
Within one year:		
Three (3) months or less	$	282,688
Over 3 months through 1 year		501,285
		783,973
Over 1 through 2 years		400,681
Over 2 through 3 years		160,452
Over 3 through 4 years		46,409
Over 4 through 5 years		40,615
	$	**1,432,130**

The table of scheduled maturities of certificates of deposits above includes brokered deposits.

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans amounted to $817 thousand and $845 thousand as of March 31, 2015 and December 31, 2014, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 11 — BORROWINGS AND RELATED INTEREST

Securities Sold under Agreements to Repurchase

At March 31, 2015, securities underlying agreements to repurchase were delivered to, and are being held by, the counterparties with whom the repurchase agreements were transacted. The counterparties have agreed to resell to the Company the same or similar securities at the maturity of these agreements.

At March 31, 2015 and December 31, 2014, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $2.2 million and $2.3 million, respectively, were as follows:

	March 31, 2015				December 31, 2014			
		Borrowing Balance		Fair Value of Underlying Collateral		Borrowing Balance		Fair Value of Underlying Collateral
	(In thousands)							
JP Morgan Chase Bank NA		255,000		273,380		307,816		328,198
Credit Suisse Securities (USA) LLC		670,000		756,134		670,000		760,327
Total	**$**	**925,000**	**$**	**1,029,514**	**$**	**977,816**	**$**	**1,088,525**

The following table shows a summary of the Company's repurchase agreements and their terms, excluding accrued interest in the amount of $2.2 million, at March 31, 2015:

Year of Maturity		Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)			
2016		170,000	1.500%	12/6/2012	12/8/2016

			255,000		0.950%		12/10/2012		9/30/2016
2017			500,000		4.780%		3/2/2007		3/2/2017
	$		**925,000**		**3.120%**				

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the repurchase liability associated with the repurchase agreement transactions (excluding accrued interest) by maturity. Also, it includes the carrying value and approximate market value of collateral (excluding accrued interest) at March 31, 2015 and December 31, 2014. The information excludes repurchase agreement transactions which were collateralized with securities or cash, or securities purchased under agreements to resell.

	March 31, 2015						
			Market Value of Underlying Collateral				
	Repurchase Liability	Weighted Average Rate	FNMA and FHLMC Certificates	GNMA Certificates	CMOs issued by US Government Sponsored Agencies	Obligations of US Government Sponsored Agencies	Total
	(Dollars in thousands)						
Over 90 days	925,000	3.12%	1,026,820	2,694	-	-	1,029,514
Total	**$ 925,000**	**2.89%**	**$ 1,026,820**	**$ 2,694**	**$ -**	**$ -**	**$ 1,029,514**

	December 31, 2014						
			Market Value of Underlying Collateral				
	Repurchase Liability	Weighted Average Rate	FNMA and FHLMC Certificates	GNMA Certificates	CMOs issued by US Government Sponsored Agencies	Obligations of US Government Sponsored Agencies	Total
	(Dollars in thousands)						
Less than 90 days	$ 52,816	0.39%	$ 56,066	$ -	$ -	$ -	$ 56,066
Over 90 days	925,000	2.83%	1,031,206	1,253	-	-	1,032,459
Total	**$ 977,816**	**2.89%**	**$ 1,087,272**	**$ 1,253**	**$ -**	**$ -**	**$ 1,088,525**

Advances from the Federal Home Loan Bank of New York

Advances are received from the Federal Home Loan Bank of New York (the "FHLB-NY") under an agreement whereby the Company is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At March 31, 2015 and December 31, 2014, these advances were secured by mortgage and commercial loans amounting to $1.2 billion for both periods. Also, at March 31, 2015 and December 31, 2014, the Company had an additional borrowing capacity with the FHLB-NY of $620 million and $606.6 million, respectively. At March 31, 2015 and December 31, 2014, the weighted average remaining maturity of FHLB's advances was 8.2 months and 8.8 months, respectively. The original terms of these advances range between one day and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of March 31, 2015.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $323 thousand, at March 31, 2015:

Year of Maturity		Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)			
2015	$	25,000	0.34%	3/4/2015	4/7/2015
		50,000	0.33%	3/10/2015	4/10/2015
		100,000	0.36%	3/16/2015	4/16/2015
		25,000	0.34%	3/24/2015	4/24/2015
		25,000	0.34%	3/30/2015	4/30/2015
		38,989	0.34%	3/2/2015	4/1/2015
		263,989			
2017		4,442	1.24%	4/3/2012	4/3/2017
2018		30,000	2.19%	1/16/2013	1/16/2018
		25,000	2.18%	1/16/2013	1/16/2018
		55,000			
2020		10,103	2.59%	7/19/2013	7/20/2020
	$	**333,534**	**0.73%**		

All of the advances referred to above with maturity dates up to the date of this report were renewed as one-month short-term advances.

Subordinated Capital Notes

Subordinated capital notes amounted to $101.8 million at March 31, 2015 and $101.6 million at December 31, 2014.

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

_	**Redemption fund**	
	(In thousands)	
Redemption fund - March 31, 2015	$	56,950
2015		5,025
2016		5,025
	$	**67,000**

Other borrowings

Other borrowings, presented in the unaudited consolidated statements of financial condition amounted to $1.7 million and $4.0 million at March 31, 2015 and December 31, 2014, respectively, which mainly consists of unsecured fixed-rate borrowings.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The Company’s derivatives are subject to agreements which allow a right of set-off with each respective counterparty. In addition, the Company’s securities purchased under agreements to resell and securities sold under agreements to repurchase have a right of set-off with the respective counterparty under the supplemental terms of the master repurchase agreements. In an event of default, each party has a right of set-off against the other party for amounts owed in the related agreements and any other amount or obligation owed in respect of any other agreement or transaction between them. Security collateral posted to open and maintain a master netting agreement with a counterparty, in the form of cash and securities, may from time to time be segregated in an account at a third-party custodian pursuant to a an account control agreement.

The following table presents the potential effect of rights of set-off associated with the Company’s recognized financial assets and liabilities at March 31, 2015 and December 31, 2014:

March 31, 2015						
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Assets	**Gross Amounts Offset in the Statement of Financial Condition**	**Net Amount of Assets Presented in Statement of Financial Condition**	**Financial Instruments**	**Cash Collateral Received**	**Net Amount**
	(In thousands)					
Derivatives	**$ 6,211**	**$ -**	**$ 6,211**	**$ 2,014**	**$ -**	**$ 4,197**
December 31, 2014						
				Gross Amounts Not Offset in the Statement of Financial Condition		
		Gross Amounts	**Net amount of**			

	Gross Amount of Recognized Assets	Offset in the Statement of Financial Condition	Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	$ 8,107	$ -	$ 8,107	$ 2,006	$ -	$ 6,101

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

March 31, 2015														
								Gross Amounts Not Offset in the Statement of Financial Condition						
	Gross Amount of Recognized Liabilities		Gross Amounts Offset in the Statement of Financial Condition		Net Amount of Liabilities Presented in Statement of Financial Condition			Financial Instruments		Cash Collateral Provided		Net Amount		
	(In thousands)													
Derivatives	$	14,729	$	-	$	14,729	$	-	$	2,980	$	11,749		
Securities sold under agreements to repurchase		925,000		-		925,000		1,029,514		7,000		(111,514)		
Total	**$**	**939,729**	**$**	**-**	**$**	**939,729**	**$**	**1,029,514**	**$**	**9,980**	**$**	**(99,765)**		

December 31, 2014												
							Gross Amounts Not Offset in the Statement of Financial Condition					
	Gross Amount of Recognized Liabilities		Gross Amounts Offset in the Statement of Financial Condition		Net Amount of Liabilities Presented in Statement of Financial Condition		Financial Instruments		Cash Collateral Provided		Net Amount	
	(In thousands)											
Derivatives	$	16,698	$	-	$	16,698	$	-	$	2,980	$	13,718

Securities sold under agreements to repurchase	977,816	-	977,816	1,088,525	-	(110,709)
Total	**$ 994,514**	**$ -**	**$ 994,514**	**$ 1,088,525**	**$ 2,980**	**$ (96,991)**

NOTE 13 — RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. As of March 31, 2015 and December 31, 2014, these loan balances amounted to $27.5 million and $27.0 million, respectively. The activity and balance of these loans for the quarters ended March 31, 2015 and 2014 were as follows:

	Quarter Ended March 31,	
	2015	**2014**
	(In thousands)	
Balance at the beginning of period	$ 27,011	$ 18,963
New loans	3,855	304
Repayments and sales	(3,358)	-
Balance at the end of period	**$ 27,508**	**$ 19,267**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 — INCOME TAXES

On July 1st, 2014 the Governor signed Act No. 77-2014, known as "Ley de Ajustes al Sistema Contributivo" (Act of Adjustments to the Tax System or the Act). The main purpose of the Act is to increase government collections in order to alleviate the structural deficit. The most relevant provisions of the Act, as applicable to the Company, and effective for transactions held after June 30, 2014 are as follows: (1) the capital gain tax rate was increased from 15% to 20% and (2) for an asset to be considered a long term capital asset, the holding period must be over a year, whereas before it was defined as a holding period of over six months.

At March 31, 2015 and December 31, 2014, the Company's net deferred tax asset amounted to $121.9 million and $108.7 million, respectively. In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax asset are deductible, management believes it is more likely than not that the Company will realize the deferred tax asset, net of the existing valuation allowances recorded at March 31, 2015 and December 31, 2014. The amount of the deferred tax asset that is considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

At March 31, 2015 and December 31, 2014, Oriental International Bank Inc. ("OIB"), the Bank's international banking entity subsidiary, had $176 thousand and $186 thousand, respectively, in income tax effect of unrecognized gain on available-for-sale securities included in other comprehensive income. Following the change in OIB's applicable tax rate from 5% to 0% as a result of a Puerto Rico law adopted in 2011, this remaining tax balance will flow through income as these securities are repaid or sold in future periods. During the quarters ended March 31, 2015 and 2014, $10 thousand and $137 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income into income tax provision.

The Company classifies unrecognized tax benefits in income taxes payable. These gross unrecognized tax benefits would affect the effective tax rate if realized. The balance of unrecognized tax benefits at March 31, 2015 and December 31, 2014 was $2.6 million. The Company had accrued $470 thousand at March 31, 2015 and December 31, 2014 for the payment of interest and penalties relating to unrecognized tax benefits.

Income tax expense was $979 thousand for the quarter ended March 31, 2015, compared to $11.8 million for the same period in 2014. Effective July 1, 2014, the capital gains tax rate was increased from 15% to 20% as explained above.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 — REGULATORY CAPITAL REQUIREMENTS

Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and Puerto Rico banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Pursuant to the Dodd-Frank Act, federal banking regulators have adopted new capital rules that became effective January 1, 2015 for the Company and the Bank (subject to certain phase-in periods through January 1, 2019) and that replaced their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules. Among other matters, the new capital rules: (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to prior regulations. The new capital rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, and resulting in higher risk weights for a variety of asset classes.

Pursuant to the new capital rules, the minimum capital ratios requirements as of January 1, 2015 are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

As of March 31, 2015 and December 31, 2014, the Company and the Bank met all capital adequacy requirements to which they are subject. As of March 31, 2015 and December 31, 2014, the Bank is “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the tables presented below.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's and the Bank's actual capital amounts and ratios as of March 31, 2015 and December 31, 2014 are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousands)					
Company Ratios						
As of March 31, 2015						
Total capital to risk-weighted assets	$ 887,042	**17.69%**	$ 401,207	**8.00%**	$ 501,509	**10.00%**
Tier 1 capital to risk-weighted assets	$ 809,652	**16.14%**	$ 300,905	**6.00%**	$ 401,207	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 633,297	**12.63%**	$ 225,679	**4.50%**	$ 325,981	**6.50%**
Tier 1 capital to average total assets	$ 809,652	**11.23%**	$ 288,308	**4.00%**	$ 360,385	**5.00%**
As of December 31, 2014						
Total capital to risk-weighted assets	$ 851,437	**17.57%**	$ 387,772	**8.00%**	$ 484,715	**10.00%**
Tier 1 capital to risk-weighted assets	$ 776,525	**16.02%**	$ 193,886	**4.00%**	$ 290,829	**6.00%**
Tier 1 capital to average total assets	$ 776,525	**10.61%**	$ 292,738	**4.00%**	$ 365,922	**5.00%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousands)					
Bank Ratios						
As of March 31, 2015						
Total capital to risk-weighted assets	$ 822,571	**16.47%**	$ 399,517	**8.00%**	$ 499,397	**10.00%**
Tier 1 capital to risk-weighted assets	$ 745,441	**14.93%**	$ 299,638	**6.00%**	$ 399,517	**8.00%**
	$ 745,441	**14.93%**	$ 224,728	**4.50%**	$ 324,608	**6.50%**

Common equity tier 1 capital to risk-weighted assets											
Tier 1 capital to average total assets	$	745,441	**10.39%**	$	286,974	**4.00%**	$	358,717	**5.00%**
As of December 31, 2014									
Total capital to risk-weighted assets	$	820,884	**16.99%**	$	386,444	**8.00%**	$	483,055	**10.00%**
Tier 1 capital to risk-weighted assets	$	746,177	**15.45%**	$	193,222	**4.00%**	$	289,833	**6.00%**
Tier 1 capital to average total assets	$	746,177	**10.26%**	$	290,879	**4.00%**	$	363,599	**5.00%**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 – STOCKHOLDERS' EQUITY

Additional Paid-in Capital

Additional paid-in capital represents contributed capital in excess of par value of common and preferred stock net of the costs of issuance. As of March 31, 2015 and December 31, 2014, accumulated issuance costs charged against additional paid in capital amounted to $10.1 million and $13.6 million for preferred and common stock, respectively.

Legal Surplus

The Puerto Rico Banking Act requires that a minimum of 10% of the Bank's net income or loss for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid in capital on common and preferred stock. At March 31, 2015 and December 31, 2014, the Bank's legal surplus amounted to $70.1 million and $70.5 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

Treasury Stock

Under the Company's current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock, of which approximately $16.7 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. During the quarter ended March 31, 2014, the Company purchased 707,400 shares under this program for a total of $10.4 million, at an average price of $14.66 per share. There were no repurchases during the quarter ended March 31, 2015.

The number of shares that may yet be purchased under the $70 million program is estimated at 1,020,607 and was calculated by dividing the remaining balance of $16.7 million by $16.32 (closing price of the Company common stock at March 31, 2015). The Company did not purchase any shares of its common stock during the quarter ended March 31, 2015, or during the quarter ended March 31, 2014, other than through its publicly announced stock repurchase program

The activity in connection with common shares held in treasury by the Company for the quarters ended March 31, 2015 and 2014 is set forth below:

	Quarters Ended March 31,								
	2015					2014			
			Dollar					Dollar	
	Shares		Amount			Shares		Amount	
	(In thousands, except shares data)								
Beginning of period	8,012,254		$	97,070		7,030,101		$	80,642
Common shares used upon lapse of restricted stock units	(51,078)			(575)		(27,752)			(292)
Common shares repurchased as part of the stock repurchase program	-			-		707,400			10,393
End of period	**7,961,176**		**$**	**96,495**		**7,709,749**		**$**	**90,743**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income tax, as of March 31, 2015 and December 31, 2014 consisted of:

	March 31, 2015			December 31, 2014	
	(In thousands)				
Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	$	34,552		$	28,743
Income tax effect of unrealized gain on securities available-for-sale		(4,338)			(2,978)
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired		30,214			25,765
Unrealized loss on cash flow hedges		(8,530)			(8,585)
Income tax effect of unrealized loss on cash flow hedges		2,640			2,531
Net unrealized loss on cash flow hedges		(5,890)			(6,054)
Accumulated other comprehensive income, net of taxes	$	**24,324**		**$**	**19,711**

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters ended March 31, 2015 and 2014:

	Quarter Ended March 31,																
	2015								2014								
	Net unrealized gains on securities available-for-sale			Net unrealized loss on cash flow hedges			Accumulated other comprehensive income			Net unrealized gains on securities available-for-sale			Net unrealized loss on cash flow hedges			Accumulated other comprehensive income	
	(In thousands)																
Beginning balance	$	25,764		$	(6,053)		$	19,711		$	11,433		$	(8,242)		$	3,191
Other comprehensive		4,311			(1,369)			2,942			4,465			(1,392)			3,073

income (loss) before reclassifications						
Amounts reclassified out of accumulated other comprehensive income	139	1,532	1,671	137	1,621	1,758
Other comprehensive income	4,450	163	4,613	4,602	229	4,831
Ending balance	**$ 30,214**	**$ (5,890)**	**$ 24,324**	**$ 16,035**	**$ (8,013)**	**$ 8,022**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents reclassifications out of accumulated other comprehensive income for the quarters ended March 31, 2015 and 2014:

	Amount reclassified out of accumulated other comprehensive income				Affected Line Item in Consolidated Statement of Operations
	Quarter Ended March 31,				
		2015		2014	
	(In thousands)				
Cash flow hedges:					
Interest-rate contracts	$	1,606	$	1,621	Net interest expense
Tax effect from increase in capital gains tax rate		(74)		-	
Available-for-sale securities:					
Residual tax effect from OIB's change in applicable tax rate		10		137	Income tax expense
Tax effect from increase in capital gains tax rate		129		-	
	$	**1,671**	**$**	**1,758**	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 18 – (LOSS) EARNINGS PER COMMON SHARE

The calculation of (loss) earnings per common share for the quarters ended March 31, 2015 and 2014 is as follows:

	Quarter ended March 31 ,				
	2015			2014	
	(In thousands, except per share data)				
Net (loss) income	$	(2,988)		$	23,747
Less: Dividends on preferred stock					
Non-convertible preferred stock (Series A, B, and D)		(1,628)			(1,628)
Convertible preferred stock (Series C)		(1,837)			(1,837)
(Loss) income available to common shareholders	**$**	**(6,453)**		**$**	**20,282**
Effect of assumed conversion of the convertible preferred stock		1,837			1,837
(Loss) income available to common shareholders assuming conversion	$	**(4,616)**		$	**22,119**
Weighted average common shares and share equivalents:					
Average common shares outstanding		44,634			45,329
Effect of dilutive securities:					
Average potential common shares-options		188			131
Average potential common shares-assuming conversion of convertible preferred stock		7,155			7,138
Total weighted average common shares outstanding and equivalents		**51,977**			**52,598**
(Loss) earnings per common share - basic	**$**	**(0.14)**		**$**	**0.45**
(Loss) earnings per common share - diluted	**$**	**(0.14)**		**$**	**0.42**

In computing diluted (loss) earnings per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at March 31, 2015, with a conversion rate, subject to certain conditions, of 85.7895 shares of common stock per share, were included as average potential common shares from the date they were issued and outstanding. Moreover, in computing diluted earnings per common share, the dividends declared during the quarters ended March 31, 2015 and 2014 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended March 31, 2015 and 2014, weighted-average stock options with an anti-dilutive effect on (loss) earnings per share not included in the calculation amounted to 390,078 and 254,662, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 19 – GUARANTEES

At March 31, 2015, the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $28.7 million (December 31, 2014 - $33.0 million).

As a result of the BBVAPR Acquisition, the Company assumed a liability for residential mortgage loans sold subject to credit recourse, pursuant to FNMA's residential mortgage loan sales and securitization programs. At March 31, 2015 and December 31, 2014, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $59.4 million and $67.8 million, respectively.

The following table shows the changes in the Company's liability for estimated losses from these credit recourse agreements, included in the unaudited consolidated statements of financial condition during the quarters ended March 31, 2015 and 2014.

	Quarter Ended March 31,				
	2015			2014	
	(In thousands)				
Balance at beginning of period	$	927		$	1,955
Net charge-offs/terminations		(440)			(406)
Balance at end of period	**$**	**487**		**$**	**1,549**

The estimated losses to be absorbed under the credit recourse arrangements were recorded as a liability when the credit recourse was assumed, and are updated on a quarterly basis. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 120 days delinquent, in which case the Company is obligated to repurchase the loan. At March 31, 2015, $42.7 million or 72% of the recourse obligation will be extinguished before the end of 2015.

If a borrower defaults, pursuant to the credit recourse provided, the Company is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Company would be required to make under the recourse arrangements is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarters ended March 31, 2015 and 2014, the Company repurchased approximately $2.1 million and $1.6 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions. If a borrower defaults, the Company has rights to the underlying collateral securing the mortgage loan. The Company suffers losses on these mortgage loans when the proceeds from a foreclosure sale of the collateral property are less than the outstanding principal balance of the loan, any uncollected interest advanced, and the costs of holding and disposing the related property. At March 31, 2015, the Company's liability for estimated credit losses related to loans sold with credit recourse amounted to $487 thousand (December 31, 2014 – $927 thousand).

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

When the Company sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Company's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under such mortgage backed securities programs, quality review procedures are performed by the Company to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Company may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. Repurchases during the quarters ended March 31, 2015 and 2014 under the Company’s representation and warranty arrangements, excluding mortgage loans subject to credit recourse provisions referred to above, approximated $9.0 million and $2.8 million, respectively, in unpaid principal balance. A substantial amount of these loans are reinstated to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter ended March 31, 2015, the Company recognized $39 thousand in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $832 thousand in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties. During the quarter ended March 31, 2014, the Company recognized $50 thousand in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $434 thousand in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including the Federal Home Loan Mortgage Corporation (“FHLMC”), require the Company to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At March 31, 2015, the Company serviced $1.2 billion in mortgage loans for third-parties. The Company generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Company must absorb the cost of the funds it advances during the time the advance is outstanding. The Company must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Company would not receive any future servicing income with respect to that loan. At March 31, 2015, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately $380 thousand (December 31, 2014 - $391 thousand). To the extent the mortgage loans underlying the Company's servicing portfolio experience increased delinquencies, the Company would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 20— COMMITMENTS AND CONTINGENCIES

Loan Commitments

In the normal course of business, the Company becomes a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby and commercial letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated statements of financial condition. The contract or notional amount of those instruments reflects the extent of the Company's involvement in particular