

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 ☒ 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 ☒ 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 ☒
Company ☐

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting
(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 ☒

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 expressions and future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may,” or similar expressions are generally intended to identify forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which by their nature are beyond 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,		December 31,
		2015		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

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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

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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.						

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.				

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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.					

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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

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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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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)

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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,			December 31,	
	2015			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.

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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									
				Gross		Gross				Weighted
	Amortized		Unrealized		Unrealized		Fair			Average
	Cost		Gains		Losses		Value			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										
				Gross		Gross					Weighted
	Amortized			Unrealized		Unrealized			Fair		Average
	Cost			Gains		Losses			Value		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			-			

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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									
				Book Value			Gross			Gross
Description	Sale Price			at Sale			Gains			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									
				Book Value						
Description	Sale Price			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)

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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			Unrealized			Fair	
	Cost			Loss			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			Unrealized			Fair	
	Cost			Loss			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			Unrealized			Fair	
	Cost			Loss			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		Unrealized		Fair		
	Cost		Loss		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		Unrealized		Fair		
	Cost		Loss		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		Unrealized		Fair		
	Cost		Loss		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,			December 31,	
	2015			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

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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*Originated and Other Loans and Leases Held for Investment

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													
													Loans 90+	
													Days Past	
													Due and	
	30-59 Days	60-89 Days	90+ Days	Total Past									Still	
	Past Due	Past Due	Past Due	Due		Current		Total Loans					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		

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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														
															Loans 90+
															Days Past
															Due and
	30-59 Days	60-89 Days	90+ Days	Total Past											Still
	Past Due	Past Due	Past Due	Due					Current				Total Loans		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												Loans 90+
													Days Past
													Due and
	30-59 Days	60-89 Days	90+ Days	Total Past									Still
	Past Due	Past Due	Past Due	Due	Current	Total Loans	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						

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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												
													Loans 90+
													Days Past
													Due and
	30-59 Days	60-89 Days	90+ Days	Total Past									Still
	Past Due	Past Due	Past Due	Due		Current		Total Loans					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															Loans 90+
																Days Past
																Due and
	30-59 Days	60-89 Days	90+ Days	Total Past												Still
	Past Due	Past Due	Past Due	Due		Current		Total Loans								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		-						

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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															
																Loans 90+
																Days Past
																Due and
	30-59 Days	60-89 Days	90+ Days	Total Past												Still
	Past Due	Past Due	Past Due	Due	Current										Total Loans	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,		December 31,
	2015		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-Accrutable 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,			December 31,	
	2015			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

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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,			December 31,	
	2015			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			Recorded			Related		
	Principal			Investment			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
--	----------------

										Coverage
	Unpaid			Recorded						to
	Principal			Investment			Allowance			Recorded
	Principal			Investment			Allowance			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									
										Coverage
	Unpaid			Recorded						to Recorded
	Principal			Investment			Allowance			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											

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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
	Principal			Investment			Allowance		Recorded
	(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%

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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												
	Pre-Modification				Post-Modification				Post-Modification				
	Number of contracts	Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification 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												
	Pre-Modification				Post-Modification				Post-Modification				
	Number of contracts	Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification 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												
													Individually
	Balance					Special							Measured for
	Outstanding		Pass		Mention	Substandard		Doubtful		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)													

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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													
														Individually
	Balance					Special								Measured for
	Outstanding			Pass		Mention		Substandard		Doubtful				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		-		-	-

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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														
															Individually
	Balance														Measured for
	Outstanding		0-29 days		30-59 days		60-89 days		90-119 days		120-364 days		365+ days		Impairment
	(In thousands)														
<u>Originated and other loans and leases held for investment</u>															
<u>Mortgage</u>															
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

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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															
																Individually
	Balance															Measured for
	Outstanding		0-29 days		30-59 days		60-89 days		90-119 days		120-364 days		365+ days			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	

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	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,			December 31,	
	2015			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			

OFG BANCORP

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
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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.

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

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OFG BANCORP**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.

OFG BANCORP**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,			December 31,	
	2015			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.

OFG BANCORP**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	Notional		Fixed	Variable	Trade	Settlement	Maturity
Type	Amount		Rate	Rate Index	Date	Date	Date
	(In thousands)						
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:

	Notional		Fixed	Variable	Settlement	Maturity
Type	Amount		Rate	Rate Index	Date	Date
	(In thousands)					
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				

OFG BANCORP**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,		December 31,
	2015		2014
	(In thousands)		

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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

OFG BANCORP**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,			December 31,	
	2015			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

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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

OFG BANCORP**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,						December 31,				
	2015						2014				
				Fair Value of						Fair Value of	
	Borrowing			Underlying			Borrowing			Underlying	
	Balance			Collateral			Balance			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:

				Weighted-	
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