OFG BANCORP
Form 10-K
February 26, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2014

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 No. 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

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock ($1.00 par value per share)

7.125% Noncumulative Monthly Income Preferred Stock, Series A ($25.00 liquidation preference per share)

7.0% Noncumulative Monthly Income Preferred Stock, Series B ($25.00 liquidation preference per share)

8.75% Noncumulative Convertible Perpetual Preferred Stock, Series C ($1,000.00 liquidation preference per share)

7.125% Noncumulative Perpetual Preferred Stock, Series D ($25.00 liquidation preference per share)

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ 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 þ No ¨

Indicate by check mark if disclosure of delinquent filings pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ.	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ

The aggregate market value of the common stock held by non-affiliates of OFG Bancorp (the "Company") was approximately $828.9 million as of June 30, 2014 based upon 45,022,823 shares outstanding and the reported closing price of $18.41 on the New York Stock Exchange on that date.

As of January 31, 2015, the Company had 44,613,615 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement relating to the 2015 annual meeting of shareholders are incorporated herein by reference in response to Items 10 through 14 of Part III, except for certain information set forth herein under Item 12.

OFG Bancorp

FORM 10-K

For the Year Ended December 31, 2014

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FORWARD-LOOKING STATEMENTS

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

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

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

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

All forward-looking statements included in this annual report on Form 10-K 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. *BUSINESS*

General

The Company is a publicly-owned financial holding company incorporated on June 14, 1996 under the laws of the Commonwealth of Puerto Rico, providing a full range of banking and financial services through its subsidiaries. The Company is subject to the provisions of the U.S. Bank Holding Company Act of 1956, as amended, (the "BHC Act") and accordingly, subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board").

The Company provides comprehensive banking and financial services to its clients through a complete range of banking and financial solutions, including commercial, consumer, auto, and mortgage lending; checking and savings accounts; financial planning, insurance, financial service, and investment brokerage; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Wealth Management, and Treasury, and distinguishes itself based on quality service and marketing efforts focused on mid and high net worth individuals and families, including professionals and owners of small and mid-sized businesses, primarily in Puerto Rico. The Company provides these services through various subsidiaries including, a commercial bank, Oriental 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, Caribbean Pension Consultants, Inc. ("CPC"). All of our subsidiaries are based in San Juan, Puerto Rico, except for CPC which is based in Boca Raton, Florida. The Company has 53 branches in Puerto Rico. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

The Company's strategy involves:

- Strengthening its banking and financial services franchise by expanding its ability to attract deposits and build relationships with individual customers and professionals and mid-market commercial businesses through aggressive marketing and expansion of its sales force;

- Focusing on greater growth in commercial, consumer and mortgage lending, trust and financial services and insurance products; and increasing the level of integration in the marketing and delivery of banking and financial services;

- Matching its portfolio of investment securities with the related funding to achieve favorable spreads, and primarily investing in U.S. government sponsored agency obligations.

- Improving operating efficiencies, and continuing to maintain effective asset-liability management; and

- Implementing a broad ranging effort to instill in employees and make customers aware of the Company's determination to effectively serve and advise its customer base in a responsive and professional manner.

Together with a highly experienced group of senior and mid-level executives and the benefits from the acquisitions of Eurobank Puerto Rico and the Puerto Rico operations of Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), this strategy has resulted in sustained growth in the Company's deposit-taking activities, commercial, consumer and

mortgage lending and financial service activities, allowing the Company to distinguish itself in a highly competitive industry. The Company is not immune from general and local financial and economic conditions. Past experience is not necessarily indicative of future performance, especially given market uncertainties, but based on a reasonable time horizon of three to five years, the strategy is expected to maintain its steady progress towards the Company's long-term goal.

On December 18, 2012, the Company purchased from Banco Bilbao Vizcaya Argentaria, S. A. ("BBVA"), all of the outstanding common stock of each of (i) BBVAPR Holding Corporation ("BBVAPR Holding"), the sole shareholder of Banco Bilbao Vizcaya Argentaria Puerto Rico ("BBVAPR Bank"), a Puerto Rico chartered commercial bank, and BBVA Seguros, Inc. ("BBVA Seguros"), a subsidiary offering insurance services, and (ii) BBVA Securities of Puerto Rico, Inc. ("BBVA Securities"), a registered broker-dealer. This transaction is referred to as the "BBVAPR Acquisition" and BBVAPR Holding, BBVAPR Bank, BBVA Seguros and BBVA Securities are collectively referred to as the "BBVAPR Companies" or "BBVAPR."

The Company's principal funding sources are branch deposits, securities sold under agreements to repurchase, Federal Home Loan Bank ("FHLB") advances, Federal Reserve Bank ("FRB") advances, wholesale deposits, and subordinated capital notes. Through its branch network, Oriental Bank offers personal non-interest and interest-bearing checking accounts, savings accounts, certificates of deposit, individual retirement accounts ("IRAs") and commercial non-interest bearing checking accounts. The FDIC insures Oriental Bank's deposit accounts up to applicable limits. Management makes retail deposit pricing decisions periodically, adjusting the rates paid on retail deposits in response to general market conditions and local competition. Pricing decisions take into account the rates being offered by other local banks, the London Interbank Offered Rate ("LIBOR"), and mainland U.S. market interest rates.

Segment Disclosure

The Company has three reportable segments: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Company's organizational structure, nature of products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established goals involving different financial parameters such as net income, interest rate spread, loan production, and fees generated.

For detailed information regarding the performance of the Company's operating segments, please refer to Note 26 in the Company's accompanying consolidated financial statements.

Banking Activities

Oriental Bank (the "Bank"), the Company's main subsidiary, is a full-service Puerto Rico commercial bank with its main office located in San Juan, Puerto Rico. The Bank has 53 branches throughout Puerto Rico and was incorporated in October 1964 as a federal mutual savings and loan association. It became a federal mutual savings bank in July 1983 and converted to a federal stock savings bank in April 1987. Its conversion from a federally-chartered savings bank to a commercial bank chartered under the banking law of the Commonwealth of Puerto Rico, on June 30, 1994, allowed the Bank to more effectively pursue opportunities in its market and obtain more flexibility in its businesses. As a Puerto Rico-chartered commercial bank, it is subject to examination by the FDIC and the Office of the Commissioner of Financial Institutions of Puerto Rico (the "OCFI"). The Bank offers banking services such as commercial, consumer, and mortgage lending, savings and time deposit products, financial planning, and corporate and individual trust services, and capitalizes on its commercial banking network to provide mortgage lending products to its clients. The Bank operates two international banking entities ("IBE") pursuant to the International Banking Center Regulatory Act of Puerto Rico, as amended (the "IBE Act"), one is a unit operating within the Bank, named Oriental Overseas (the "IBE Unit"), and the other is a wholly-owned subsidiary of the Bank, named Oriental International Bank, Inc. (the "IBE Subsidiary"). The IBE Unit and IBE Subsidiary offer the Bank certain Puerto Rico tax advantages, and their services are limited under Puerto Rico law to persons and assets/liabilities located outside of Puerto Rico.

Banking activities include the Bank's branches and mortgage banking activities with traditional retail banking products such as deposits, commercial, consumer and mortgage loans. The Bank's significant lending activities are with consumers located in Puerto Rico. The Bank's lending transactions include a diversified number of industries and activities, all of which are encompassed within four main categories: commercial, consumer, mortgage and auto.

The Company's mortgage banking activities are conducted through a division of the Bank. The mortgage banking activities include the origination of mortgage loans for the Bank's own portfolio, and the sale of loans directly into the secondary market or the securitization of conforming loans into mortgage-backed securities. The Bank originates Federal Housing Administration ("FHA")-insured mortgages, Veterans Administration ("VA")-guaranteed mortgages, and Rural Housing Service ("RHS")-guaranteed loans that are primarily securitized for issuance of Government National Mortgage Association ("GNMA") mortgage-backed securities which can be resold to individual or institutional investors in the secondary market. Conventional loans that meet the underwriting requirements for sale or exchange under standard Federal National Mortgage Association (the "FNMA") or the Federal Home Loan Mortgage Corporation (the "FHLMC") programs are referred to as conforming mortgage loans and are also securitized for issuance of FNMA or FHLMC mortgage-backed securities. The Bank is an approved seller of FNMA, as well as FHLMC, mortgage loans for issuance of FNMA and FHLMC mortgage-backed securities. The Bank is also an approved issuer of GNMA mortgage-backed securities. The Company outsources the servicing of the GNMA, FNMA and FHLMC pools that it issues, and its residential mortgage loan portfolio.

Loan Underwriting

Residential mortgage loans: All loan originations, regardless of whether originated through the Company's retail banking network or purchased from third parties, must be underwritten in accordance with the Company's underwriting criteria, including loan-to-value ratios, borrower income qualifications, debt ratios and credit history, investor requirements, and title insurance and property appraisal requirements. The Company's mortgage underwriting standards comply with the relevant guidelines set forth by the Department of Housing and Urban Development ("HUD"), VA, FNMA, FHLMC, federal and Puerto Rico banking regulatory authorities, as applicable. The Company's underwriting personnel, while operating within the Company's loan offices; make underwriting decisions independent of the Company's mortgage loan origination personnel.

Auto loans: The Company provides financing for the purchase of new or used motor vehicles. These loans are granted mainly through dealers authorized and approved by the auto credit department committee of the Company. The auto credit department has the specialized structure and resources to provide the service required for this product according to market demands. The auto loan credit policy establishes specific guidance and parameters for the underwriting and origination process. Underwriting procedures, lending limits, interest rate approval, insurance coverage, and automobile brand restrictions are some parameters and internal controls implemented to ensure the quality and profitability of the auto loan portfolio. The credit scoring system is a fundamental part of the decision process.

Consumer loans: Consumer loans include personal loans, credit cards, lines of credit and other loans made by banks to individual borrowers. All loan originations must be underwritten in accordance with the Company's underwriting criteria, and include an assessment of each borrower's personal financial condition, including verification of income, assets, FICO score, and credit reports.

Commercial loans: Commercial loans include lines of credit and term facilities to finance business operations and to provide working capital for specific purposes, such as to finance the purchase of assets, equipment or inventory. Since a borrower's cash flow from operations is generally the primary source of repayment, the Company's analysis of the credit risk focuses heavily on the borrower's debt repayment capacity. Commercial term loans generally have terms from one to five years, may be collateralized by the asset being acquired, real estate, or other available assets, and bear interest rates that float with the prime rate, LIBOR or another established index, or are fixed for the term of the loan. Lines of credit are extended to businesses based on an analysis of the financial strength and integrity of the borrowers and are generally secured primarily by real estate, accounts receivable or inventory, and have a maturity of one year or less. Such lines of credit bear an interest rate that floats with a base rate, the prime rate, LIBOR, or another established index.

Sale of Loans and Securitization Activities

The Company may engage in the sale or securitization of a portion of the residential mortgage loans that it originates and purchases and utilizes various channels to sell its mortgage products. The Company is an approved issuer of GNMA-guaranteed mortgage-backed securities which involves the packaging of FHA loans, RHS loans or VA loans into pools of mortgage-backed securities for sale primarily to securities broker-dealers and other institutional

investors. The Company can also act as issuer in the case of conforming conventional loans in order to group them into pools of FNMA or FHLMC-issued mortgage-backed securities which the Company then sells to securities broker-dealers. The issuance of mortgage-backed securities provides the Company with flexibility in selling the mortgage loans that it originates or purchases and also provides income by increasing the value and marketability of such loans. In the case of conforming conventional loans, the Company also has the option to sell such loans through the FNMA and FHLMC cash window programs.

Wealth Management Activities

Wealth management activities are generated by such businesses as securities brokerage, trust services, retirement planning, insurance, pension administration, and other financial services.

Oriental Financial Services is a Puerto Rico corporation and the Company's subsidiary engaged in securities brokerage and investment banking activities in accordance with the Company's strategy of providing fully integrated financial solutions to the Company's clients. Oriental Financial Services, member of FINRA and the Securities Investor Protection Corporation, is a registered securities broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. The broker-dealer does not carry customer accounts and is, accordingly, exempt from the Customer Protection Rule (SEC Rule 15c3-3) pursuant to subsection (k)(2)(ii) of such rule. It clears securities transactions through Pershing LLC, a clearing agent that carries the accounts of their customers on a "fully disclosed" basis.

Oriental Financial Services offers securities brokerage services covering various investment alternatives such as tax-advantaged fixed income securities, mutual funds, stocks, and bonds to retail and institutional clients. It also offers separately-managed accounts and mutual fund asset allocation programs sponsored by unaffiliated professional asset managers. These services are designed to meet each client's specific needs and preferences, including transaction-based pricing and asset-based fee pricing.

Oriental Financial Services also manages and participates in public offerings and private placements of debt and equity securities in Puerto Rico and engages in municipal securities business with the Commonwealth of Puerto Rico and its instrumentalities, municipalities, and public corporations. Investment banking revenue from such activities includes gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which it acts as an underwriter or agent. Investment banking revenue also includes fees earned from providing merger-and-acquisition and financial restructuring advisory services.

Oriental Insurance is a Puerto Rico corporation and the Company's subsidiary engaged in insurance agency services. It was established by the Company to take advantage of the cross-marketing opportunities provided by financial modernization legislation. Oriental Insurance currently earns commissions by acting as a licensed insurance agent in connection with the issuance of insurance policies by unaffiliated insurance companies and anticipates continued growth as it expands the products and services it provides and continues to cross market its services to the Company's existing customer base.

CPC, a Florida corporation, is the Company's subsidiary engaged in the administration of retirement plans in the U.S., Puerto Rico, and the Caribbean.

Treasury Activities

Treasury activities encompass all of the Company's treasury-related functions. The Company's investment portfolio consists of mortgage-backed securities, obligations of U.S. government-sponsored agencies, Puerto Rico government and agency obligations and money market instruments. Agency mortgage-backed securities, the largest component, consist principally of pools of residential mortgage loans that are made to consumers and then resold in the form of pass-through certificates in the secondary market, the payment of interest and principal of which is guaranteed by GNMA, FNMA or FHLMC.

Market Area and Competition

The main geographic business and service area of the Company is in Puerto Rico, where the banking market is highly competitive. Puerto Rico banks are subject to the same federal laws, regulations and supervision that apply to similar institutions in the United States of America. The Company also competes with brokerage firms with retail operations, credit unions, savings and loan cooperatives, small loan companies, insurance agencies, and mortgage banks in Puerto Rico. The Company encounters intense competition in attracting and retaining deposits and in its consumer and commercial lending activities. Management believes that the Company has been able to compete effectively for deposits and loans by offering a variety of transaction account products and loans with competitive terms, by emphasizing the quality of its service, by pricing its products at competitive interest rates, by offering convenient branch locations, and by offering financial planning and financial services at most of its branch locations. The phase-out consolidation of three failed Puerto Rico banks in 2010 has created an environment for more rational loan and deposit pricing. The Company's ability to originate loans depends primarily on the services that it provides to its borrowers, in making prompt credit decisions, and on the rates and fees that it charges.

Regulation and Supervision

General

The Company is a financial holding company subject to supervision and regulation by the Federal Reserve Board under the BHC Act, as amended by the Gramm-Leach-Bliley Act and the Dodd-Frank Act. The qualification requirements and the process for a bank holding company that elects to be treated as a financial holding company requires that a bank holding company and all of the subsidiary banks controlled by it at the time of election must be and remain at all times “well capitalized” and “well managed.”

The Company elected to be treated as a financial holding company as permitted by the Gramm-Leach-Bliley Act. Under the Gramm-Leach-Bliley Act, if the Company fails to meet the requirements for being a financial holding company and is unable to correct such deficiencies within certain prescribed time periods, the Federal Reserve Board could require the Company to divest control of its depository institution subsidiary or alternatively cease conducting activities that are not permissible for bank holding companies that are not financial holding companies.

Financial holding companies may engage, directly or indirectly, in any activity that is determined to be (i) financial in nature or incidental to such financial activity, or (ii) complementary to a financial activity provided it does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Gramm-Leach-Bliley Act specifically provides that the following activities have been determined to be "financial in nature": (a) lending, trust and other banking activities; (b) insurance activities; (c) financial, investment or economic advisory services; (d) securitization of assets; (e) securities underwriting and dealing; (f) existing bank holding company domestic activities; (g) existing bank holding company foreign activities; and (h) merchant banking activities. A financial holding company may generally commence any activity, or acquire any company, that is financial in nature without prior approval of the Federal Reserve Board. As provided by the Dodd-Frank Act, a financial holding company may not acquire a company, without prior Federal Reserve Board approval, in a transaction in which the total consolidated assets to be acquired by the financial holding company exceed $10 billion.

In addition, the Gramm-Leach-Bliley Act specifically gives the Federal Reserve Board the authority, by regulation or order, to expand the list of financial or incidental activities, but requires consultation with the U.S. Treasury Department and gives the Federal Reserve Board authority to allow a financial holding company to engage in any activity that is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system.

The Company is required to file with the Federal Reserve Board and the SEC periodic reports and other information concerning its own business operations and those of its subsidiaries. In addition, Federal Reserve Board approval must also be obtained before a bank holding company acquires all or substantially all of the assets of another bank or merges or consolidates with another bank holding company. The Federal Reserve Board also has the authority to issue cease and desist orders against bank holding companies and their non-bank subsidiaries.

The Bank is regulated by various agencies in the United States and the Commonwealth of Puerto Rico. Its main regulators are the OCFI and the FDIC. The Bank is subject to extensive regulation and examination by the OCFI and the FDIC, and is subject to the Federal Reserve Board's regulation of transactions between the Bank and its affiliates. The federal and Puerto Rico laws and regulations which are applicable to the Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of and collateral for certain loans. In addition to the impact of such regulations, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to control inflation in the economy.

The Company's mortgage banking business is subject to the rules and regulations of FHA, VA, RHS, FNMA, FHLMC, HUD and GNMA with respect to the origination, processing and selling of mortgage loans and the sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisal reports, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. The Company is also subject to regulation by the OCFI with respect to, among other things, licensing requirements and maximum origination fees on certain types of mortgage loan products.

The Company and its subsidiaries are subject to the rules and regulations of certain other regulatory agencies. Oriental Financial Services, as a registered broker-dealer, is subject to the supervision, examination and regulation of FINRA,

the SEC, and the OCFI in matters relating to the conduct of its securities business, including record keeping and reporting requirements, supervision and licensing of employees, and obligations to customers.

Oriental Insurance is subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico in matters relating to insurance sales, including but not limited to, licensing of employees, sales practices, charging of commissions and reporting requirements.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act implements a variety of far-reaching changes and has been described as the most sweeping reform of the financial services industry since the 1930's. It has a broad impact on the financial services industry, including significant regulatory and compliance changes, such as: (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) enhanced lending limits strengthening the existing limits on a depository institution's credit exposure to one borrower; (iii) increased capital and liquidity requirements; (iv) increased regulatory examination fees; (v) changes to assessments to be paid to the FDIC for federal deposit insurance; (vi) prohibiting bank holding companies, such as the Company, from including in regulatory Tier 1 capital future issuances of trust preferred securities or other hybrid debt and equity securities; and (vii) numerous other

provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve Board, the Office of the Comptroller of the Currency and the FDIC. Further, the Dodd-Frank Act addresses many corporate governance and executive compensation matters that affect most U.S. publicly traded companies, including the Company. A few provisions of the Dodd-Frank Act became effective immediately, while various provisions are becoming effective in stages. Many of the requirements called for in the Dodd-Frank Act are being implemented over time and most are subject to implementing regulations.

The Dodd-Frank Act also created a new consumer financial services regulator, the Bureau of Consumer Financial Protection (the "CFPB"), which assumed most of the consumer financial services regulatory responsibilities previously exercised by federal banking regulators and other agencies. The CFPB's primary functions include the supervision of "covered persons" (broadly defined to include any person offering or providing a consumer financial product or service and any affiliated service provider) for compliance with federal consumer financial laws. It has primary authority to enforce the federal consumer financial laws, as well as exclusive authority to require reports and conduct examinations for compliance with such laws, in the case of any insured depository institution with total assets of more than $10 billion and any affiliate thereof. The CFPB also has broad powers to prescribe rules applicable to a covered person or service provider identifying as unlawful, unfair, deceptive, or abusive acts or practices in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service.

Holding Company Structure

The Bank is subject to restrictions under federal laws that limit the transfer of funds to its affiliates (including the Company), whether in the form of loans, other extensions of credit, investments or asset purchases, among others. Such transfers are limited to 10% of the transferring institution's capital stock and surplus with respect to any affiliate (including the Company), and, with respect to all affiliates, to an aggregate of 20% of the transferring institution's capital stock and surplus. Furthermore, such loans and extensions of credit are required to be secured in specified amounts, carried out on an arm's length basis, and consistent with safe and sound banking practices.

Under the Dodd-Frank Act, a bank holding company, such as the Company, must serve as a source of financial strength for any subsidiary depository institution. The term "source of financial strength" is defined as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress at such subsidiaries. This support may be required at times when, absent such requirement, the bank holding company might not otherwise provide such support. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain capital of a subsidiary bank will be assumed by the bankruptcy trustee and be entitled to a priority of payment. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The Bank is currently the only depository institution subsidiary of the Company.

Since the Company is a financial holding company, its right to participate in the assets of any subsidiary upon the latter's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors (including depositors in the case of the Bank) except to the extent that the Company is a creditor with recognized claims against the subsidiary.

Dividend Restrictions

The principal source of funds for the Company is the dividends from the Bank. The ability of the Bank to pay dividends on its common stock is restricted by the Puerto Rico Banking Act of 1933, as amended (the "Banking Act"), the Federal Deposit Insurance Act, as amended (the "FDIA") and FDIC regulations. In general terms, the Banking Act provides that when the expenditures of a bank are greater than receipts, the excess of expenditures over receipts shall be charged against the undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If there is no sufficient reserve fund to cover such balance in whole or in part, the outstanding amount shall be charged against the bank's capital account. The Banking Act provides that until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends. In general terms, the FDIA and the FDIC regulations restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding a bank.

The payment of dividends by the Bank may also be affected by other regulatory requirements and policies, such as maintenance of adequate capital. If, in the opinion of the regulatory authority, a depository institution under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (that, depending on the financial condition of the depository institution, could include the payment of dividends), such authority may require, after notice and hearing, that such depository institution cease and desist from such practice. The Federal Reserve Board has a policy statement that provides that an insured bank or bank holding company should not maintain its existing rate of cash dividends on common stock unless (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality, and overall financial condition. In addition, all insured depository institutions are subject to the capital-based limitations required by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA").

Federal Home Loan Bank System

The FHLB system, of which the Bank is a member, consists of 12 regional FHLBs governed and regulated by the Federal Housing Finance Agency. The FHLB serves as a credit facility for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the boards of directors of each regional FHLB.

As a system member, the Bank is entitled to borrow from the FHLB of New York (the "FHLB-NY") and is required to invest in FHLB membership and activity-based stock. The Bank must purchase membership stock equal to the greater of $1,000 or 0.15% of certain mortgage-related assets held by the Bank. The Bank is also required to purchase activity-based stock equal to 4.50% of outstanding advances to the Bank by the FHLB. The Bank is in compliance with the membership and activity-based stock ownership requirements described above. All loans, advances and other extensions of credit made by the FHLB to the Bank are secured by a portion of the Bank's mortgage loan portfolio, certain other investments, and the capital stock of the FHLB held by the Bank. The Bank is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances.

Prompt Corrective Action Regulations

Pursuant to the Dodd-Frank Act, federal banking agencies have adopted capital rules that became effective January 1, 2014 for advanced approaches banking organizations (i.e., those with consolidated assets greater than $250 billion or consolidated on-balance sheet foreign exposures of at least $10 billion) and January 1, 2015 for all other covered organizations (subject to certain phase-in periods through January 1, 2019) and that will replace their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules.

The new capital rules provide certain changes to the prompt corrective action regulations adopted by the agencies under Section 38 of the FDIA, as amended by FDICIA. These regulations are designed to place restrictions on U.S. insured depository institutions if their capital levels begin to show signs of weakness. The five capital categories established by the agencies under their prompt corrective action framework are: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized".

The new capital rules expand such categories by introducing a common equity tier 1 capital requirement for all depository institutions, revising the minimum risk-based capital ratios and, beginning in 2018, the proposed supplementary leverage requirement for advanced approaches banking organizations. The common equity tier 1 capital ratio is a new minimum requirement designed to ensure that banking organizations hold sufficient high-quality regulatory capital that is available to absorb losses on a going-concern basis. Under the new rules, an insured depository institution is:

(i) “well capitalized,” if it has a total risk-based capital ratio of 10% or more, a tier 1 risk-based capital ratio of 8% or more, a common equity tier 1 capital ratio of 6.5% or more, and a tier 1 leverage capital ratio of 5% or more, and is not subject to any written capital order or directive;

(ii) “adequately capitalized,” if it has a total risk-based capital ratio of 8% or more, a tier 1 risk-based capital ratio of 6% or more, a common equity tier 1 capital ratio of 4.5% or more, and a tier 1 leverage capital ratio of 4% or more;

(iii) "undercapitalized," if it has a total risk-based capital ratio that is less than 8%, a tier 1 risk-based ratio that is less than 6%, a common equity tier 1 capital ratio that is less than 4.5%, or a tier 1 leverage capital ratio that is less than 4%;

(iv) "significantly undercapitalized," if it has a total risk-based capital ratio that is less than 6%, a tier 1 risk-based capital ratio that is less than 4%, a common equity tier 1 capital ratio that is less than 3%, or a tier 1 leverage capital ratio that is less than 3%; and

(v) "critically undercapitalized," if it has a ratio of tangible equity (defined as tier 1 capital plus non-tier 1 perpetual preferred stock) to total assets that is equal to or less than 2%.

The new capital rules also include a policy statement by the agencies that all banking organizations should maintain capital commensurate with their risk profiles, which may entail holding capital significantly above the minimum requirements. They also provide a reservation of authority permitting examiners to require that such organizations hold additional regulatory capital.

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fees to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. A depository institution's holding company must guarantee the capital plan, up to an amount equal to the lesser of 5% of the depository institution's assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from corresponding banks. Critically undercapitalized depository institutions are subject to the appointment of a receiver or conservator.

FDIC Insurance Assessments

The Bank is subject to FDIC deposit insurance assessments. The Federal Deposit Insurance Reform Act of 2005 (the "Reform Act") merged the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF") into a single Deposit Insurance Fund, and increased the maximum amount of the insurance coverage for certain retirement accounts, and possible "inflation adjustments" in the maximum amount of coverage available with respect to other insured accounts. In addition, it granted a one-time initial assessment credit (of approximately $4.7 billion) to recognize institutions' past contributions to the fund. As a result of the merger of the BIF and the SAIF, all insured institutions are subject to the same assessment rate schedule.

The Dodd-Frank Act contains several important deposit insurance reforms, including the following: (i) the maximum deposit insurance amount was permanently increased to $250,000; (ii) the deposit insurance assessment is now based

on the insured depository institution's average consolidated assets minus its average tangible equity, rather than on its deposit base; (iii) the minimum reserve ratio for the Deposit Insurance Fund was raised from 1.15% to 1.35% of estimated insured deposits by September 30, 2020; (iv) the FDIC is required to "offset the effect" of increased assessments on insured depository institutions with total consolidated assets of less than $10 billion; (v) the FDIC is no longer required to pay dividends if the Deposit Insurance Fund's reserve ratio is greater than the minimum ratio; and (vi) the FDIC temporarily insured the full amount of qualifying "noninterest-bearing transaction accounts" until December 31, 2012. As defined in the Dodd-Frank Act, a "noninterest-bearing transaction account" is a deposit or account maintained at a depository institution with respect to which interest is neither accrued nor paid, on which the depositor or account holder is permitted to make withdrawals by negotiable or transferrable instrument, payment orders of withdrawals, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others, and on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal.

The FDIC amended its regulations under the FDIA, as amended by the Dodd-Frank Act, to modify the definition of a depository institution's insurance assessment base; to revise the deposit insurance assessment rate schedules in light of the new assessment base and altered adjustments; to implement the dividend provisions of the Dodd-Frank Act; and to revise the large insured depository institution assessment system to better differentiate for risk and better take into account losses from large institution failures that the FDIC may incur. Since the new assessment base under the Dodd-Frank Act is larger than the current assessment base, the new assessment rates adopted by the FDIC are lower than the former rates.

Brokered Deposits

FDIC regulations adopted under the FDIA govern the receipt of brokered deposits by banks. Well capitalized institutions are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the interest paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. As of December 31, 2014, the Bank is a well capitalized institution and is therefore not subject to these limitations on brokered deposits.

Regulatory Capital Requirements

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

The Federal Reserve Board has regulations with respect to risk-based and leverage capital ratios that require most intangibles, including goodwill and core deposit intangibles, to be deducted from Tier 1 Capital. The only types of identifiable intangible assets that may be included in, that is, not deducted from, an organization's capital are readily marketable mortgage servicing assets, nonmortgage servicing assets, and purchased credit card relationships. In addition, the Federal Reserve Board has established minimum leverage ratio (Tier 1 Capital to total assets) guidelines for bank holding companies and member banks. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies and member banks that meet certain specified criteria including that they have the highest regulatory rating. All other bank holding companies and member banks are required to maintain a minimum ratio of Tier 1 Capital to total assets of 4%. However, although the new capital rules adopted by the federal banking agencies in July 2013 retain the existing minimum leverage ratio requirement of 4%, they remove the 3% leverage ratio exception as of January 1, 2014 for advanced approaches banking organizations and as of January 1, 2015 for all other banking organizations. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines state that the Federal Reserve Board will continue to consider a "tangible tier 1 leverage ratio" and other indicators of capital strength in evaluating proposals for expansion or new activities.

Under the Dodd-Frank Act, federal banking regulators are required to establish minimum leverage and risk-based capital requirements, on a consolidated basis, for insured institutions, depository institution holding companies, and non-bank financial companies supervised by the Federal Reserve Board. The minimum leverage and risk-based capital

requirements are to be determined based on the minimum ratios established for insured depository institutions under prompt corrective action regulations. In effect, such provision of the Dodd-Frank Act, which is commonly known as the Collins Amendment, applies to bank holding companies the same leverage and risk-based capital requirements that apply to insured depository institutions. Because the capital requirements must be the same for insured depository institutions and their holding companies, the Collins Amendment generally excludes certain debt or equity instruments, such as cumulative perpetual preferred stock and trust preferred securities, from Tier 1 Capital, subject to a three-year phase-out from Tier 1 qualification for such instruments issued before May 19, 2010, with the phase-out commencing on January 1, 2014 for advanced approaches banking organizations and January 1, 2015 for other bank holding companies with consolidated assets of $15 billion or more as of December 31, 2009. However, such instruments issued before May 19, 2010 by a bank holding company, such as the Company, with a total consolidated assets of less than $15 billion as of December 31, 2009, are not affected by the Collins Amendment are "grandfathered" under the new capital rules, and may continue to be included in tier 1 Capital as a restricted core capital element.

The new capital rules revise the agencies' risk-based and leverage capital requirements for banking organizations, and consolidate three separate notices of proposed rulemaking that the OCC, Federal Reserve Board and FDIC published in the Federal Register on August 30, 2012, with selected changes. These rules implement a revised definition of regulatory capital, a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 capital requirement, and, for banking organizations subject to the advanced

approaches risk-based capital rules, a supplementary leverage ratio that incorporates a broader set of exposures in the denominator. The rules incorporate these new requirements into the agencies' prompt corrective action framework. In addition, the rules establish limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. Further, the rules amend the methodologies for determining risk-weighted assets for all banking organizations; introduce disclosure requirements that would apply to top-tier banking organizations domiciled in the United States with $50 billion or more in total assets; and adopt changes to the agencies' regulatory capital requirements that meet the requirements of Section 171 and Section 939A of the Dodd-Frank Act. These rules also codify the agencies' current capital rules, which have previously resided in various appendices to their respective regulations, into a harmonized integrated regulatory framework.

Failure to meet the capital guidelines could subject an institution to a variety of enforcement actions including the termination of deposit insurance by the FDIC and to certain restrictions on its business. At December 31, 2014, the Company was in compliance with all applicable capital requirements. For more information, please refer to the accompanying consolidated financial statements.

Safety and Soundness Standards

Section 39 of the FDIA, as amended by FDICIA, requires each federal banking agency to prescribe for all insured depository institutions standards relating to internal control, information systems, and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, and such other operational and managerial standards as the agency deems appropriate. In addition, each federal banking agency also is required to adopt for all insured depository institutions standards relating to asset quality, earnings and stock valuation that the agency determines to be appropriate. Finally, each federal banking agency is required to prescribe standards for the employment contracts and other compensation arrangements of executive officers, employees, directors and principal stockholders of insured depository institutions that would prohibit compensation, benefits and other arrangements that are excessive or that could lead to a material financial loss for the institution. If an institution fails to meet any of the standards described above, it will be required to submit to the appropriate federal banking agency a plan specifying the steps that will be taken to cure the deficiency. If the institution fails to submit an acceptable plan or fails to implement the plan, the appropriate federal banking agency will require the institution to correct the deficiency and, until it is corrected, may impose other restrictions on the institution, including any of the restrictions applicable under the prompt corrective action provisions of FDICIA.

The FDIC and the other federal banking agencies have adopted Interagency Guidelines Establishing Standards for Safety and Soundness that, among other things, set forth standards relating to internal controls, information systems and internal audit systems, loan documentation, credit, underwriting, interest rate exposure, asset growth and employee compensation.

Activities and Investments of Insured State-Chartered Banks

Section 24 of the FDIA, as amended by FDICIA, generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. Under FDIC regulations of equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank, such as the Bank, is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary engaged in permissible activities, (ii) investing as a limited partner in a partnership, or as a non-controlling interest holder of a limited liability company, the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or

new construction of a qualified housing project, provided that such investments may not exceed 2% of the bank's total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting stock of an insured depository institution if certain requirements are met, including that it is owned exclusively by other banks. Under the FDIC regulations governing the activities and investments of insured state banks which further implemented Section 24 of the FDIA, as amended by FDICIA, an insured state-chartered bank may not, directly, or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the Deposit Insurance Fund and the bank is in compliance with applicable regulatory capital requirements.

Transactions with Affiliates and Related Parties

Transactions between the Bank and any of its affiliates are governed by sections 23A and 23B of the Federal Reserve Act. These sections are important statutory provisions designed to protect a depository institution from transferring to its affiliates the subsidy arising from the institution's access to the Federal safety net. An affiliate of a bank is any company or entity that controls, is controlled by, or is under common control with the bank, including investment funds for which the bank or any of its affiliates is an investment advisor. Generally, sections 23A and 23B (i) limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the bank's capital stock and surplus, and limit such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms that are consistent with safe and sound banking practices. The term "covered transactions" includes the making of loans, purchase of or investment in securities issued by the affiliate, purchase of assets, acceptance of securities issued by the affiliate as collateral for a loan or extension of credit, issuance of guarantees and other similar types of transactions. The Dodd-Frank Act expanded the scope of transactions treated as "covered transactions" to include credit exposure to an affiliate on derivatives transactions, credit exposure resulting from a securities borrowing or lending transaction, or derivative transaction, and acceptances of affiliate-issued debt obligations as collateral for a loan or extension of credit. Most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100% to 130% of the loan amount, depending on the nature of the collateral. In addition, any covered transaction by a bank with an affiliate and any sale of assets or provision of services to an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with nonaffiliated companies. Regulation W of the Federal Reserve Board comprehensively implements sections 23A and 23B. The regulation unified and updated staff interpretations issued over the years prior to its adoption, incorporated several interpretative proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate), and addressed issues arising as a result of the expanded scope of non-banking activities engaged in by banks and bank holding companies and authorized for financial holding companies under the Gramm-Leach-Bliley Act.

Sections 22(g) and 22(h) of the Federal Reserve Act place restrictions on loans by a bank to executive officers, directors, and principal shareholders. Regulation O of the Federal Reserve Board implements these provisions. Under Section 22(h) and Regulation O, loans to a director, an executive officer and to greater-than-10% shareholders of a bank and certain of their related interests ("insiders"), and insiders of its affiliates, may not exceed, together with all other outstanding loans to such person and his related interests, the bank's single borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) and Regulation O also require that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) and Regulation O also require prior board of directors' approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) and Regulation O place additional restrictions on loans to executive officers.

Community Reinvestment Act

Under the Community Reinvestment Act ("CRA"), a financial institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires federal examiners, in connection

with the examination of a financial institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Company has a Compliance Department that oversees the planning of products and services offered to the community, especially those aimed to serve low and moderate income communities.

USA Patriot Act

Under Title III of the USA Patriot Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions, including the Company, Oriental Financial Services, and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions.

The U.S. Treasury Department (the "US Treasury") has issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions. The regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal consequences for the institution. The Company and its subsidiaries, including the Bank, have adopted policies, procedures and controls to address compliance with the USA Patriot Act under existing regulations, and will continue to revise and update their policies, procedures and controls to reflect changes required by the USA Patriot Act and the US Treasury's regulations.

Privacy Policies

Under the Gramm-Leach-Bliley Act, all financial institutions are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect customer data from unauthorized access. The Company and its subsidiaries have established policies and procedures to assure the Company's compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 ("SOX") implemented a range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. In addition, SOX established membership requirements and responsibilities for the audit committee, imposed restrictions on the relationship between the Company and external auditors, imposed additional responsibilities for the external financial statements on the chief executive officer and the chief financial officer, expanded the disclosure requirements for corporate insiders, required management to evaluate its disclosure controls and procedures and its internal control over financial reporting, and required the auditors to issue a report on the internal control over financial reporting.

The Company has included in this annual report on Form 10-K management's assessment regarding the effectiveness of the Company's internal control over financial reporting. The internal control report includes a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Company; management's assessment as to the effectiveness of the Company's internal control over financial reporting based on management's evaluation as of year-end; and the framework used by management as criteria for evaluating the effectiveness of the Company's internal control over financial reporting. As of December 31, 2014, the Company's management concluded that its internal control over financial reporting was effective.

Puerto Rico Banking Act

As a Puerto Rico-chartered commercial bank, the Bank is subject to regulation and supervision by the OCFI under the Banking Act, which contains provisions governing the incorporation and organization of the Bank, rights and responsibilities of directors, officers and stockholders, as well as the corporate powers, savings, lending, capital and investment requirements and other aspects of the Bank and its affairs. In addition, the OCFI is given extensive rulemaking power and administrative discretion under the Banking Act. The OCFI generally examines the Bank at

least once every year.

The Banking Act requires that a minimum of 10% of the Bank's net income for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid-in capital on common and preferred stock. At December 31, 2014, legal surplus amounted to $70.5 million (December 31, 2013 — $62.0 million). The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

The Banking Act also provides that when the expenditures of a bank are greater than the receipts, the excess of the former over the latter must be charged against the undistributed profits of the bank, and the balance, if any, must be charged against the reserve fund. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount must be charged against the capital account and no dividend may be declared until said capital has been restored to its original amount and the reserve fund to 20% of the original capital.

The Banking Act further requires every bank to maintain a legal reserve which cannot be less than 20% of its demand liabilities, except government deposits (federal, commonwealth and municipal), which are secured by actual collateral.

The Banking Act also requires change of control filings. When any person or entity will own, directly or indirectly, upon consummation of a transfer, 5% or more of the outstanding voting capital stock of a bank, the acquiring parties must inform the OCFI of the details not less than 60 days prior to the date said transfer is to be consummated. The transfer will require the approval of the OCFI if it results in a change of control of the bank. Under the Banking Act, a change of control is presumed if an acquirer who did not own more than 5% of the voting capital stock before the transfer exceeds such percentage after the transfer.

The Banking Act permits Puerto Rico commercial banks to make loans to any one person, firm, partnership or corporation, up to an aggregate amount of 15% of the sum of: (i) the bank's paid-in capital; (ii) the bank's reserve fund; (iii) 50% of the bank's retained earnings, subject to certain limitations; and (iv) any other components that the OCFI may determine from time to time. If such loans are secured by collateral worth at least 25% more than the amount of the loan, the aggregate maximum amount will include 33.33% of 50% of the bank's retained earnings. There are no restrictions under the Banking Act on the amount of loans that are wholly secured by bonds, securities and other evidence of indebtedness of the government of the United States or of the Commonwealth of Puerto Rico or any of their respective agencies, instrumentalities or municipalities; by bonds of the government of the United States or of the Commonwealth of Puerto Rico; or by bonds, not in default, of municipalities or instrumentalities of the Commonwealth of Puerto Rico.

The Puerto Rico Finance Board is composed of the Commissioner of Financial Institutions of Puerto Rico; the Presidents of the Government Development Bank for Puerto Rico, the Economic Development Bank for Puerto Rico and the Planning Board; the Puerto Rico Secretaries of Commerce and Economic Development, Treasury and Consumer Affairs; the Commissioner of Insurance; and the President of the Public Corporation for Insurance and Supervision of Puerto Rico Credit Unions. It has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and unincorporated businesses in the Commonwealth. The current regulations of the Puerto Rico Finance Board provide that the applicable interest rate on loans to individuals and unincorporated businesses is to be determined by free competition. The Puerto Rico Finance Board also has the authority to regulate maximum finance charges on retail installment sales contracts and for credit card purchases. There is presently no maximum rate for retail installment sales contracts and for credit card purchases.

Puerto Rico Internal Revenue Code

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

Other provisions applicable to tax years commencing after December 31, 2013 is the additional tax on gross proceeds ("patente nacional") is defined as a separate tax, rather than a component of the Alternative Minimum Tax (AMT) for non-financial institutions and, therefore, is not longer accounted for under the provisions of ASC 740. For a financial institution, the additional tax on gross proceeds remained mostly unaltered at a tax rate of 1% of its gross income of a

taxable year, of which fifty percent (50%) may be claimed as a credit against the financial institution's applicable income tax of that year.

On February 11, 2015, House Bill 2329 was filed in the Puerto Rico House of Representatives in order to create the "Act to Transform the Tax System of the Commonwealth of Puerto Rico" ("HB 2329"). Pursuant to HB 2329, the Puerto Rico Internal Revenue Code of 2011 would be replaced by a new tax structure. HB 2329 is expected to be amended as part of the legislative process.

Some of the relevant provisions of HB 2329 that may be applicable to the Company are the following: (i) the long term capital gains tax rate would increase from 20% to 30%, (ii) the income tax rate applicable to corporations would be reduced to 30%, and (iii) the current sales and use tax system would be replaced by a value added tax to be collected at each of the stages of the supply chain.

International Banking Center Regulatory Act of Puerto Rico

The business and operations of the Bank's IBE Unit and Subsidiary are subject to supervision and regulation by the OCFI. Under the IBE Act, no sale, encumbrance, assignment, merger, exchange or transfer of shares, interest or participation in the capital of an IBE may be initiated without the prior approval of the OCFI, if by such transaction a person would acquire, directly or indirectly, control of 10% or more of any class of stock, interest or participation in the capital of the IBE. The IBE Act and the regulations issued thereunder by the OCFI (the "IBE Regulations") limit the business activities that may be carried out by an IBE. Such activities are limited in part to persons and assets/liabilities located outside of Puerto Rico. The IBE Act provides further that every IBE must have not less than $300 thousand of unencumbered assets or acceptable financial guarantees.

Pursuant to the IBE Act and the IBE Regulations, the Bank's IBE Unit and Subsidiary have to maintain books and records of all their transactions in the ordinary course of business. They are also required to submit quarterly and annual reports of their financial condition and results of operations to the OCFI, including annual audited financial statements.

The IBE Act empowers the OCFI to revoke or suspend, after notice and hearing, a license issued thereunder if, among other things, the IBE fails to comply with the IBE Act, the IBE Regulations or the terms of its license, or if the OCFI finds that the business or affairs of the IBE are conducted in a manner that is not consistent with the public interest.

In 2012, the IBE Act was amended to prohibit new license applications to organize and operate an IBE. Any newly organized entity (now called an "international financial entity") must be licensed under a new law, and such entity (as opposed to existing IBEs organized under the IBE Act, including the Bank's IBE Unit and Subsidiary, which are "grandfathered") will generally be subject to a 4% Puerto Rico income tax rate.

Volcker Rule

The so-called "Volcker Rule" adopted by the federal banking regulatory agencies under Section 619 of the Dodd-Frank Act generally prohibits insured depository institutions and their affiliates from (i) engaging in short-term proprietary trading of securities, derivatives, commodities futures and options on these instruments for their own account; and (ii) owning, sponsoring or having certain relationships with hedge funds or private equity funds. However, it exempts certain activities, including market making, underwriting, hedging, trading in government and municipal obligations, and organizing and offering a hedge fund or private equity fund, among others. A banking entity that engages in any such covered activity (i.e., proprietary trading or investment activities in hedge funds or private equity funds) is

generally required to establish an internal compliance program reasonably designed to ensure and monitor compliance with the Volcker Rule.

Employees

At December 31, 2014, the Company had 1,567 employees. None of its employees is represented by a collective bargaining group. The Company considers its employee relations to be good.

Internet Access to Reports

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any and all amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on or through the "Investor Relations" link of the Company's internet website at www.orientalbank.com, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

The Company's corporate governance principles and guidelines, code of business conduct and ethics, and the charters of its audit committee, compensation committee, risk and compliance committee, and corporate governance and nominating committee are available free of charge on the Company's website at www.orientalbank.com in the investor relations section under the corporate governance link. The Company's code of business conduct and ethics applies to its directors, officers, employees and agents, including its principal executive, financial and accounting officers.

ITEM 1A. ***RISK FACTORS***

In addition to other information set forth in this report, you should carefully consider the following risk factors, as updated by other filings the Company makes with the SEC under the Securities Exchange Act of 1934. Additional risks and uncertainties not presently known to us at this time or that the Company currently deems immaterial may also adversely affect the Company's business, financial condition or results of operations.

Most of our business is conducted in Puerto Rico, which in recent years has experienced a deep economic recession and a downturn in the real estate market.

Because most of our business activities are conducted in Puerto Rico and a significant portion of our credit exposure on our loan portfolio, which is the largest component of our interest-earning assets, is concentrated in Puerto Rico, our profitability and financial condition may be adversely affected by an extended economic recession, adverse political, fiscal or economic developments in Puerto Rico or the effects of a natural disaster, all of which could result in a reduction in loan originations, an increase in non-performing assets, an increase in foreclosure losses on mortgage loans, and a reduction in the value of our loans and loan servicing portfolio. The Puerto Rico economy has been in a recession since 2006.

A period of reduced economic growth or a recession has historically resulted in a reduction in lending activity and an increase in the rate of default in commercial loans, consumer loans and residential mortgages. A recession may have a significant adverse impact on our net interest income and fee income. We may also experience significant losses on the loan portfolio due to a higher level of defaults on commercial loans, consumer loans and residential mortgages. For a discussion of the impact of the economy on our loan portfolios, see "—A prolonged economic downturn or recession or a continuing decline in the real estate market would likely result in an increase in delinquencies, defaults and foreclosures and in a reduction in loan origination activity, which would adversely affect our financial results."

The prolonged recessionary economic environment accelerated the devaluation of properties and increased portfolio delinquency when compared with previous periods. Additional economic weakness in Puerto Rico and the U.S. mainland could further pressure residential property values, loan delinquencies, foreclosures and the cost of repossessing and disposing of real estate collateral.

We are exposed to concentration risk in connection with loans to certain public corporations, instrumentalities and municipalities of Puerto Rico, and any credit default on their debt obligations could adversely affect the value of such loans.

Although the economy of Puerto Rico is closely related to the economy of the rest of the United States, the Commonwealth and its instrumentalities face a number of economic and fiscal challenges that, either individually or in the aggregate, could adversely affect the Commonwealth's ability to pay debt-service on its obligations when due. Despite the Commonwealth's progress in addressing its persistent budget deficits and underfunded government retirement plans, the three main credit rating agencies have downgraded all debt obligations of the Puerto Rico government to categories that are well below investment grade. Generally, securities that are below investment grade present greater risks and are less liquid than investment-grade securities.

The downgrades are based mostly on concerns about Puerto Rico's economic recession, sizable debt-obligations, high unemployment, shrinking population, and the Puerto Rico government's lack of financial flexibility and reduced capacity to borrow in the capital markets, which increases the Commonwealth's risk of default. If the government is unable to access the capital markets to place new debt or refinance its upcoming maturities, the government may have to reduce spending, impose new taxes, and take emergency or extraordinary actions, which could slow the economy even further.

It is uncertain how capital markets may react to any future ratings downgrade in Puerto Rico government debt obligations. It is also uncertain whether the Puerto Rico government, including some of its public corporations, will be able to continue to service their respective debts as they become due. Any further deterioration of economic or fiscal conditions in Puerto Rico, with possible negative ratings implications, could adversely affect the value of our loans to the government of Puerto Rico and the value of our investment portfolio of Puerto Rico government bonds.

At December 31, 2014, we had approximately $619 million of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, all of which was outstanding as of such date. A substantial portion of our credit exposure to the government of Puerto Rico consists of collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as the Puerto Rico Electric Power Authority ("PREPA") and the Puerto Rico Aqueducts and Sewer Authority. Public corporations have varying degrees of independence from the central government and many have received appropriations or are due other payments from it.

At December 31, 2014, we had approximately $381 million of credit facilities granted to public corporations. Our banking subsidiary, 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. Our participation in the line of credit has an unpaid principal balance of $200 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. After the extension, we classified the credit as substandard and a troubled-debt restructuring due to several factors, including (i) our agreement to forbear from commencing any legal proceedings against PREPA or exercising any other remedies until March 31, 2015, and to permit monthly interest-only payments during the forbearance period with a principal payment due at maturity; and (ii) PREPA's weak liquidity position. We 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 loan should be maintained in accrual status requiring no impairment.

On December 15, 2014, pursuant to the requirements of the forbearance agreement, PREPA presented to its forbearing creditors a preliminary business plan focusing on its short to medium-term prospects and analyzing PREPA's operations, including generation, transmission, distribution and corporate services. The preliminary business plan includes PREPA's projections for operating and capital needs under various scenarios to establish a baseline for ongoing discussions.

In June 2014, Puerto Rico enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"), which established procedures for the adjustment of debts of certain public corporations owned by the Commonwealth, which, as Puerto Rico governmental instrumentalities, 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, such as, for example, the PREPA, and promoting their economic independence. In February 2015, the United States District Court for the District of Puerto Rico held that the Recovery Act is preempted by the U.S Bankruptcy Code and is therefore void pursuant to the Supremacy Clause of the United States Constitution. It also permanently enjoined the Commonwealth from enforcing the Recovery Act. Although the Puerto Rico government has announced

that it will appeal the district court's decision, the Commonwealth's current ability to restructure the debts of some of its public corporations, such as PREPA, remains uncertain, and a broad disorderly restructuring is possible.

PREPA's enabling act provides for local receivership upon request to any Puerto Rico court of competent jurisdiction in the event of a default in debt-service payments or other obligations in connection with PREPA's bonds. The receiver so appointed would be empowered, directly or through its agents and attorneys, to take possession of the undertakings, income and revenues pledged to the payment of the bonds in default; to have, hold, use, operate, manage and control the same; and to exercise all of PREPA's rights and powers with respect to such undertakings. However, any such receiver would not have the power to sell, assign, mortgage or otherwise dispose of PREPA's assets, and its powers would be limited to the operation and maintenance of such undertakings and the collection and application of the income and revenues therefrom. These provisions have not been tested in the courts, and it is not clear if and how they would apply in connection with other debts and obligations of PREPA upon an event of default.

If our public corporation debtors are unable to pay their obligations as they become due, or under certain other circumstances, the we may be required to adversely classify such loans and provision for losses in connection therewith. Such provision may significantly impact our financial condition and our regulatory capital ratios.

Our decisions regarding credit risk and the allowance for loan and lease losses may materially and adversely affect our business and results of operations.

Making loans is an essential element of our business, and there is a risk that the loans will not be repaid. This default risk is affected by a number of factors, including:

- the duration of the loan;
- credit risks of a particular borrower;
- changes in economic or industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

We strive to maintain an appropriate allowance for loan and lease losses to provide for probable losses inherent in the loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors such as default frequency, internal risk ratings, expected future cash collections, loss recovery rates and general economic factors, among others. Our methodology for measuring the adequacy of the allowance relies on several key elements, which include a specific allowance for identified problem loans, a general systematic allowance, and an unallocated allowance.

We believe our allowance for loan and lease losses is currently sufficient given the constant monitoring of the risk inherent in the loan portfolio. However, there is no precise method of predicting loan losses and therefore we always face the risk that charge-offs in future periods will exceed the allowance for loan and lease losses and that additional increases in the allowance for loan and lease losses will be required. In addition, the FDIC as well as the OCFI may require us to establish additional reserves. Additions to the allowance for loan and lease losses would result in a decrease of net earnings and capital, and could hinder our ability to pay dividends.

Given the economic conditions in Puerto Rico, we may continue to experience increased credit costs or need to take greater than anticipated markdowns and make greater than anticipated provisions to increase the allowances for loan losses on the loans acquired that could adversely affect our financial condition and results of operations in the future.

Loans that we acquired in the FDIC-assisted acquisition of Eurobank may not be covered by the shared-loss agreements if the FDIC determines that we have not adequately performed under these agreements or if the

shared-loss agreements have ended.

Although the FDIC has agreed to reimburse us for 80% of qualifying losses on covered loans by the shared-loss agreements, we are not protected from all losses resulting from charge-offs with respect to such loans. Also, the FDIC has the right to refuse or delay payment for loan and lease losses if the shared-loss agreements are not performed by us in accordance with their terms. Additionally, the shared-loss agreements have limited terms, and therefore, any charge-offs that we experience after the terms of the shared-loss agreements have ended would not be recoverable from the FDIC.

During 2015, the shared-loss agreement for non-single family loans will expire. As a result, non-single family covered loans will face an increased risk-weight impact from 20% to 100% or 150%, if delinquent, for regulatory capital purposes. This could impact some of our asset quality ratios, the premium paid for the FDIC insurance and regulatory capital requirements. In addition, there will be no mirror accounting for reimbursable expenses and credit losses, causing us to assume 100% responsibility for expenses and credit losses incurred by these loans; however, this impact can be offset by the decrease in the indemnification asset amortization.

Certain provisions of the shared-loss agreements entered into with the FDIC may have anti-takeover effects and could limit our ability to engage in certain strategic transactions that our board of directors believes would be in the best interests of shareholders.

The FDIC's agreement to bear 80% of qualifying losses on single family residential loans for ten years and commercial loans for five years is one of our significant assets and a feature of the FDIC-assisted acquisition without which we would not have entered into such transaction. Our agreement with the FDIC requires that we receive prior FDIC consent, which may be withheld by the FDIC in its sole discretion, prior to us or our shareholders engaging in certain transactions. If any such transaction is completed without prior FDIC consent, the FDIC would have the right to discontinue the loss-sharing arrangement.

Among other things, prior FDIC consent is required for: (i) a merger or consolidation of us with or into another company if our shareholders will own less than 2/3 of the combined company and (ii) a sale of shares by one or more of our shareholders that will effect a change in control of Oriental Bank, as determined by the FDIC with reference to the standards set forth in the Change in Bank Control Act of 1978 (generally, the acquisition of between 10% and 25% of our voting securities where the presumption of control is not rebutted, or the acquisition of more than 25% of our voting securities). Such a sale by shareholders may occur beyond our control. If we or any shareholder desires to enter into any such transaction, there can be no assurances that the FDIC would grant its consent in a timely manner, without conditions, or at all. If one of these transactions were to occur without prior FDIC consent and the FDIC withdrew its loss-share protection, there could be a material adverse impact on us.

Loans that we acquired in the FDIC-assisted acquisition may be subject to impairment.

Although the covered loan portfolios acquired by us were initially accounted for at fair value, certain of such loans have become impaired and as of December 31, 2014 we have recorded $64.2 million in allowance for loan losses related to this portfolio. There is no assurance that loans in this portfolio will not become impaired or further impaired, which may result in additional provision for loan and lease losses related to these portfolios. The fluctuations in economic conditions, including those related to the Puerto Rico residential and commercial real estate and construction markets may increase the level of provision for credit losses that we make to our loan portfolio and portfolios acquired in the FDIC-assisted acquisition, and consequently, reduce our net income. These fluctuations are not predictable, cannot be controlled, and may have a material adverse impact on our operations and financial condition even if other favorable events occur.

Our earnings could decrease due to increases to the provision for credit losses

Our customers might not repay their loans according to the original terms, and the collateral securing the payment of those loans might be insufficient to pay any remaining loan balance. Hence, we may experience significant loan losses, which could have a materially adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the amount of the allowance for loan losses, we rely on loan quality reviews, past loss experience, and an evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease our net income.

Our emphasis on the origination of commercial real estate and business loans is one of the more significant factors in evaluating our allowance for loan losses. As we continue to increase the amount of these loans, additional or increased

provisions for credit losses may be necessary and as a result would decrease our earnings.

Bank regulators periodically review our allowance for loan losses and may require us to increase our provision for credit losses or loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities could have a materially adverse effect on our results of operations and/or financial condition.

We are subject to default and other risks in connection with mortgage loan originations.

From the time that we fund the mortgage loans originated to the time that they are sold, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loans, the risk of loss from mortgage loan defaults and foreclosures passes to the purchaser or insurer of the mortgage loans. However, in the ordinary course of business, we make representations and warranties to the purchasers and insurers of mortgage loans relating to the validity of such loans. If there is a breach of any of these representations or warranties, we may be required to repurchase the mortgage loan and bear any subsequent loss on the mortgage loan. We also may be required to repurchase mortgage loans in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. For the year ended December 31, 2014, we repurchased $17.8 million of loans from GNMA and FNMA. Any such repurchases in the future may negatively impact our liquidity and operating results. Termination of our ability to sell mortgage products to the U.S government-sponsored entities would have a material adverse effect on our results of operations and financial condition. In addition, we may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, including securities fraud claims, and the amount of such losses could exceed the purchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans. In addition, we incur higher liquidity risk with respect to mortgage loans not eligible to be purchased or insured by FNMA, GNMA or FHLMC, due to a lack of secondary market in which to sell these loans.

We have established reserves in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by us. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation related to us and the industry, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations. For additional information related to our allowance for loan and lease losses, see “Note 6—Allowance for Loan and Lease Losses” to our audited consolidated financial statements included in this annual report on Form 10-K.

A prolonged economic downturn or recession or a continuing decline in the real estate market would likely result in an increase in delinquencies, defaults and foreclosures and in a reduction in loan origination activity, which would adversely affect our financial results.

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and industry-wide losses. The market for residential mortgage loan originations is currently in decline, and this trend could also reduce the level of mortgage loans that we may originate in the future and may adversely impact our business. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values. A significant trend of decreasing values in certain housing segments in Puerto Rico has also been noted. There is a risk that a reduction in housing values could negatively impact our loss levels on the mortgage portfolio because the value of the homes underlying the loans is a primary source of repayment in the event of foreclosure.

The decline in Puerto Rico’s economy has had an adverse effect in the credit quality of our loan portfolios. Among other things, during the ongoing recession, we have experienced an increase in the level of non-performing assets and loan loss provision, which adversely affected our profitability. Although the delinquency rates have decreased recently, they may increase if the recession continues or worsen. If there is another decline in economic activity, additional increases in the allowance for loan and lease losses could be necessary with further adverse effects on our profitability.

Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the price received on the sale of such loans, and the value of the mortgage loan portfolio, all of which could have a negative impact on our results of operations and financial condition. In addition, any material decline in real estate values would weaken our collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults. For a discussion of the impact of the Puerto Rico economy on our business operations, see “Most of our business is conducted in Puerto Rico, which in recent years has experienced a deep economic recession and downturn in the real

estate market."

We could incur increased costs or reductions in revenue or suffer reputational damage in the event of misuse of information.

Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks regarding our customers and their accounts. To provide these products and services, we use information systems and infrastructure that we and third party service providers operate. As a financial institution, we also are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs.

Information security risks for financial institutions like us have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, hackers and other external parties. Our technologies and systems may become the target of cyber-attacks or other attacks that could result in the misuse or destruction of our or our customers' confidential, proprietary or other information or that could result in disruptions to our business operations or those of customers or other third parties. Further, a breach or attack affecting one of our third-party service providers or partners could impact us through no fault of our own. In addition, because the methods and techniques employed by perpetrators of fraud and others to attack systems and applications change frequently and often are not fully recognized or understood until after they have been launched, we and our third-party service providers and partners may be unable to anticipate certain attack methods in order to implement effective preventative measures.

While we have policies and procedures designated to prevent or limit the effect of the possible security breach of our information systems, if unauthorized persons were somehow to get access to confidential or proprietary information in our possession or to our proprietary information, it could result in significant legal and financial exposure, damage to our reputation or a loss of confidence in the security of our systems that could adversely affect our business. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

We are exposed to risks related to cyber-security and cyber incidents

Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks regarding our customers and their accounts. To provide these products and services, we use information systems and infrastructure that we and third party service providers operate. As a financial institution, we also are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs.

Such incidents may include unauthorized access to our digital systems for purposes of misappropriation of assets, gaining access to sensitive information, corrupting data, or causing operational disruption. Although our information technology structure continue to be subject to cyber attacks, we have not experience a breach of cyber-security. Such an event could compromise our confidential information as well as that of our customers and third parties with whom we interact with and may result in negative consequences, including remediation costs, loss of revenues, additional regulatory scrutiny, litigation and reputational damage. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

We rely on the services of third parties for our banking, information technology, telecommunications, and mortgage loan servicing infrastructure, and any failure, interruption or termination of such services or systems could have a material adverse affect on our financial condition and results of operations.

Our business relies on the secure, successful and uninterrupted functioning of our banking, information technology, telecommunications, and mortgage loan servicing infrastructure. We outsource some of our major systems, such as customer data and deposit processing, mortgage loan servicing, Internet and mobile banking, and electronic fund transfer systems. The failure or interruption of such systems, or the termination of a third-party software license or mortgage servicing, or any service agreement on which any of these systems or services is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such systems fail or experience interruptions.

We periodically sell or securitize our mortgage loans while retaining the obligation to perform the servicing of such loans. Although we are the master servicer of our mortgage loan portfolios, we outsource our servicing functions pursuant to a subservicing arrangement with a third party in Puerto Rico. The termination or interruption of such subservicing arrangement, without a feasible substitute or successor, could adversely affect our financial condition and results of operations. In addition, because the FDIC has the right to refuse or delay payment for loan and lease losses if the shared-loss agreements are not performed by us in accordance with their terms, any such termination or interruption of the subservicing of the covered loans that we acquired in the FDIC-assisted acquisition could adversely affect our ability to comply with such terms.

If sustained or repeated, a failure, denial or termination of such systems or services could result in a deterioration of our ability to process new loans, service existing loans, gather deposits and/or provide customer service. It could also compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability. Any of the foregoing could have a material adverse effect on our financial condition and results of operations.

Our financial results are constantly exposed to market risk, in particular to changes in interest rates.

Market risk refers to the probability of variations in the net interest income or the fair value of assets and liabilities due to changes in interest rates, currency exchange rates or equity prices.

Changes in interest rates are one of the principal market risks affecting us. Our income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets, such as loans and investment securities, and the interest rates paid on interest-bearing liabilities, such as deposits and borrowings. Net interest income is the difference between the revenue

generated on interest-earning assets and the interest cost of funding those assets. Depending on the duration and repricing characteristics of the assets, liabilities and off-balance sheet items, changes in interest rates could either increase or decrease the level of net interest income. For any given period, the pricing structure of the assets and liabilities is matched when an equal amount of such assets and liabilities mature or reprice in that period.

We use an asset-liability management software program to project future movements in the balance sheet and income statement. The starting point of the projections generally corresponds to the actual values of the balance sheet on the date of the simulations. These simulations are highly complex and use many simplifying assumptions. In addition, the interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the value of loans and investment securities, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding.

We are subject to interest rate risk because of the following factors:

- Assets and liabilities may mature or reprice at different times. For example, if assets reprice slower than liabilities and interest rates are generally rising, earnings may initially decline.

- Assets and liabilities may reprice at the same time but by different amounts. For example, when the general level of interest rates is rising, we may increase rates charged on loans by an amount that is less than the general increase in market interest rates because of intense pricing competition. Also, basis risk occurs when assets and liabilities have similar repricing frequencies but are tied to different market interest rate indices that may not move in tandem.

- Short-term and long-term market interest rates may change by different amounts, *i.e.*, the shape of the yield curve may affect new loan yields and funding costs differently.

- The remaining maturity of various assets and liabilities may shorten or lengthen as interest rates change. For example, if long-term mortgage interest rates decline sharply, our mortgage-backed securities portfolios may prepay significantly earlier than anticipated, which could reduce portfolio income. If prepayment rates increase, we would be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant impact on mortgage-backed securities and collateralized mortgage obligations since prepayments could shorten the weighted average life of these portfolios.

- Interest rates may have an indirect impact on loan demand, credit losses, loan origination volume, the value of financial assets and financial liabilities, gains and losses on sales of securities and loans, the value of mortgage servicing rights and other sources of earnings.

In limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed rate assets and liabilities, change pricing schedules, adjust maturities through sales and purchases of investment securities, and enter into derivative contracts, among other alternatives. We may suffer losses or experience lower spreads than anticipated

in initial projections as management implements strategies to reduce future interest rate exposure.

The hedging transactions that we enter into may not be effective in managing our exposure to market risk, including interest rate risk.

We use over-the-counter (“OTC”) derivatives, such as interest rate swaps and options on interest rate swaps, to manage part of our exposure to market risk caused by changes in interest rates. We have also offered certificates of deposit with an option tied to the performance of the Standard & Poor 500 stock market index and use derivatives, such as option agreements with major broker-dealer companies, to manage our exposure to changes in the value of the index. The OTC derivative instruments that we may utilize also have their own risks, which include: (i) basis risk, which is the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost; (ii) credit or default risk, which is the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder; and (iii) legal risk, which is the risk that we are unable to enforce certain terms of such instruments. All or any of such risks could expose us to losses. Further, as a result of the new regulatory regime for OTC derivatives enacted under the Dodd-Frank Act, and the regulations issued thereunder by the SEC and the Commodity Futures Trading Commission, we are subject to additional reporting, recordkeeping and other requirements in connection with our use of OTC derivatives.

If the counterparty to an OTC derivative contract fails to perform, our credit risk is equal to the net fair value of the contract. We deal with counterparties that have high quality credit ratings at the time we enter into the counterparty relationships. However, there can be no assurances that the counterparties will have the ability to perform under their contracts. If the counterparty fails to perform, including as a result of the bankruptcy or insolvency of such counterparty, we would incur losses as a result.

We may incur a significant impairment charge in connection with a decline in the market value of our investment securities portfolio.

Part of our earnings comes from the treasury business segment, which encompasses the investment securities portfolio. The determination of fair value for investment securities involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. In addition, we utilize and review information obtained from third-party sources to measure fair values. Third-party sources also use assumptions, judgments and estimates in determining securities values, and different third parties may provide different prices for securities. Moreover, depending upon, among other things, the measurement date of the security, the subsequent sale price of the security may be different from its recorded fair value. These differences may be significant, especially if the security is sold during a period of illiquidity or market disruption.

When the fair value of a security declines, management must assess whether the decline is “other-than-temporary.” When the decline in fair value is deemed “other-than-temporary,” the amortized cost basis of the investment security is reduced to its then current fair value. The term “other-than-temporary impairment” is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Any portion of a decline in value associated with credit loss is recognized in income with the remaining noncredit-related component being 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, computed using original yield as the discount rate, to the amortized cost basis of 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.” Such impairment charges reflect non-cash losses at the time of recognition. Subsequent disposition or sale of such assets could further affect our future results of operations, as they are based on the difference between the sale prices received and the adjusted amortized cost of such assets at the time of sale. We consider numerous factors in our review of whether a decline in fair value is other-than-temporary, many of which involve complex judgment.

A decline in the market value of our investment securities portfolio could adversely impact our regulatory capital ratios.

Under the new capital rules adopted by the federal banking regulatory agencies to implement the so-called “Basel III” capital framework in the United States, banking organizations will generally be required to include gains and losses on their securities holdings classified as available-for-sale (“AFS”) in common equity tier 1 capital (“CET1”). This aspect of the rules will be phased in over several years with full gain and loss flow-through to capital starting in 2018. Currently, unrealized losses on AFS equity securities are counted against Tier 1 Capital, unrealized gains on AFS

equity securities are partially included in Tier 2 Capital and unrealized gains and losses on AFS debt securities are excluded from regulatory capital. However, these unrealized gains and losses are reflected in stockholders' equity under accounting principles generally accepted in the United States ("GAAP"). As part of the new capital rules, the agencies introduced the concept of CET1, which is comprised of qualifying common stock instruments, retained earnings, accumulated other comprehensive income ("AOCI"), certain qualifying minority interests in consolidated subsidiaries and other adjustments, and establish a new minimum ratio of CET1 to total risk-weighted assets of 4.5% beginning in 2015 and a capital conservation buffer of 2.5% to be phased in over several years through 2018. Because of the inclusion of AOCI, unlike the current general risk-based capital rules, unrealized gains and losses on all AFS-classified securities would flow through to CET1 capital, after the transition period.

However, under the new capital rules, a banking organization, such as us, that is not subject to the advanced approaches rule may make a one-time election not to include most elements of AOCI in regulatory capital and instead effectively use the existing treatment under general risk-based capital rules that excludes most AOCI elements from regulatory capital. Any such banking organization must make its AOCI opt-out election in its first Consolidated Reports of Condition and Income (Call Report) or FR Y–9 series report that is filed after it becomes subject to the new rules. If we do not make a timely AOCI opt-out election, we will be required to recognize AOCI (excluding accumulated net gains and losses on cash-flow hedges that relate to the hedging of items that are not recognized at fair value on the balance sheet) in regulatory capital as of the first quarter of 2015 and continuing thereafter. In such case, our CET1 levels would likely be significantly more volatile under the new capital rules than previously because unrealized gains and losses on AFS classified securities recognized in stockholders' equity on the balance sheet for accounting purposes would also be incorporated for regulatory capital purposes. Accordingly, a decline in the market value of our investment securities portfolio could adversely impact our regulatory capital ratios.

Market conditions and actions by governmental authorities may upset the historical relationship between interest rate changes and prepayment trends, which would make it more difficult for us to analyze our investment portfolio.

Our success depends in part on our ability to analyze the relationship of changing interest rates on prepayments of the mortgage loans that underlie our mortgage-backed securities ("MBS") portfolio. Changes in interest rates and prepayments affect the market price of MBS that we may purchase and any MBS that we may hold at a given time. As part of our overall portfolio risk management, we analyze interest rate changes and prepayment trends separately and collectively to assess their effects on our investment portfolio. In conducting this analysis, we depend on certain assumptions based upon historical trends with respect to the relationship between interest rates and prepayments under normal market conditions. U.S. government programs aimed at assisting homeowners, including the Homeowner Affordability and Stability Plan, the Home Affordable Refinancing Program ("HARP"), and the Home Affordable Modification Program ("HAMP"), could cause an increase in prepayment rates. If the dislocations in the residential mortgage market, recent or future government actions, or other developments change the way that prepayment trends have historically responded to interest rate changes, it would significantly affect our ability to (i) assess the market value of our investment portfolio, (ii) implement our hedging strategies, and (iii) adopt techniques to reduce our prepayment rate volatility. This could adversely affect our results of operations or financial position.

Our business could be adversely affected if we cannot maintain access to stable funding sources.

Our business requires continuous access to various funding sources. We are able to fund our operations through deposits as well as through advances from the FHLB-NY and other alternative sources; however, our business is significantly dependent upon other wholesale funding sources, such as repurchase agreements and brokered deposits, which consisted of approximately 25.2% of our total interest-bearing liabilities as of December 31, 2014.

Brokered deposits are typically sold through an intermediary to small retail investors. Our ability to continue to attract brokered deposits is subject to variability based upon a number of factors, including volume and volatility in the global securities markets, our credit rating and the relative interest rates that we are prepared to pay for these liabilities. Brokered deposits are generally considered a less stable source of funding than core deposits obtained through retail bank branches. Investors in brokered deposits are generally more sensitive to interest rates and will

generally move funds from one depository institution to another based on small differences in interest rates offered on deposits.

We expect to have continued access to credit from the foregoing sources of funds. However, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In a period of financial disruption, or if negative developments occur with respect to us, the availability and cost of funding sources could be adversely affected. In that event, our cost of funds may increase, thereby reducing the net interest income, or we may need to dispose of a portion of the investment portfolio, which, depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon the dispositions. The interest rates that we pay on our securities are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Our efforts to monitor and manage liquidity risk may not be successful to deal with dramatic or unanticipated changes in the global securities markets or other reductions in liquidity driven by us or market related events. In the event that such sources of funds are reduced or eliminated and we are not able to replace them on a cost-effective basis, we may be forced to curtail or cease our loan origination business and treasury activities, which would have a material adverse effect on our operations and financial condition.

Our risk management policies, procedures and systems may be inadequate to mitigate all risks inherent in our various businesses.

A comprehensive risk management function is essential to the financial and operational success of our business. The types of risk we monitor and seek to manage include, but are not limited to, operational risk, technological and organizational risk, market risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various policies, procedures and systems to monitor and manage these risks. There can be no assurance that those policies, procedures and systems are adequate to identify and mitigate all risks inherent in our various businesses. Our businesses and the markets in which we operate are also continuously evolving. If we fail to fully understand the implications of changes in our business or the financial markets and to adequately or timely enhance the risk framework to address those changes, we could incur losses. In addition, in a difficult or less liquid market environment, our risk management strategies may not be effective because other market participants may be attempting to use the same or similar strategies to deal with the challenging market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants.

Competition with other financial institutions could adversely affect our profitability.

We face substantial competition in originating loans and in attracting deposits and assets to manage. The competition in originating loans and attracting assets comes principally from other U.S., Puerto Rico and foreign banks, investment advisors, securities broker-dealers, mortgage banking companies, consumer finance companies, credit unions, insurance companies, and other institutional lenders and purchasers of loans. We will encounter greater competition as we expand our operations. Increased competition may require us to increase the rates paid on deposits or lower the rates charged on loans which could adversely affect our profitability.

We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.

Our operations are subject to extensive regulation by federal and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. For example, the Dodd-Frank Act has a broad impact on the financial services industry, including significant regulatory and compliance changes, as discussed in the Item 1. Business section.

Given that many of the provisions of the Dodd-Frank Act are being implemented over time and are subject to implementing regulations, the full extent of the impact that such requirements, and other legislative and regulatory developments, will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. In particular, the potential impact of the Dodd-Frank Act on our operations and activities, both currently and prospectively, include, among others:

- a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;

- increased cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;

- the limitation on our ability to raise capital through the use of trust preferred securities as these securities will no longer be included as tier 1 capital going forward; and

- the limitation on our ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations.

Further, we may be required to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

Legislative and other measures that may be taken by Puerto Rico governmental authorities could materially increase our tax burden or otherwise adversely affect our financial condition, results of operations or cash flows.

It is expected that during the first quarter of 2015, a new comprehensive tax reform is implemented in the Commonwealth of Puerto Rico. Among others, it is expected that the additional tax on gross income (Patente Nacional) is repealed and the maximum corporate income tax rate is reduced. In addition, it is expected that a broad based value added tax (VAT) is implemented replacing the current sales and use tax (SUT) of 7% and the rate of this new tax is estimated to be significantly higher.

Also, we operate the IBE Unit and Subsidiary pursuant to the IBE Act that provide us with significant tax advantages. An IBE has the benefits of exemptions from Puerto Rico income taxes on interest earned on, or gain realized from the sale of, non-Puerto Rico assets, including U.S. government obligations and certain mortgage-backed securities. This exemption has allowed us to have effective tax rates significantly below the maximum statutory tax rates. In the past, the Legislature of Puerto Rico has considered proposals to curb the tax benefits afforded to IBEs. In 2012, a new Puerto Rico law was enacted in this area. Although it did not repeal the IBE Act, the new law does not allow new license applications under the IBE Act to organize and operate an IBE. Any newly organized entity (now called an "international financial entity") must be licensed under the new law and such entity (as opposed to existing IBEs organized under the IBE Act, including the Bank's IBE Unit and Subsidiary, which are "grandfathered") will generally be subject to a 4% Puerto Rico income tax rate. In the event other legislation is passed in Puerto Rico to eliminate or modify the tax exemption enjoyed by IBEs, the consequences could have a materially adverse impact on us, including increasing the tax burden or otherwise adversely affecting our financial condition, results of operations or cash flows.

Our intangible assets could be determined to be impaired in the future and could decrease the Company's earnings

We are required to test our goodwill, core deposit and customer relationship intangible assets for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities, and information concerning the terminal valuation of similarly situated insured depository institutions. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment. If an impairment loss is recorded, it will have little or no impact on the tangible book value of our common shares or our regulatory capital levels, but such an impairment loss could significantly restrict the Company's ability to make dividend payments without prior regulatory approval.

Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends.

We are a separate and distinct legal entity from our subsidiaries. Dividends to us from our subsidiaries have represented a major source of funds for us to pay dividends on our common and preferred stock, make payments on corporate debt securities and meet other obligations. There are various U.S. federal and Puerto Rico law limitations on the extent to which Oriental Bank, our main subsidiary, can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, U.S. federal and Puerto Rico banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act of 1913 and Regulation W of the Federal Reserve Board governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. Further, under the new capital rules adopted by the federal banking regulatory agencies, a banking organization will need to hold a capital conservation buffer (composed of common equity tier 1 capital) greater than 2.5% of total risk-weighted assets to avoid limitations on capital distributions and discretionary bonus payments. Compliance with the capital conservation buffer is determined as of the end of the calendar quarter prior to any such capital distribution or discretionary bonus payment, and is subject to a three-year transition period beginning in 2016.

If our subsidiaries' earnings are not sufficient to make dividend payments while maintaining adequate capital levels, our liquidity may be affected, and we may not be able to make dividend payments to our holders of common and preferred stock or payments on outstanding corporate debt securities or meet other obligations, each of which could have a material adverse impact on our results of operations, financial position or perception of financial health.

In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of GAAP, which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by FASB. Market conditions have prompted accounting standard setters to promulgate new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. See "Note 1—Summary of Significant Accounting Policies" to our consolidated financial statements included herein for a discussion of any accounting developments that have been issued but not yet implemented. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that applies to the consolidated financial statements and that such changes could have a material effect on our financial condition and results of operations.

Competition in attracting talented people could adversely affect our operations.

We depend on our ability to attract and retain key personnel and we rely heavily on our management team. The inability to recruit and retain key personnel or the unexpected loss of key managers may adversely affect our operations. Our success to date has been influenced strongly by the ability to attract and retain senior management experienced in banking and financial services. Retention of senior managers and appropriate succession planning will continue to be critical to the successful implementation of our strategies.

Reputational risk and social factors may impact our results.

Our ability to originate loans and to attract deposits and assets is highly dependent upon the perceptions of consumer, commercial and funding markets of our business practices and our financial health. Negative public opinion could result from actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, inadequate protection of customer information, or sales and marketing, and from actions taken by regulators in response to such conduct. Adverse perceptions regarding us could lead to difficulties in originating loans and generating and maintaining accounts as well as in financing them.

In addition, a variety of social factors may cause changes in borrowing activity, including credit card use, payment patterns and the rate of defaults by account holders and borrowers. If consumers develop or maintain negative attitudes about incurring debt, or if consumption trends decline, our business and financial results will be negatively affected.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

The Company owns a fifteen-story office building located at 254 Muñoz Rivera Avenue, San Juan Puerto Rico, known as Oriental Center. The Company operates a full service branch at the plaza level and our centralized units and subsidiaries occupy approximately 66% of the office floor space. Approximately 34% of the office space is leased to outside tenants. The Company also leases offices at 997 San Roberto Street, Professional Offices Park, San Juan, Puerto Rico, known as Oriental Tower.

The Bank owns eleven branch premises and leases forty-two branch commercial offices throughout Puerto Rico. The Bank's management believes that each of its facilities is well maintained and suitable for its purpose and can readily obtain appropriate additional space as may be required at competitive rates by extending expiring leases or finding alternative space.

At December 31, 2014, the aggregate future rental commitments under the terms of the leases, exclusive of taxes, insurance and maintenance expenses payable by the Company, was $51.2 million.

The Company's investment in premises and equipment, exclusive of leasehold improvements at December 31, 2014, was $110.3 million, gross of accumulated depreciation.

ITEM 3. ***LEGAL PROCEEDINGS***

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

ITEM 4. ***MINE SAFETY DISCLOSURE***

Not applicable.

PART II

ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG". Information concerning the range of high and low sales prices for the Company's common stock for each quarter in the years ended December 31, 2014 and 2013, as well as cash dividends declared for such periods are set forth under the sub-heading "Stockholders' Equity" in the "Analysis of Financial Condition" caption in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

Information concerning legal or regulatory restrictions on the payment of dividends by the Company and the Bank is contained under the sub-heading "Dividend Restrictions" in Item 1 of this report.

As of December 31, 2014, the Company had approximately 3,864 holders of record of its common stock, including all directors and officers of the Company, and beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees.

Stock Performance Graph

The graph below compares the percentage change in the Company's cumulative total stockholder return during the measurement period with the cumulative total return, assuming reinvestment of dividends, of the Russell 2000 Index and the SNL Bank Index.

The cumulative total stockholder return was obtained by dividing the sum of (i) the cumulative amount of dividends per share, assuming dividend reinvestment, for the measurement period beginning December 31, 2010, and (ii) the difference between the share price at the beginning and the end of the measurement period, by the share price at the beginning of the measurement period.

Comparison of 5 Year Cumulative Total Return

Assumes Initial Investment of $100

Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
OFG Bancorp	100.00	117.16	115.73	130.25	171.82	168.35
Russell 2000	100.00	126.86	121.56	141.43	196.34	205.95
SNL Bank Index	100.00	112.05	86.78	117.11	160.79	179.74

Issuer Purchases of Equity Securities

	Total number of					Dollar amount of

	shares purchased as part of stock repurchase programs	Average price paid per share	shares repurchased (excluding commissions paid) (In thousands)
Period			
October 2014	381,513	14.64	5,585
November 2014	63,100	14.69	927
December 2014	1,885	14.70	28
Year Ended December 31, 2014	**446,498**	**$ 14.65**	**$ 6,540**

ITEM 6. ***SELECTED FINANCIAL DATA***

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 and "Financial Statements and Supplementary Data" under Item 8 of this report.

OFG Bancorp										
SELECTED FINANCIAL DATA										
YEARS ENDED DECEMBER 31, 2014, 2013, 2012, 2011, AND 2010										
	Year Ended December 31,									
		2014		**2013**		**2012**		**2011**		**2010**
EARNINGS DATA:	**(In thousands, except per share data)**									
Interest income	$	485,257	$	493,632	$	260,808	$	297,295	$	303,785
Interest expense		76,782		83,960		103,518		156,362		168,878
Net interest income		**408,475**		**409,672**		**157,290**		**140,933**		**134,907**
Provision for non-covered loan and lease losses		54,960		67,559		13,854		15,200		15,914
Provision for covered loan and lease losses, net		5,680		5,335		9,827		(1,387)		6,282
Total provision for loan and lease losses, net		**60,640**		**72,894**		**23,681**		**13,813**		**22,196**
Net interest income after provision for loan and lease losses		**347,835**		**336,778**		**133,609**		**127,120**		**112,711**
Non-interest income		17,323		17,096		26,057		32,241		4,646
Non-interest expenses		242,725		264,137		131,810		124,045		111,821
Income before taxes		**122,433**		**89,737**		**27,856**		**35,316**		**5,536**
Income tax expense (benefit)		37,252		(8,709)		3,301		866		(4,298)
Net Income		**85,181**		**98,446**		**24,555**		**34,450**		**9,834**
Less: dividends on preferred stock		(13,862)		(13,862)		(9,939)		(4,802)		(5,335)
Less: deemed dividends on preferred stock beneficial conversion future		-		-		-		-		(22,711)
Income (loss) available to common shareholders	**$**	**71,319**	**$**	**84,584**	**$**	**14,616**	**$**	**29,648**	**$**	**(18,212)**
PER SHARE DATA:										
Basic	**$**	**1.58**	**$**	**1.85**	**$**	**0.35**	**$**	**0.67**	**$**	**(0.50)**
Diluted	**$**	**1.50**	**$**	**1.73**	**$**	**0.35**	**$**	**0.67**	**$**	**(0.50)**
Average common shares outstanding		**45,024**		**45,706**		**41,626**		**44,433**		**36,704**
		52,326		**53,033**		**45,304**		**44,524**		**36,710**

Average common shares outstanding and equivalents														
Cash dividends declared per common share	**$**	**0.34**			**0.26**		**$**	**0.24**		**$**	**0.21**		**$**	**0.17**
Cash dividends declared on common shares	**$**	**15,286**			**11,875**		**$**	**10,067**		**$**	**9,153**		**$**	**6,820**
PERFORMANCE RATIOS:														
Return on average assets (ROA)		**1.10%**			**1.15%**			**0.37%**			**0.48%**			**0.14%**
Return on average tangible common stockholders' equity		**10.91%**			**14.01%**			**2.32%**			**4.54%**			**-3.55%**
Return on average common equity (ROE)		**9.50%**			**12.03%**			**2.29%**			**4.50%**			**-3.63%**
Equity-to-assets ratio		**12.65%**			**10.85%**			**9.38%**			**10.38%**			**10.01%**
Efficiency ratio		**49.90%**			**53.45%**			**64.05%**			**66.26%**			**64.31%**
Interest rate spread		**5.79%**			**5.46%**			**2.59%**			**2.15%**			**2.00%**
Interest rate margin		**5.84%**			**5.46%**			**2.67%**			**2.19%**			**2.03%**

	December 31,				
	2014	2013	2012	2011	2010
PERIOD END BALANCES AND CAPITAL RATIOS:	(In thousands, except per share data)				
Investments and loans					
Investments securities	$ 1,402,056	$ 1,614,809	$ 2,233,265	$ 3,867,970	$ 4,413,957
Loans and leases not covered under shared-loss agreements with the FDIC, net	4,527,735	4,662,458	4,762,330	1,169,916	1,145,320
Loans and leases covered under shared-loss agreements with the FDIC, net	298,911	356,961	395,307	496,276	620,711
Total investments and loans	**$ 6,228,702**	**$ 6,634,228**	**$ 7,390,902**	**$ 5,534,162**	**$ 6,179,988**
Deposits and borrowings					
Deposits	$ 4,924,406	$ 5,383,265	$ 5,690,579	$ 2,437,796	$ 2,628,167
Securities sold under agreements to repurchase	980,087	1,267,618	1,695,247	3,056,238	3,456,781
Other borrowings	439,919	439,816	791,417	427,063	427,395
Total deposits and borrowings	**$ 6,344,412**	**$ 7,090,699**	**$ 8,177,243**	**$ 5,921,097**	**$ 6,512,343**
Stockholders' equity					
Preferred stock	$ 176,000	$ 176,000	$ 176,000	$ 68,000	$ 68,000
Common stock	52,626	52,707	52,671	47,809	47,808
Additional paid-in capital	539,311	538,071	537,453	499,096	498,435
Legal surplus	70,467	61,957	52,143	50,178	46,331
Retained earnings	181,152	133,629	70,734	68,149	51,502
Treasury stock, at cost	(97,070)	(80,642)	(81,275)	(74,808)	(16,732)
Accumulated other comprehensive income	19,711	3,191	55,880	37,131	36,987
Total stockholders' equity	**$ 942,197**	**$ 884,913**	**$ 863,606**	**$ 695,555**	**$ 732,331**
Per share data					
Book value per common share	**$ 17.40**	**$ 15.74**	**$ 15.31**	**$ 15.28**	**$ 14.39**
	$ 15.25	**$ 13.60**	**$ 13.10**	**$ 15.19**	**$ 14.30**

Tangible book value per common share										
Market price at end of period	**$**	**16.65**	**$**	**17.34**	**$**	**13.35**	**$**	**12.11**	**$**	**12.49**
Capital ratios										
Leverage capital		**10.61%**		**9.06%**		**6.55%**		**9.65%**		**9.56%**
Tier 1 risk-based capital		**16.02%**		**14.38%**		**13.18%**		**31.84%**		**30.98%**
Total risk-based capital		**17.57%**		**16.16%**		**15.40%**		**33.12%**		**32.26%**
Tier 1 common equity to risk-weighted assets		**11.88%**		**10.46%**		**8.76%**		**27.01%**		**28.08%**
Financial assets managed										
Trust assets managed	**$**	**2,841,111**	**$**	**2,796,923**	**$**	**2,514,401**	**$**	**2,216,088**	**$**	**2,175,270**
Broker-dealer assets gathered	**$**	**2,622,001**	**$**	**2,493,324**	**$**	**2,722,197**	**$**	**1,926,148**	**$**	**1,695,634**

The ratios shown below demonstrate the Company's ability to generate sufficient earnings to pay the fixed charges or expenses of its debt and preferred stock dividends. The Company's consolidated ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing earnings by combined fixed charges and preferred stock dividends, as specified below, using two different assumptions, one excluding interest on deposits and the second including interest on deposits:

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends					
Excluding Interest on Deposits	2.81x	2.26x	1.21x	1.26x	(A)
Including Interest on Deposits	2.16x	1.75x	1.15x	1.19x	(A)

(A) In 2010, earnings were not sufficient to cover preferred stock dividends, and the ratio was less than 1:1. The Company would have had to generate additional earnings of $22.0 million to achieve a ratio of 1:1 in 2010.

For purposes of computing these consolidated ratios, earnings represent income before income taxes plus fixed charges and amortization of capitalized interest, less interest capitalized. Fixed charges consist of interest expensed and capitalized, amortization of debt issuance costs, and the Company's estimate of the interest component of rental expense. The term "preferred stock dividends" is the amount of pre-tax earnings that is required to pay dividends on the Company's outstanding preferred stock. As of the dates presented above, the Company had noncumulative perpetual preferred stock issued and outstanding amounting to $176.0 million, as follows: (i) Series A amounting to $33.5 million or 1,340,000 shares at a $25 liquidation value; (ii) Series B amounting to $34.5 million or 1,380,000 shares at a $25 liquidation value; (iii) Series C amounting to $84.0 million or 84,000 shares at a $1,000 liquidation value; and (iv) Series D amounting to $24.0 million or 960,000 shares at a $25 liquidation value.

ITEM 7. ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2014

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by the Company conform with GAAP and general practices within the financial services industry. The Company's significant accounting policies are described in detail in Note 1 to the consolidated financial statements and should be read in conjunction with this section.

Critical accounting policies require management to make estimates and assumptions, which involve significant judgment about the effect of matters that are inherently uncertain and that involve a high degree of subjectivity. These estimates are made under facts and circumstances at a point in time and changes in those facts and circumstances could produce actual results that differ from those estimates. The following MD&A section is a summary of what management considers the Company's critical accounting policies.

Business Combinations

The Company accounted for the BBVAPR Acquisition and the FDIC-assisted acquisition of Eurobank under the accounting guidance of ASC Topic No. 805, Business Combinations, which requires the use of the purchase method of accounting. All identifiable assets and liabilities acquired were initially recorded at fair value. No allowance for loan losses related to the acquired loans was recorded on the acquisition date. Loans acquired were recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the FDIC applicable to the FDIC-assisted acquisition. These fair value estimates associated with the loans included estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows. Because the FDIC has agreed to reimburse the Company for losses related to the acquired loans in the FDIC-assisted acquisition, subject to certain provisions specified in the agreements, an indemnification asset was recorded at fair value at the acquisition date. The indemnification asset was recognized at the same time as the loans covered under FDIC shared-loss agreements, and is measured on the same basis, subject to collectability or contractual limitations. The loss share indemnification asset on the acquisition date reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflected counterparty credit risk and other uncertainties. The initial valuation of these loans and related indemnification asset required management to make subjective judgments concerning estimates about how the acquired loans would perform in the future using valuation methods, including discounted cash flow analyses and independent third-party appraisals. Factors that may significantly affect the initial valuation include, among others, market-based and industry data related to expected changes in interest rates, assumptions related to probability and severity of credit losses, estimated timing of credit losses including the timing of foreclosure and liquidation of collateral, expected prepayment rates, the specific terms and provisions of any shared-loss agreements, and specific industry and market conditions that may impact independent third-party appraisals. The Company applied the guidance of ASC Subtopic 310-30 – "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30") to most of the loans acquired in the FDIC-assisted acquisition (including applying ASC 310-30 by analogy to loans that do not meet the scope of ASC 310-30 but meet

certain other criteria as outlined below), except for credit cards. Also, the Company applied the guidance of ASC 310-30 to most of the loans from the BBVAPR Acquisition, except for credit cards, retail and commercial lines of credits, floor plans and performing auto loans with Fair Isaac Corporation ("FICO") scores over 660 which were acquired at a premium.

ASC 310-30 provides two specific criteria that have to be met in order for a loan to be within its scope: (1) credit deterioration on the loan from its inception until the acquisition date and (2) that it is probable that not all of the contractual cash flows will be collected on the loan. Once in the scope of ASC 310-30, the credit portion of the fair value discount on an acquired loan cannot be accreted into income until the acquirer has assessed that it expects to receive more cash flows on the loan than initially anticipated. Acquired loans that meet the definition of nonaccrual status fall within the Company's definition of impaired loans under ASC 310-30. Performing loans would generally not meet either criteria and, therefore, not fall within the scope of ASC 310-30. Many of the acquired loans that did not meet the Company's definition of non-accrual status also resulted in the recognition of a discount attributable to credit quality. The Company elected to analogize to ASC 310-30 and only accrete the portion of the fair value discount unrelated to credit pursuant

to the provisions of the AICPA letter dated December 18, 2009, where the AICPA summarized the SEC Staff’s view regarding the accounting in subsequent periods for discount accretion associated with loan receivables acquired in a business combination or asset purchase. The Company adopted an accounting policy coincident with the Eurobank acquisition to consistently apply by analogy the expected cash flow approach under 310-30 to acquired loan portfolios. ASC 310-30 allows the grouping of loans with common risk characteristics for purposes of accounting of the purchased assets and accretable yield. The criteria followed for the pooling of loans with common risk characteristics was based on the line of business, default risk, collateral type, and size. Loans with expected cash flows over certain amount were placed in single loan pools.

Allowance for Loan and Lease Losses for Non-covered Loans and Leases

During the third quarter of 2013, management changed the methodology of the general reserve calculation for originated and other loans and for loans acquired and accounted for under ASC 310-20 in order to adapt the calculation to the new Company structure after the BBVAPR Acquisition, and better capture the risk characteristics of the different portfolio segments. Principal changes were concentrated in the commercial, consumer and auto and leasing portfolios. Commercial loan portfolio was further segmented by business line (corporate, institutional, middle market, commercial retail, floor plan, and real estate), by collateral type (secured by real estate and other commercial and industrial), and by risk rating/classification (pass, special mention, substandard, doubtful, and individually measured for impairment). The loss factor used for the general reserve of these loans is established considering the Bank's historical loss experience and the consideration of environmental factors. Environmental factors considered are: change in non-performing loans; migration in classification; trends in charge offs; trends in volume of loans; changes in collateral values; changes in risk selections and underwriting standards, and other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staff, including the Company’s loan review system; national and local economic trends and industry conditions; and effect of external factors such as competition and regulatory requirements on the level of estimated credit losses. The sum of the loss experience factors and the environmental factors will be the general valuation reserve (“GVA”) factor to be used for the determination of the allowance for loan and lease losses in each category. Consumer consists of smaller retail loans such as retail credit cards, overdrafts, unsecured personal lines of credit, and personal unsecured loans. The allowance factor of consumer loans, consisting of the historical loss factors and the environmental risk factors will be calculated for each group of loans by delinquency bucket. Auto and leasing factor on these loans is impacted by the historical losses, the environmental risk factors and by delinquency buckets. For the determination of the allowance factor, the auto and leasing portfolio will be segmented by FICO score, which is updated on a quarterly basis. As part of the Company’s continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period for determination of the historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months. The same analysis was performed during the second and fourth quarter for commercial and residential mortgages portfolios, respectively, with no resulting changes to the 12 months period currently used. In addition, during the fourth quarter, an assessment of environmental factors was performed in which management concluded that the environmental factors continue to reflect our assessment of the impact to the portfolios, taking into consideration their evolution, recent economic developments, changes in values of collateral and delinquencies, among others. Also, during fourth quarter the loss realization period was revised to 1.20 years for commercial real estate, other portfolios remained at 1 year. These changes in the allowance for loan and lease losses’ look back period for the consumer and auto and leasing portfolios, and economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

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

The Company determines the allowance for loan and lease losses by portfolio segment, which consist of mortgage loans, commercial loans, consumer loans, and auto and leasing, as follows:

Mortgage loans: These loans are divided into four classes: traditional mortgages, non-traditional mortgages, loans in loan modification programs and home equity secured personal loans. Traditional mortgage loans include loans secured by a dwelling, fixed coupons and regular amortization schedules. Non-traditional mortgages include loans with interest-first amortization schedules and loans with balloon considerations as part of their terms. Mortgages in loan modification programs are loans that are being serviced under such programs. Home equity loans are mainly equity lines of credit. The allowance factor on these loans is impacted by the historical loss factors on the sub-segments, vintages, the environmental risk factors described above and by delinquency buckets. The traditional mortgage loan portfolio is further segregated by vintages.

Commercial loans: The commercial portfolio is segmented by collateral type (secured by real estate and other commercial and industrial assets). The commercial portfolio is further segmented by business line (corporate, institutional, middle market, corporate retail, floor plan, and real estate). The loss factor used for the GVA of these loans is established considering the Bank's past twelve-month historical loss experience of each segment and the consideration of environmental factors. The sum of the loss experience factors and the environmental factors is the GVA factor used for the determination of the allowance for loan and lease losses on each category.

Consumer loans: The consumer portfolio consists of smaller retail loans such as retail credit cards, overdrafts, unsecured personal lines of credit, and personal unsecured loans. The allowance factor, consisting of the historical loss factors and the environmental risk factors, will be calculated for each sub-class of loans by delinquency bucket.

Auto and Leasing: The financing for the purchase of new or used motor vehicles for private or public use. These loans are granted mainly through dealers authorized and approved by the auto department credit committee of the Bank. In addition, this segment includes personal loans guaranteed by vehicles in the form of lease financing. The allowance factor on the auto and leasing portfolio is impacted by the historical losses, the environmental risk factors and by delinquency buckets. For the determination of the allowance factor, the portfolio is segmented by FICO score, which is updated on a quarterly basis.

The Company establishes its allowance for loan losses through a provision for credit losses based on our evaluation of the credit quality of the loan portfolio. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, and other factors that warrant recognition in determining our allowance for loan losses. The Company continues to monitor and modify the level of the allowance for loan losses to ensure it is adequate to cover losses inherent in our loan portfolio.

Our allowance for loan losses consists of the following elements: (i) specific valuation allowances based on probable losses on specifically identified impaired loans; and (ii) valuation allowances based on net historical loan loss experience for similar loans with similar inherent risk characteristics and performance trends, adjusted, as appropriate, for qualitative risk factors specific to respective loan types.

When current information and events indicate that it is probable that we will be unable to collect all amounts of principal and interest due under the original terms of a business or commercial real estate loan greater than $250 thousand, such loan will be classified as impaired. Additionally, all loans modified in a TDR are considered impaired. The need for specific valuation allowances are determined for impaired loans and recorded as necessary. For impaired loans, we consider the fair value of the underlying collateral, less estimated costs to sell, if the loan is collateral dependent, or we use the present value of estimated future cash flows in determining the estimates of impairment and

any related allowance for loan losses for these loans. Confirmed losses are charged off immediately. Prior to a loan becoming impaired, we typically would obtain an appraisal through our internal loan grading process to use as the basis for the fair value of the underlying collateral.

Loan loss ratios and credit risk categories are updated at least quarterly and are applied in the context of GAAP as prescribed by ASC and the importance of depository institutions having prudent, conservative, but not excessive loan allowances that fall within an acceptable range of estimated losses. While management uses current available information in estimating possible loan and lease losses, factors beyond the Company’s control, such as those affecting general economic conditions, may require future changes to the allowance.

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

For our acquired loans accounted for under ASC 310-30, our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows (which are used as a proxy to identify probable incurred losses) subsequent to the acquisition of the loans, an allowance for loan losses is established based on our estimate of future credit losses over the remaining life of the loans.

Acquired loans accounted for under ASC Subtopic 310-30 are not considered non-performing and continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs on loans accounted under ASC Subtopic 310-30 are recorded only to the extent that losses exceed the non-accretable difference established with purchase accounting.

Allowance for Loan and Lease Losses for Covered Loans and Leases

Covered loans are accounted for under ASC Subtopic 310-30 and our policy is consistent with our policy for non-covered acquired loans. For covered loans, the portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC shared-loss indemnification asset.

Financial Instruments

Certain financial instruments, including derivatives, trading securities and investment securities available-for-sale, are recorded at fair value and unrealized gains and losses are recorded in other comprehensive income or as part of non-interest income, as appropriate. Fair values are based on listed market prices, if available. If listed market prices are not available, fair value is determined based on other relevant factors, including price quotations for similar instruments. The fair values of certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments as well as time value and yield curve or volatility factors underlying the positions.

The Company determines the fair value of its financial instruments based on the fair value measurement framework, which establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 — Level 1 assets and liabilities include equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. government agency securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on valuations obtained from third-party pricing services for identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments and (iii) derivative contracts and financial liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by

observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models for which the determination of fair value requires significant management judgment or estimation.

OVERVIEW OF FINANCIAL PERFORMANCE

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the foregoing "Selected Financial Data" and the Company's consolidated financial statements and related notes. This discussion and analysis contains forward-looking statements. Please see "Forward-Looking Statements" and "Risk Factors" for discussion of the uncertainties, risks and assumptions associated with these statements.

The Company is a publicly-owned financial holding company that provides a full range of banking and financial services through its subsidiaries. It provides comprehensive banking and financial services through a complete range of banking and financial solutions, including mortgage, commercial, consumer, and auto lending; checking and savings accounts; financial planning, insurance, financial service, and investment brokerage; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Wealth Management, and Treasury, and distinguishes itself based on quality service and marketing efforts focused on mid and high net worth individuals and families, including professionals and owners of small and mid-sized businesses, primarily in Puerto Rico. The Company has 53 branches in Puerto Rico and a subsidiary in Boca Raton, Florida. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

The Company's diversified mix of businesses and products generates both the interest income traditionally associated with a banking institution and non-interest income traditionally associated with a financial services institution (generated by such businesses as securities brokerage, fiduciary services, investment banking, insurance agency, and retirement plan administration). Although all of these businesses, to varying degrees, are affected by interest rate and financial market fluctuations and other external factors, the Company's commitment is to continue producing a balanced and growing revenue stream.

The year 2014 reflects continued success in our core business segments. It also highlights the merits of our sound strategy in light of Puerto Rico's tough economic environment. While we continue to manage acquired loans, we are prudently originating new loans and optimizing both loan yields and credit costs. Concurrently, we are focused on managing our expense footprint and on further refining our loan servicing capabilities. Our primary goal is to both maximize profitability and build capital. We aim to preserve our flexibility so that we can pursue a range of alternatives to deploy our capital and increase shareholder return in a sustainable manner.

Income available to common shareholders was $71.3 million, or $1.50 per share diluted, compared to $84.6 million, or $1.73 per share diluted, last year.

Interest Income

Total interest income for 2014 slightly decreased 1.7% to $485.3 million when compared to $493.6 million for 2013. The yield on interest-earning assets increased to 6.94% from 6.58%. This was offset by a decrease in earning asset volume.

Interest Expense

Total interest expense decreased 8.5% for 2014 to $76.8 million as compared to $84.0 million for 2013. Such decrease reflects the lower cost of deposits (0.72% vs. 0.96%, before amortization adjustments). Such lower cost reflects continuing progress in the repricing of the Company's core retail deposits and other reductions in its cost of funds.

Net Interest Income

Net interest income for 2014 remained leveled at $408.5 million when compared with $409.7 million for 2013. Nevertheless, net interest margin increased 38 basis points to 5.84% when compared to 2013, as a result of a decrease in deposits and borrowings volume.

Provision for Loan and Lease Losses

Provision for non-covered loan losses decreased by $12.6 million to $55.0 million, when compared to $67.6 million for 2013, while provision for covered loan losses increased $345 thousand when compared to $5.3 million for 2013.

Non-Interest Income

Core banking and financial services revenues decreased 9.5% to $77.9 million for 2014 as compared to $86.2 million for 2013, primarily reflecting a decrease of $3.5 million in banking services revenue to $40.7 million and a decrease of $3.6 million in mortgage banking activities to $7.4 million.

FDIC shared-loss expense of $65.8 million for 2014, resulted from the ongoing evaluation of expected cash flows of the covered loan portfolio, compared to $69.3 million for 2013. This amortization is decreasing as most of the FDIC indemnification ends in the second quarter of 2015.

Non-Interest Expense

Non-interest expense decreased to $242.7 million for 2014 compared to $264.1 million in 2013, mainly because during 2014 there were no merger and restructuring charges compared to $17.7 million in 2013, and also due to reduced general and administrative expenses. As a result of such decrease, the Company's efficiency ratio improved to 49.90%, as compared to 53.27% in 2013.

Income Tax Expense

Income tax expense was $37.3 million for 2014, in comparison to an income tax benefit of $8.7 million for 2013. The income tax benefit for 2013 included a $36.9 million benefit from the effect in deferred taxes due to the increase in tax rates from 30.0% to 39.0%.

Income Available to Common Shareholders

For 2014, the Company's income available to common shareholders amounted to $71.3 million, compared to $84.6 million for 2013. Income per basic common share and fully diluted common share was $1.58 and $1.50, respectively, for 2014, compared to income per basic common share and fully diluted common share of $1.85 and $1.73, respectively, for 2013. Decrease is mostly the result of non-recurring items in 2013, which included the net effect of a $36.9 million income tax benefit and $17.6 million of merger and restructuring charges.

Interest Earning Assets

The loan portfolio declined to $4.827 billion at December 31, 2014, compared to $5.019 billion at December 31, 2013, primarily due to repayments and maturities, including the strategic reduction of Puerto Rico government-related debts. The investment portfolio of $1.402 billion at December 31, 2014 decreased 13.2% compared to $1.615 billion at December 31, 2013, as a result of sales, maturities and redemption of investment securities during 2014.

Interest Bearing Liabilities

Total deposits decreased to $4.924 billion at December 31, 2014, compared to $5.383 billion at December 31, 2013. Non-maturing deposit balances increased 1.51%, to $3.383 billion, while higher-priced time deposits declined 24.8% as part of our efforts to reduce the cost of deposits, which averaged 0.66% in 2014 compared to 0.73% in 2013. Securities sold under agreements to repurchase decreased by $287.5 million to $980.1 million, as the Company used available cash to pay off repurchase agreements at maturity.

Stockholders' Equity

Stockholders' equity at December 31, 2014 was $942.2 million compared to $884.9 million at December 31, 2013, an increase of 6.5%. This increase reflects the net income for the year and an increase in accumulated other comprehensive income, which was partially offset by the repurchase of outstanding common stock during 2014. Book value per share was $17.40 at December 31, 2014 compared to $15.74 at December 31, 2013.

The Company maintains capital ratios in excess of regulatory requirements. At December 31, 2014, Tier 1 Leverage Capital Ratio was 10.61% (December 31, 2013 – 9.06%), Tier 1 Risk-Based Capital Ratio was 16.02% (December 31, 2013 – 14.38%), Tier 1 Common Equity to Risk- Based Assets was 11.88% (December 31, 2013 -10.46%) and Total Risk-Based Capital Ratio was 17.57% (December 31, 2013 – 16.16%).

Return on Average Assets and Common Equity

Return on average common equity ("ROE") for 2014 was 9.50% compared to 12.03% for 2013. Return on average assets ("ROA") for 2014 was 1.10% compared to 1.15% for 2013. The decrease in ROE and ROA is mostly due to a 15.7% and 13.4% decrease in net income and net income available to common stockholders, respectively, to $85.2 million and $71.3 million, from $98.4 million and $84.6 million for 2013.

Assets under Management

At December 31, 2014, total assets managed by the Company's trust division and CPC remained leveled at $2.841 billion compared to $2.797 billion at December 31, 2013. At December 31, 2014, total assets gathered by the securities broker-dealer subsidiary from its customer investment accounts increased 5.2% to $2.622 billion, compared to $2.493 billion at December 31, 2013. Changes in trust and broker-dealer related assets primarily reflect a slight increase in portfolio and differences in market values.

Lending

Total loan production of $919.4 million for 2014 decreased 38.1% year over year. Total commercial loan production of $262.9 million for 2014 decreased 62.5% from 2013.

Mortgage loan production of $215.4 million for 2014 decreased 29.8% compared to 2013. The Company sells most of its conforming mortgage loans in the secondary market and retains the servicing rights.

In the aggregate, consumer loan and auto production totaled $441.2 million for 2014, a decrease of 7.5% from $476.8 in 2013. Such decrease is mostly due to a 14.4% decrease in auto production.

Total loan portfolio declined by $193 thousand from $5.019 billion at December 31, 2013 to $4.827 billion at December 31, 2014, mostly as the result of scheduled pay downs and maturities in both the non-covered and covered loan portfolios and reduced production.

Credit Quality on Non-Covered Loans

Net credit losses, excluding acquired loans, decreased $17.5 million to $29.1 million during 2014, representing 1.11% of average non-acquired loans outstanding versus 2.69% in 2013. The allowance for loan and lease losses on non-covered loans at December 31, 2014, increased to $69.5 million compared to $54.3 million at December 31, 2013. The allowances for loan and lease losses, excluding acquired loans, increased to $51.4 million (1.81% of total non-covered loans, excluding acquired loans) at December 31, 2014, compared to $49.1 million (2.04% of total non-covered loans, excluding acquired loans) at December 31, 2013. The allowance for loan and lease losses on acquired loans accounted for under ASC 310-20 increased to $4.6 million at December 31, 2014, compared to $2.4 million at December 31, 2013.

Non-performing loans (“NPLs”), which exclude loans covered under shared-loss agreements with the FDIC and loans acquired in the BBVAPR Acquisition accounted under ASC 310-30, increased to $108.9 million at December 31, 2014 compared to $86.2 million at December 31, 2013.

Non-GAAP Measures

The Company uses certain non-GAAP measures of financial performance to supplement the consolidated financial statements presented in accordance with GAAP. The Company presents non-GAAP measures that management believes are useful and meaningful to investors. Non-GAAP measures do not have any standardized meaning, are not required to be uniformly applied, and are not audited. Therefore, they are unlikely to be comparable to similar measures presented by other companies. The presentation of non-GAAP measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP.

The Company's management has reported and discussed the results of operations herein both on a GAAP basis and on a pre-tax pre-provision operating income basis (defined as net interest income, plus banking and financial services revenue, less non-interest expenses, as calculated on the table below). The Company's management believes that, given the nature of the items excluded from the definition of pre-tax pre-provision operating income, it is useful to state what the results of operations would have been without them so that investors can see the financial trends from the Company's continuing business.

During 2014, the Company's pre-tax pre-provision operating income was $243.7 million, and shows a decrease of 2.3% compared with $249.4 million for 2013. Pre-tax pre-provision operating income is calculated as follows:

	Year Ended December 31,							
	2014			2013				2012
	(In thousands)							
PRE-TAX PRE-PROVISION OPERATING INCOME								
Net interest income	$	408,475		$	409,672		$	157,290
Core non-interest income:								
Banking service revenue		40,712			44,239			13,573
Wealth management revenue		29,855			30,924			25,350
Mortgage banking activities		7,381			10,994			8,706
Total core non-interest income		**77,948**			**86,157**			**47,629**
Non-interest expenses		242,725			264,136			131,808
Less merger and restructuring charges		-			(17,660)			(4,990)
		242,725			246,476			126,818
Total pre-tax pre-provision operating income	**$**	**243,698**		**$**	**249,353**		**$**	**78,101**

Tangible common equity consists of common equity less goodwill, core deposit intangibles and customer relationship intangible. Tier 1 common equity consists of common equity less goodwill, core deposit intangibles, net unrealized gains on available for sale securities, net unrealized losses on cash flow hedges, and disallowed deferred tax asset and servicing assets. Tangible book value per common share consists of tangible common equity divided by common stock outstanding at the end of the period. Ratios of tangible common equity to total assets, tangible common equity to risk-weighted assets, total equity to risk-weighted assets, and Tier 1 common equity to risk-weighted assets and tangible book value per common share are non-GAAP measures.

At December 31, 2014, tangible common equity to total assets and tangible common equity to risk-weighted assets increased to 9.14% and 14.04%, respectively, from 7.61% and 12.13%, respectively, at December 31, 2013. Total equity to risk-weighted assets and Tier 1 common equity to risk-weighted assets at December 31, 2014 increased to 19.44% and 11.88%, respectively, from 17.29% and 10.46%, respectively, at December 31, 2013.

Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Company’s capital position. Furthermore, management and many stock analysts use tangible common equity in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither Tier 1 common equity nor tangible common equity or related measures should be considered in isolation or as a substitute for stockholders’ equity, total assets or any other measure calculated in accordance with GAAP.

TABLE 1 - YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE						
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013						
	Interest		Average rate		Average balance	
	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	$ 485,257	$ 493,632	6.94%	6.58%	$ 6,992,631	$ 7,499,993
Tax equivalent adjustment	50,793	41,106	0.73%	0.55%	-	-
Interest-earning assets - tax equivalent	536,050	534,738	7.67%	7.13%	6,992,631	7,499,993
Interest-bearing liabilities	76,782	83,960	1.15%	1.12%	6,663,591	7,482,019
Tax equivalent net interest income / spread	459,268	450,778	6.52%	6.01%	329,040	17,974
Tax equivalent interest rate margin			6.57%	6.01%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	48,242	48,456	3.33%	2.60%	1,450,778	1,862,274
Trading securities	151	117	8.67%	6.56%	1,741	1,784
Interest bearing cash and money market investments	1,311	1,157	0.23%	0.21%	573,403	540,724
Total investments	49,704	49,730	2.45%	2.07%	2,025,922	2,404,782
Loans not covered under shared-loss agreements with the FDIC:						
Originated						

Mortgage	**40,978**	**43,531**	**5.21%**	**5.71%**	**786,607**	**762,403**
Commercial	**64,328**	**32,891**	**5.41%**	**4.95%**	**1,190,038**	**663,968**
Consumer	**15,367**	**8,058**	**10.04%**	**9.34%**	**153,067**	**86,250**
Auto and leasing	**51,971**	**21,181**	**10.38%**	**9.94%**	**500,720**	**213,127**
Total originated non-covered loans	**172,644**	**105,661**	**6.56%**	**6.12%**	**2,630,432**	**1,725,748**
Acquired						
Mortgage	**37,612**	**42,740**	**5.46%**	**5.60%**	**689,408**	**763,195**
Commercial	**73,403**	**114,492**	**11.29%**	**9.38%**	**649,936**	**1,220,471**
Consumer	**15,412**	**21,147**	**13.70%**	**13.13%**	**112,477**	**161,120**
Auto	**47,513**	**68,093**	**8.62%**	**7.99%**	**551,186**	**852,165**
Total acquired non-covered loans	**173,940**	**246,472**	**8.68%**	**8.22%**	**2,003,007**	**2,996,951**
Total non-covered loans	**346,584**	**352,133**	**7.48%**	**7.46%**	**4,633,439**	**4,722,699**
Loans covered under shared loss agreements with the FDIC	**88,969**	**91,769**	**26.70%**	**24.64%**	**333,270**	**372,512**
Total loans	**435,553**	**443,902**	**8.77%**	**8.71%**	**4,966,709**	**5,095,211**
Total interest earning assets	**485,257**	**493,632**	**6.94%**	**6.58%**	**6,992,631**	**7,499,993**

	Interest		Average rate		Average balance	
	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	-	-	0.00%	0.00%	715,729	751,757
NOW Accounts	8,001	11,151	0.56%	0.77%	1,417,272	1,452,030
Savings and money market	8,097	9,481	0.69%	1.01%	1,169,482	938,450
Individual retirement accounts	3,760	4,832	1.15%	1.35%	325,678	358,605
Retail certificates of deposits	6,852	11,203	1.39%	1.66%	491,485	674,241
Total core deposits	26,710	36,667	0.65%	0.88%	4,119,646	4,175,083
Institutional deposits	4,961	9,983	1.42%	1.66%	348,742	602,769
Brokered deposits	5,715	7,068	0.82%	0.86%	697,756	821,112
Total wholesale deposits	10,676	17,051	1.02%	1.20%	1,046,498	1,423,881
	37,386	53,718	0.72%	0.96%	5,166,144	5,598,964
Deposits fair value premium amortization	(4,773)	(14,400)	0.00%	0.00%	-	-
Core deposit intangible amortization	1,341	1,659	0.00%	0.00%	-	-
Total deposits	**33,954**	**40,977**	**0.66%**	**0.73%**	**5,166,144**	**5,598,964**
Borrowings:						
Securities sold under agreements to repurchase	29,654	29,249	2.85%	2.16%	1,041,378	1,353,011
Advances from FHLB and other borrowings	9,185	8,620	2.58%	2.05%	355,322	419,880
Subordinated capital notes	3,989	5,114	3.96%	4.64%	100,747	110,164
Total borrowings	**42,828**	**42,983**	2.86%	2.28%	**1,497,447**	**1,883,055**
Total interest bearing liabilities	**76,782**	**83,960**	1.15%	1.12%	**6,663,591**	**7,482,019**
Net interest income / spread	**$ 408,475**	**$ 409,672**	**5.79%**	**5.46%**		

Interest rate margin								**5.84%**		**5.46%**						
Excess of average interest-earning assets over average interest-bearing liabilities												**$**	**329,040**		**$**	**17,974**
Average interest-earning assets to average interest-bearing liabilities ratio													**104.94%**			**100.24%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

		Volume			Rate			Total
				(In thousands)				
Interest Income:								
Investments	$	(7,835)		$	7,809		$	(26)
Loans		(16,322)			7,973			(8,349)
Total interest income		**(24,157)**			**15,782**			**(8,375)**
Interest Expense:								
Deposits		(3,168)			(3,855)			(7,023)
Repurchase agreements		(6,737)			7,142			405
Other borrowings		(1,917)			1,357			(560)
Total interest expense		**(11,822)**			**4,644**			**(7,178)**
Net Interest Income	**$**	**(12,335)**		**$**	**11,138**		**$**	**(1,197)**

TABLE 1/A - YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Interest		Average rate		Average balance	
	December 2013	December 2012	December 2013	December 2012	December 2013	December 2012
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	$ 493,632	$ 260,808	6.58%	4.42%	$ 7,499,993	$ 5,898,706
Tax equivalent adjustment	41,106	39,315	0.55%	0.67%	-	-
Interest-earning assets - tax equivalent	534,738	300,123	7.13%	5.09%	7,499,993	5,898,706
Interest-bearing liabilities	83,960	103,517	1.12%	1.83%	7,482,019	5,651,253
Tax equivalent net interest income / spread	450,778	196,606	6.01%	3.26%	17,974	247,453
Tax equivalent interest rate margin			6.01%	3.33%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	48,456	93,728	2.60%	2.81%	1,862,274	3,330,238
Trading securities	117	23	6.56%	5.10%	1,784	451
Interest bearing cash and money market investments	1,157	1,658	0.21%	0.22%	540,724	758,950
Total investments	49,730	95,409	2.07%	2.33%	2,404,782	4,089,639
Loans not covered under shared-loss agreements with the FDIC:						
Originated						

Mortgage	43,531	48,202	5.71%	5.74%	762,403	840,283
Commercial	32,891	16,891	4.95%	5.34%	663,968	316,329
Consumer	8,058	2,840	9.34%	7.01%	86,250	40,511
Auto and leasing	21,181	2,499	9.94%	8.25%	213,127	30,301
Total originated non-covered loans	**105,661**	**70,432**	**6.12%**	**5.74%**	**1,725,748**	**1,227,424**
Acquired						
Mortgage	42,740	1,767	5.60%	5.78%	763,195	30,591
Commercial	114,492	3,742	9.38%	6.63%	1,220,471	56,464
Consumer	21,147	1,430	13.13%	19.72%	161,120	7,250
Auto	68,093	2,652	7.99%	6.89%	852,165	38,467
Total acquired non-covered loans	**246,472**	**9,591**	**8.22%**	**7.22%**	**2,996,951**	**132,772**
Total non-covered loans	**352,133**	**80,023**	**7.46%**	**5.88%**	**4,722,699**	**1,360,196**
Loans covered under shared loss agreements with the FDIC	**91,769**	**85,376**	**24.64%**	**19.02%**	**372,512**	**448,871**
Total loans	**443,902**	**165,399**	**8.71%**	**9.14%**	**5,095,211**	**1,809,067**
Total interest earning assets	**493,632**	**260,808**	**6.58%**	**4.42%**	**7,499,993**	**5,898,706**

	Interest		Average rate		Average balance	
	December 2013	December 2012	December 2013	December 2012	December 2013	December 2012
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	-	-	0.00%	0.00%	751,757	207,553
NOW Accounts	11,151	8,593	0.77%	0.96%	1,452,030	896,538
Savings and money market	9,481	2,443	1.01%	0.94%	938,450	259,115
Individual retirement accounts	4,832	6,422	1.35%	1.74%	358,605	369,493
Retail certificates of deposits	11,203	7,034	1.66%	2.06%	674,241	342,287
Total core deposits	**36,667**	**24,492**	**0.88%**	**1.18%**	**4,175,083**	**2,074,986**
Institutional deposits	9,983	2,047	1.66%	**1.84%**	602,769	111,129
Brokered deposits	7,068	3,633	0.86%	**1.78%**	821,112	203,546
Total wholesale deposits	**17,051**	**5,680**	**1.20%**	**1.81%**	**1,423,881**	**314,675**
	53,718	**30,172**	**0.96%**	**1.26%**	**5,598,964**	**2,389,661**
Deposits fair value premium amortization	(14,400)	(719)	0.00%	0.00%	-	-
Core deposit intangible amortization	1,659	196	0.00%	0.00%	-	-
Total deposits	**40,977**	**29,649**	**0.73%**	**1.24%**	**5,598,964**	**2,389,661**
Borrowings:						
Securities sold under agreements to repurchase	29,249	60,575	2.16%	2.09%	1,353,011	2,893,345
Advances from FHLB and other borrowings	8,620	10,906	2.05%	3.56%	419,880	306,087
FDIC-guaranteed term notes	-	909	0.00%	4.16%	-	21,875
Subordinated capital notes	5,114	1,479	4.64%	3.67%	110,164	40,285
Total borrowings	**42,983**	**73,869**	**2.28%**	**2.26%**	**1,883,055**	**3,261,592**
Total interest bearing liabilities	**83,960**	**103,518**	**1.12%**	**1.83%**	**7,482,019**	**5,651,253**

Net interest income / spread	**$**	**409,672**		**$**	**157,290**			**5.46%**		**2.59%**						
Interest rate margin								**5.46%**		**2.67%**						
Excess of average interest-earning assets over average interest-bearing liabilities												**$**	**17,974**		**$**	**247,453**
Average interest-earning assets to average interest-bearing liabilities ratio													**100.24%**			**104.38%**

C - CHANGES IN NET INTEREST INCOME DUE TO:								
	Volume			**Rate**			**Total**	
	(In thousands)							
Interest Income:								
Investments	$	(39,307)		$	(6,372)		$	(45,679)
Loans		213,354			65,149			278,503
Total interest income		174,047			58,777			232,824
Interest Expense:								
Deposits		39,818			(28,490)			11,328
Repurchase agreements		(32,248)			922			(31,326)
Other borrowings		5,841			(5,401)			440
Total interest expense		13,411			(32,969)			(19,558)
Net Interest Income	**$**	160,636		**$**	91,746		**$**	252,382

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Net Interest Income

Comparison of years ended December 31, 2014 and 2013

Net interest income is a function of the difference between rates earned on the Company's interest-earning assets and rates paid on its interest-bearing liabilities (interest rate spread) and the relative amounts of its interest earning assets and interest-bearing liabilities (interest rate margin). The Company constantly monitors the composition and re-pricing of its assets and liabilities to maintain its net interest income at adequate levels. Table 1 above shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for 2014 and 2013.

Net interest income amounted to $408.5 million, a slight decrease of 0.3% from $409.7 million for 2013. This change reflects a decrease of 1.8% in interest income from loans and a 17.1% decrease in interest expense from deposits, when comparing the years 2014 and 2013.

Interest rate spread for 2014 increased 33 basis points to 5.79% from 5.46% in 2013. This increase is mainly due to the net effect of a 36 basis point increase in the average yield of interest-earning assets from 6.58% to 6.94%, and a 3 basis point increase in the average cost of funds from 1.12% to 1.15%.

Interest income for 2014 decreased to $485.3 million from $493.6 million in 2013. Such decrease reflects $24.2 million reduction in the volume of interest-earning assets, partially offset by an increase in rate of $15.8 million. Interest income from loans decreased 1.9% to $435.6 million, primarily reflecting a decrease in volume of $16.3 million, partially offset by an $8.0 million increase in interest rate. Interest income from investments remained leveled at $49.7 million compared to 2013, reflecting a decrease in volume of $7.8 million, offset by a $7.8 million increase in interest rate.

Interest expense for 2014 decreased 8.5% to $76.8 million from $84.0 million in 2013. The decrease was primarily the net result of an $11.8 million decrease in the volume of interest-bearing liabilities and an increase of $4.6 million in interest rate. The decrease in interest-bearing liabilities was mostly due to the decrease in repurchase agreements volume of $6.7 million, and a decrease in deposits volume of $3.2 million and deposits interest rate of $3.9 million, partially offset by a $7.1 million increase in repurchase agreements interest rate. The cost of deposits before fair value amortization and core deposit intangible amortization decreased 24 basis points to 0.72% for 2014, compared to 0.96% for 2013. The decrease in the cost of deposits was partially offset by an increase in the cost of borrowings, which increased 58 basis points to 2.86% from 2.28%.

For 2014, the average balance of total interest-earning assets was $6.993 billion, a decrease of $507.4 million, or 6.8%, from 2013. Such decrease was mainly attributable to a decline of $378.9 million, or 22.1%, in average investment securities, resulting from sales, redemptions and maturities during 2014. The average yield on interest-earning assets was 6.94% compared to 6.58% for 2013. The yield of the investment portfolio increased to 2.45% from 2.07%. Increase in investment yield is related to lower premium amortization in the mortgage-backed securities portfolio from the extension of the duration of the portfolio as a result of the level of market rates.

Comparison of years ended December 31, 2013 and 2012

Net interest income amounted to $409.7 million for 2013, a 160.05% increase from $157.3 million for 2012. These changes reflect a decrease of 18.9% in interest expense and an increase of 168.4% in interest income from loans, partially offset by a 47.9% decrease in interest income from investments when comparing the years 2013 and 2012.

Interest rate spread for 2013 increased 287 basis points to 5.46% from 2.59% in 2012. This increase is mainly due to the net effect of a 71 basis point decrease in the average cost of funds from 1.83% to 1.12%, and a 216 basis point increase in the average yield of interest-earning assets from 4.42% to 6.58%.

The increase in interest income for the year was primarily the result of an increase of $174.0 million in interest-earning assets volume variance, and a $58.8 million increase in interest rate variance. Interest income from loans increased 168.4% to $443.9 million for 2013, mainly due to the loan portfolio acquired as part of the BBVAPR Acquisition. This was mitigated by the fact that interest income on investments decreased 47.9% to $49.7 million in 2013, compared to 2012, reflecting a lower balance in the investment securities portfolio due to the sale of investments securities as part of the deleverage executed during the third and fourth quarters of 2012 in connection with the BBVAPR Acquisition.

Interest expense decreased 18.9% to $84.0 million for 2013. The decrease was primarily the result of a $33.0 million decrease in interest rate variance, partially offset by a $13.4 million increase in interest-bearing liabilities volume variance. The decrease in interest rate variance is due to a reduction in the cost of funds and the increase in the volume variance is due to the increase in the balance of deposits, which reflected a decrease in cost of funds of 71 basis points to 1.12% for 2013, compared to 2012. The cost of deposits decreased 51 basis points to 0.73% for 2013, compared to 1.24% for 2012, primarily due to continuing progress in repricing core deposits and to the maturity of higher cost brokered deposits and time deposits during 2013. The cost of borrowings increased 2 basis points to 2.28% in 2013, compared to 2.26% for 2012.

For 2013, the average balance of total interest-earning assets was $7.5 billion, an increase of 27.1% compared to 2012. The increase in average balance of interest-earning assets was mainly attributable to an increase of 181.6% in average loans for 2013, resulting from the acquisition of the BBVAPR loan portfolio, mitigated by a reduction of 41.1% in the average investments for 2013 as a result of the aforementioned sale of investments as part of the deleverage plan in connection with the BBVAPR Acquisition. For 2013, the average yield on interest-earning assets was 6.58% compared to 4.42% for 2012. This was mainly due to the increase in average balance and higher average yields in the non-covered loan portfolio, which their average yield increased to 7.46% for 2013 from 5.88% for 2012.

TABLE 2 - NON-INTEREST INCOME SUMMARY											
	Year Ended December 31,										
	2014			**2013**			**Variance**		**2012**		
	(Dollars in thousands)										
Banking service revenue	$	40,712		$	44,239		-8.0%		$	13,573	
Wealth management revenue		29,855			30,924		-3.5%			25,350	
Mortgage banking activities		7,381			10,994		-32.9%			8,706	
Total banking and financial service revenue		**77,948**			**86,157**		**-9.5%**			**47,629**	
FDIC shared-loss expense, net:											
FDIC indemnification asset expense		(62,285)			(66,253)		6.0%			(25,805)	
Change in true-up payment obligation		(3,471)			(3,014)		-15.2%			(2,217)	
		(65,756)			(69,267)		5.1%			(28,022)	
Net gain (loss) on:											
Sale of securities available for sale		4,366			-		100.0%			74,210	
Derivatives		(608)			(1,526)		60.2%			(42,048)	

Early extinguishment of debt		-			1,061		-100.0%			(26,052)
Other non-interest income		1,372			670		104.8%			338
		(60,626)			(69,062)		12.2%			(21,574)
Total non-interest income, net	**$**	**17,322**		**$**	**17,095**		**1.3%**			**26,055**

Non-Interest Income

Non-interest income is affected by the level of trust assets under management, transactions generated by clients' financial assets serviced by the securities broker-dealer and insurance agency subsidiaries, the level of mortgage banking activities, and the fees generated from loans and deposit accounts. It is also affected by the FDIC shared-loss expense, which varies depending on the results of the on-going evaluation of expected cash flows of the loan portfolio acquired in the FDIC-assisted acquisition. In addition, it is affected by the amount of securities, derivatives and trading transactions.

Comparison of the years ended December 31, 2014 and 2013

As shown in Table 2 above, the Company recorded non-interest income in the amount of $17.3 million, compared to $17.1 million for 2013, an increase of $228 thousand.

The FDIC shared-loss expense, net, decreased to $65.8 million for 2014, as compared to $69.3 million for 2013. This amortization is decreasing as the majority of the FDIC indemnification asset is recorded for projected claimable losses on non-single family residential loans whose loss share period ends by the second quarter of 2015, although the recovery share period extends for an additional three-year period.

The true-up payment obligation increased to $3.5 million for 2014, as compared to $3.0 million in 2013. The true-up payment obligation may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, decreased 8.0% to $40.7 million for 2014, from $44.2 million in 2013. The decrease in banking services revenues is mostly due to a $1.5 million decrease in retail checking account fees, as customers have shifted to lower fee account products, a $733 thousand decrease in credit card interchange income, and a $1.1 million decrease in other loan fees due to a non-recurrent prepayment penalty from a commercial loan cancellation during 2013.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 3.5% to $29.9 million for 2014, compared to $30.9 million in 2013. This decrease is mainly due to a decrease in Oriental Financial Services revenues subject to commissions which is attributable to lower trading activity in Puerto Rico bonds and mutual funds as a result of current local economic conditions.

Income generated from mortgage banking activities decreased 32.9% to $7.4 million for 2014, compared to $11.0 million for 2013. The decrease in mortgage banking activities is mainly due to higher losses in repurchased loans and a decrease in sales when compared to 2013.

Comparison of the years ended December 31, 2013 and 2012

There was no gain or loss on the sale of securities in 2013 as compared to gains of $74.2 million 2012. Losses from derivative activities were only $1.5 million in 2013, compared to losses of $42.0 million in 2012. Gain on extinguishment of debt of $1.1 million in 2013, compared to losses of $26.1 million in 2012. The 2012 results reflect $12.9 million in net costs for deleveraging the balance sheet.

Also, the increase in the FDIC shared-loss expense, net to $69.3 million for 2013, compared to $28.0 million for 2012, resulted 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 the covered loans. Forecasted losses show a decreasing trend during 2013 as compared to the projections in 2012. The reduction in claimable losses amortizes the shared-loss indemnification asset through the life of the shared loss agreements. This amortization is net of the accretion of the discount recorded to reflect the expected claimable loss at its net present value. During 2013, the net amortization included $16.6 million of additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction and leasing loan pools. Additional amortization of the FDIC indemnification asset may be recorded, should the Company continue to experience reduced expected losses. The majority of the FDIC indemnification asset is recorded for projected claimable losses on non-single family loans whose loss share period ends by the second quarter of 2015, although the recovery share period extends for an additional three-year period.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, increased 225.0% to $44.2 million in 2013, from $13.6 million for 2012. This increase for 2013 is attributable to an increase in transaction volume due to the larger deposit portfolio, as a result of the BBVAPR Acquisition.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, increased 22.0% to $30.9 million for 2013, compared to $25.4 million for 2012. This increase is mainly due to increased brokerage, trust and insurance business and transactions as a result of the BBVAPR Acquisition.

Income generated from mortgage banking activities for the year ended 2013 was $11.0 million compared to $8.7 million in 2012, reflecting an increase of 26.8%. The Company sells the majority of its originated loans into secondary markets. The increase in loan production is offset by the effect of the rise in interest rates during 2013 when compared to 2012, resulting in decreased profit margins from the sale of mortgage loans.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY				
	Year Ended December 31,			
	2014	2013	Variance %	2012
	(Dollars in thousands)			
Compensation and employee benefits	$ 85,283	$ 91,957	-7.3%	$ 45,778
Professional and service fees	15,996	21,321	-25.0%	17,500
Occupancy and equipment	34,710	34,408	0.9%	17,530
Insurance	8,830	8,795	0.4%	6,742
Electronic banking charges	19,081	16,702	14.2%	6,268
Information technology expenses	6,019	10,546	-42.9%	4,774
Advertising, business promotion, and strategic initiatives	7,014	7,025	-0.2%	6,254
Merger and restructuring charges	-	17,660	-100.0%	4,990
Foreclosure, repossession and other real estate expenses	25,125	16,484	52.4%	7,628
Loan servicing and clearing expenses	7,567	7,588	-0.3%	3,309
Taxes, other than payroll and income taxes	14,409	15,539	-7.3%	3,502
Communication	3,430	3,377	1.6%	1,627
Printing, postage, stationery and supplies	2,533	3,459	-26.8%	1,254
Director and investor relations	1,106	1,098	0.7%	1,039
Other operating expenses	11,622	8,177	42.1%	3,613
Total non-interest expenses	**$ 242,725**	**$ 264,136**	**-8.1%**	**$ 131,808**
Relevant ratios and data:				
Efficiency ratio	**49.90%**	**53.27%**		**64.05%**
Compensation and benefits to non-interest expense	**35.14%**	**34.81%**		**34.73%**
Compensation to average total assets owned	**1.10%**	**1.08%**		**0.70%**
Average number of employees	**1,567**	**1,564**		**781**
Average compensation per employee	**$ 54.4**	**$ 58.8**		**$ 58.6**
Average loans per average employee	**$ 3,170**	**$ 3,258**		**$ 2,316**

Non-Interest Expenses

Comparison of years December 31, 2014 and 2013

Non-interest expense for 2014 was $242.7 million, representing a decrease of 8.1% compared to $264.1 million in the previous year. The decrease is due mainly to the non-recurring merger and restructuring charges of $17.7 million incurred during 2013 for the BBVAPR Acquisition and to the decrease of $6.7 million in compensation and employee benefits.

Compensation and employee benefits decreased 7.3% to $85.3 million from $92.0 million in 2013. The decrease is due mainly to the impact of the assessment of employee bonuses required pursuant to the BBVAPR Acquisition of $4.3 million for 2013, a $929 thousand decrease in fixed compensation mainly due to consolidation of employee positions, a decrease in loan incentives of $844 thousand related to lower new loan production during 2014, a decrease in stock option expense of $788 thousand mainly from stock option forfeitures, and a decrease of $1.3 million in commissions paid by the securities broker-dealer due to lower business activity. This decrease was partially offset by a non-recurring accrual of $3.8 million for a voluntary early retirement program offered by the Company for qualified employees as a cost savings initiative for 2015. The increase in total employee headcount is mainly related to the conversion from temporary to regular employees, mainly concentrated in branches.

Professional and service fees decreased 25.0% to $16.0 million, as compared to $21.3 million in 2013. Professional and service fees primarily comprise legal expenses and consulting and outsourcing expenses. For 2014, legal expenses amounted to $5.1 million compared to $5.6 million in 2013. The decrease in professional and service fees is mainly related to consulting and outsourcing expenses which amounted to $3.9 million, compared to $5.5 million in 2013, and a decrease in audit fees which amounted to $1.8 million compared to $2.3 million in 2013. The decrease in consulting and outsourcing expenses is mainly related to loan servicing fees amounting to $3.0 million for a third-party loan servicer whose contract was terminated during the second quarter of 2013.

Information technology expenses decreased 42.9% to $6.0 million, as compared to $10.5 million, mostly due to systems integration during the end of the year 2013, as part of BBVAPR systems conversion.

The decreases in the foregoing non-interest expenses were partially offset by increases in foreclosure, repossession and other real estate expenses and in electronic banking charges.

Foreclosure, repossession and other real estate expenses increased 49.8% to $25.1 million, as compared to $16.5 million for the previous year, principally due to an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic conditions.

Electronic banking charges increased 14.2% to $19.1 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business.

The decrease in non-interest expenses resulted in an improved efficiency ratio of 49.9% from 53.3% for 2013. The efficiency ratio measures how much of the Company's revenues is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, credit-related other-than-temporary impairment losses, FDIC shared-loss expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation amounted to losses of $53.7 million, compared to $69.0 million in 2013.

Comparison of years December 31, 2013 and 2012

Non-interest expense for 2013 reached $264.1 million, representing an increase of 100.4% compared to $131.8 million for 2012, due to the Company's expanded operations as a result of the BBVAPR Acquisition.

Compensation and employee benefits increased 100.9% to $92.0 million for 2013, from $45.8 million for 2012. These increases are mainly driven by the integration of the employees of BBVAPR.

Professional and service fees increased 21.7% to $21.3 million for 2013 as compared to $17.5 million for 2012, mainly due to professional expenses related to the BBVAPR integration.

Occupancy and equipment expenses increased 96.8% to $34.5 million for 2013, as compared to $17.5 million for 2012, as a result of the BBVAPR Acquisition in which the Bank acquired 36 branches and the building where our new headquarters are located. During 2013, the Company consolidated 9 branches.

During 2013, the Company incurred $17.7 million in expenses related to the merger and restructuring charges. This amount includes a $3.7 million charge related to an early termination of a contract with a third party servicer of certain loan portfolios acquired in the FDIC-assisted transaction, $3.6 million related to other cancellation fees, and $6.3 million related to systems integration. These charges represent costs associated with these one-time activities and do not represent ongoing costs of the fully integrated combined organization.

Taxes, other than payroll and income taxes, for 2013 increased to $15.5 million, as compared to $3.5 million for 2012. The increase primarily reflects a $5.4 million impact for 2013 from the application of the new 1.0% tax on gross revenues which was part of the recently signed Act. No. 40-2013, known as "Ley de Redistribución y Ajuste de la Carga Contributiva ", signed on June 30, 2013. In addition, municipal tax increased 225% from $2.4 million in 2012 to $7.8 million in 2003, which resulted from the addition of branches as part of the BBVAPR Acquisition.

Electronic banking charges increased 165.0% to $16.7 million for 2013 as compared to $6.3 million for 2012, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from our banking business growth from BBVAPR Acquisition.

Foreclosure, repossession and other real estate expenses for 2013 increased 116.1% to $16.5 million, as compared to $7.6 million for 2012, principally due to an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic conditions.

The increase in the Company’s net-interest income resulted in a decrease in the efficiency ratio to 53.3% for 2013 from 64.1% from the prior year. The efficiency ratio measures how much of a company’s revenue is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investments securities, derivatives gains or losses, credit-related other-than-temporary impairment losses, FDIC shared-loss expense, losses on the early extinguishment of repurchase agreements, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits greater comparability. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation amounted to losses of $69.0 million for 2013, compared to losses of $22.6 million for 2012. Revenue for purposes of the efficiency ratio for 2013 amounted to $494.9 million, compared to $206.1 million for 2012.

Provision for Loan and Lease Losses

Comparison of years December 31, 2014 and 2013

Provision for non-covered loan and lease losses decreased $12.6 million to $55.0 million when compared to $67.6 million in 2013, which included the impact of a $21.0 million additional provision due to the reclassification to held-for-sale of non-performing residential mortgage loans. Provision for covered loan and lease losses increased 6.5% to $5.7 million from $5.3 million in 2013. Based on an analysis of the credit quality and the composition of the Company’s loan portfolio, management determined that the provision for 2014 was adequate in order to maintain the allowance for loan and lease losses at an adequate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for non-covered loans, excluding acquired loans, decreased $24.2 million to $31.4 million, when compared to $55.6 million in 2013. This was the result of a decrease in the provision for mortgage loans of 87.8% to $4.3 million and a recapture for commercial loans of $4.4 million compared to a provision of $3.3 million in 2013, which was partially offset by an increase in the provision for auto and leasing of 127.4% to $23.6 million and an increase in the provision for consumer loans of 33.1% to $8.3 million.

Total charge-offs on non-covered loans, excluding acquired loans, decreased 19.1% to $39.3 million, as compared to $48.5 million in 2013. This was the result of a 86.3% decrease in mortgage charge-offs to $5.0 million and a 58.8% decrease in commercial charge-offs to $2.4 million, partially offset by a 466.0% increase in auto and leasing charge-offs to $26.0 million and a 289.4% increase in consumer charge-offs to $5.8 million.

Total recoveries increased from $2.1 million to $10.2 million. As a result, the recoveries to charge-offs ratio increased from 4.37% to 25.95%. Net credit losses, excluding acquired loans, decreased $17.4 million to $29.1 million, representing 4.42% of average non-covered loans outstanding versus 2.69% for 2013.

The non-covered acquired loans accounted for under ASC 310-20 required a provision for loan and lease losses of $12.9 million, as compared to $9.1 million in 2013. Non-covered acquired loans accounted for under ASC 310-30 required a provision for loan and lease losses of $10.6 million compared to $2.9 million in 2013. The provision for 2014 reflects the Company’s revision of the expected cash flows in the non-covered acquired loan portfolio considering actual experiences and changes in the Company’s expectations for the remaining term of the loan pools. Provision for covered loan and lease losses was $5.7 million, compared to $5.3 million in 2013, reflecting the Company’s revision of the expected cash flows in the covered loan portfolio considering actual experiences and changes in the Company’s expectations for the remaining terms of the loan pools.

Comparison of years December 31, 2013 and 2012

The provision for non-covered loan and lease losses for the year 2013 totaled $67.6 million, an increase of 387.6% from the $13.9 million in 2012, mostly related to the increase in loan portfolio as a result of the BBVAPR Acquisition. The provision for non-covered loan and leases for 2013 also includes the net impact of $21.0 million in additional provision for loan and lease losses from the reclassification to held-for-sale of non-performing residential mortgage loans with a book value of $55.2 million. During the third quarter we completed the sale of these loans that consisted of most of the Company’s residential non-performing loans originated before 2010. Based on an analysis of the credit quality and the composition of the Company’s loan portfolio, management determined that the provision for 2013 was adequate in order to maintain the allowance for loan and lease losses at an adequate level to provide for probable losses based upon an evaluation of known and inherent risks.

During 2013, net credit losses, excluding acquired loans, amounted to $46.4 million, representing increases of 324.2%, when compared to $10.9 million reported for 2012. The increase was primarily due to an increase of $30.2 million in net credit losses for mortgage loans during 2013, compared to 2012. These include $27.0 million in charge-offs due to the aforementioned reclassification to held-for-sale of non-performing residential loans with a book value of $55.2 million, which were sold during third quarter of 2013.

Total charge-offs on non-covered loans, excluding acquired loans, increased 323.9% to $48.5 million 2013, as compared to $11.5 million in 2012, and total recoveries increased from $508 thousand in 2012, to $2.1 million in 2013. As a result, the recoveries to charge-offs ratio decreased from 4.44% to 4.37% for 2013 as compared to 2012.

The loans acquired in the BBVAPR Acquisition accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium) were recognized at fair value as of December 18, 2012, which included the impact of expected credit losses. Provision for loan and lease losses on these loans for 2013 was $2.4 million. Loans acquired in the BBVAPR Acquisition accounted for under ASC 310-30 (loans acquired with deteriorated credit quality, including those by analogy) were also recognized at fair value as of December 18, 2012, which included the impact of expected credit losses. Provision for loan and lease losses on these loans for 2013 was $2.9 million.

The loans covered by the FDIC shared-loss agreement were recognized at fair value as of April 30, 2010, which included the impact of expected credit losses. To the extent credit deterioration occurs in covered loans after the date of acquisition, the Company records an allowance for loan and lease losses. Also, the Company records an increase in the FDIC shared-loss indemnification asset for the expected reimbursement from the FDIC under the shared-loss agreements. Provision for covered loans and lease losses for 2013 was $5.3 million, reflecting the Company's revision of the expected cash flows in the covered loan portfolio considering actual experiences and changes in the Company's expectations for the remaining terms of the loan pools.

Please refer to the "Allowance for Loan and Lease Losses and Non-Performing Assets" section in this MD&A and Table 8 through Table 12 below for more detailed information concerning the allowances for the loan and lease losses, net credit losses and credit quality statistics.

Income Taxes

Comparison of years December 31, 2014 and 2013

The income tax expense for 2014 amounted $37.2 million, compared to an income tax benefit of $8.7 million for 2013. Notwithstanding, the effective income tax rate for 2014 was 30.43% compared with the maximum income tax statutory rate of 39%. During 2013, the Company recognized a $38.1 million income tax benefit from the increase in the Company's deferred tax asset as a result of the increase in corporate income taxes to 39% from 30%.

Comparison of years December 31, 2013 and 2012

Income tax benefit of $8.7 million for 2013 compared to an income tax expense of $3.3 million for 2012. The income tax benefit of $8.7 million for 2013 was due to the recent amendments to the Puerto Rico tax code that resulted in a $38.1 million benefit from an increase in the Company's deferred tax asset as a result of the increase in corporate income taxes to 39% from 30% partially offset by the Company's resulting higher effective rate of 33%, and a reversal of an income tax contingency of $1.5 million as a result of the expiration of the statute of limitations of certain tax positions.

Business Segments

The Company segregates its businesses into the following major reportable segments: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Company's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated. The Company's methodology for allocating non-interest expenses among segments is based on several factors such as revenue, employee headcount, occupied space, dedicated services or time, among others.

Comparison of years ended December 31, 2014 and 2013

Banking

Net interest income of the Banking segment slightly decreased $2.5 million for 2014, or 1.0%, reflecting a decrease of 2.0% in interest income from loans, partially offset by a decrease of 17.4% in interest expense. The decrease in interest income mainly reflects a decrease in loan volume, as acquired loans continue to mature at higher level at higher level than the increase in the originated loans.

Provision for non-covered loans losses decreased $12.6 million to $55.0 million when compared to $67.6 million for 2013, which included the impact of a $21.0 million additional provision due to the reclassification to held-for-sale of non-performing residential mortgage loans. Provision for covered loans losses increased $345 thousand when compared to 2013.

Non-interest loss decreased $4.0 million to $13.4 million when compared to $17.4 million in 2013, mainly as a result of a decrease of $3.5 million in net FDIC shared-loss expense from $69.3 million. In addition, for 2013, the Company recognized a realized loss of $1.5 million from the sale of performing and non-performing residential mortgage loans, which was not the case in 2014.

Banking service revenues decreased, mostly due to a $1.5 million decrease in retail checking account fees, as customers have shifted to lower fee account products, a $733 thousand decrease in credit card interchange income, and a $1.1 million decrease in other loan fees due to a non-recurrent prepayment penalty from a commercial loan cancellation during 2013.

Non-interest expense of $214.0 million decreased 3.8% when compared to 2013, mainly due to $17.7 million in non-recurring merger and restructuring charges during 2013 compared to none in 2014. This decrease was partially offset by an increase in foreclosure, repossession and other real estate expenses of $8.6 million to $25.1 million, principally caused by an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic conditions. Also, there was an increase in electronic banking charges of $2.4 million to $19.1 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business.

Wealth Management

Wealth management income before income taxes increased $3.3 million, mostly due to a decrease of $4.9 million in non-interest expense, partially offset by a decrease of $2.1 million in non-interest income.

Wealth management revenues, which consist of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased to $28.5 million mostly as a result of current local economic conditions.

Non-interest expenses decreased to $21.7 million, mainly as commissions paid by the securities broker-dealer decreased when compared to 2013. In addition, other operating expenses decreased as a result of cost reduction strategies.

Treasury

Average investments decreased 15.8% resulting from sales, redemptions and maturities in 2014. Interest income from investments increased 3.3% and the yield increased to 2.45% from 2.07% in 2013. Increase in yield is related to lower premium amortization in the mortgage-backed securities portfolio from the extension of the duration of the portfolio as a result of the level of market rates. Interest expenses remained leveled at $42 million for 2014 and 2013.

Non-interest expenses of the treasury segment, mainly composed of indirect expenses allocated from support departments decreased 53.44% to $7.0 million as part of the Company’s general expenses reduction.

During 2014, the classification of certain cash accounts was revised to more accurately depict the nature of the underlying segments. This reclassification resulted in a reduction in banking segment total assets of approximately $1.190 billion, with a corresponding increase in treasury segment total assets of $830.9 million and a decrease in total assets eliminations of $358.8 million in 2013. The Company evaluated the impact of this reclassification on the total assets allocated to these segments and determined that the effect of this adjustment was not material to any previously reported results.

Comparison of years ended December 31, 2013 and 2012

Banking

Net interest income increased $260.1 million from 2012, reflecting an increase of $279.9 million in interest income, of which $278.5 million was from loans, and an increase of $19.8 million in interest expense. Interest income from loans increased 168.4% for 2013, mainly due to the loan portfolio acquired as part of the BBVAPR Acquisition.

Provision for non-covered loan losses totaled $67.6 million, an increase of $53.7 million when compared to $13.9 million in 2012, mostly related to the increase in loan portfolio as a result of BBVAPR Acquisition. The provision for non-covered loan and leases for 2013 also included the net impact of $21.0 million in additional provision for loan and lease losses from the reclassification to held-for-sale of non-performing residential mortgage loans with a book value of $55.2 million, most which were sold subsequently during 2013.

Banking service increased 223.7% to $44.7 million in 2013, from $13.8 million for 2012. This increase for 2013 is attributable to an increase in transaction volume due to the larger deposit portfolio, as a result of the BBVAPR Acquisition.

The increase in the FDIC shared-loss expense to $69.3 million for 2013, compared to $28.0 million for 2012, resulted 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 the covered loans.

Non-interest expense for 2013 reached $222.4 million, representing an increase of 146.6% compared to $90.2 million for 2012, due to the Company’s expanded operations as a result of the BBVAPR Acquisition.

Wealth Management

Wealth management revenue increased 22.0% to $30.9 million for 2013, compared to $25.4 million for 2012. This increase is mainly due to increased brokerage, trust and insurance business and transactions as a result of the BBVAPR Acquisition.

Non-interest expenses decreased 7.3% to $26.6 million from $28.7 million for 2012, mostly from reduction on bonus accrual.

Treasury

Average investments decreased 41.2% resulting from the sale of securities available-for-sale as part of the deleverage executed during the third and fourth quarter of 2012 in connection with the BBVAPR Acquisition.

There was no gain or loss on the sale of securities in 2013 as compared to gains of $74.2 million 2012. Losses from derivative activities were only $220 thousand in 2013, compared to losses of $43.0 million in 2012. Gain on extinguishment of debt of $1.1 million in 2013, compared to losses of $26.1 million in 2012. The 2012 results reflect $12.9 million in net costs for deleveraging the balance sheet.

Non-interest expenses, mainly composed of indirect expenses allocated from support departments increased 17.2% to $15.1 million as part of the Company’s expanded operations as a result of the BBVAPR Acquisition.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At December 31, 2014, the Company's total assets amounted to $7.449 billion representing a decrease of 8.7%, or $708.9 million, when compared to $8.158 billion at December 31, 2013. This reduction is mainly due to a decrease in investment securities available-for-sale of 23.4%, or $371.9 million, from $1.588 billion to $1.217 billion, partially offset by a $162.8 million increase in investment securities held-to-maturity, a decrease in loans of $192.8 million, or 3.8%, a decrease of securities purchased under agreements to resell of $60.0 million, and a decrease in other assets of $243.4 million, or 16.6%.

At December 31, 2014, loans represented 77% of total interest-earning assets while investments represented 23%, compared to 75% and 25%, respectively, at December 31, 2013.

The Company's loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate located in Puerto Rico, other commercial and industrial loans, consumer loans, and auto loans. At December 31, 2014, the Company's loan portfolio decreased by 3.8% to $4.827 billion compared to $5.019 billion at December 31, 2013. At December 31, 2014, the covered loan portfolio decreased $58.1 million, or 16.2% from December 31, 2013 as the loans continue to pay down. At December 31, 2014, the non-covered loan portfolio decreased $134.7 million or 2.8%, primarily due to maturities and early pay-downs of some commercial loans.

The FDIC indemnification asset amounted to $97.4 million at December 31, 2014 and $189.2 million as of December 31, 2013, representing a 48.5% reduction. The decrease in the FDIC indemnification asset is mainly related to $47.7 million in reimbursements from FDIC and $62.3 million in amortization of the FDIC indemnification asset during 2014. This amortization is decreasing as most of the FDIC indemnification ends in the second quarter of 2015.

Cash and due from banks amounted to $577.2 million and $696.5 million at December 31, 2014 and 2013, respectively, representing a reduction of $119.3 million, or 17.1%.

Investments principally consist of U.S. government and agency bonds, mortgage-backed securities, and Puerto Rico government and agency bonds. At December 31, 2014, the investment portfolio decreased 13.2% to $1.402 billion from $1.615 billion at December 31, 2013. This decrease is mostly due to a reduction of $45.1 million in FNMA and FHLMC certificates, $38.3 million in CMOs issued by US government-sponsored agencies, $98.5 million in Puerto Rico government obligations, and $20.8 million in other debt securities, due to redemptions and maturities. In

addition, during 2014, the Company sold $110.8 million of mortgage-backed available-for-sale securities taking advantage of market opportunities to realize gains and reduce some interest rate sensitivity. Recent purchases of investment securities were categorized as held-to-maturity. The Company's management will determine the category of upcoming investment securities purchases based on the Company's expectation at such time.

Financial Assets Managed

The Company's financial assets managed include those managed by the Company's trust division, retirement plan administration subsidiary, and assets gathered by its securities broker-dealer subsidiary. The Company's trust division offers various types of IRAs and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while the retirement plan administration subsidiary, CPC, manages private retirement plans. At December 31, 2014, total assets managed by the Company's trust division and CPC amounted to $2.841 billion, compared to $2.797 billion at December 31, 2013. Oriental Financial Services offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At December 31, 2014, total assets gathered by Oriental Financial Services from its customer investment accounts increased 5.2% to $2.622 billion, compared to $2.493 billion at December 31, 2013. Changes in trust and broker-dealer related assets primarily reflect an increase in portfolio and differences in market values.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION						
	December 31,					
	2014		2013	Variance %		2012
	(Dollars in thousands)					
Investments:						
FNMA and FHLMC certificates	$ 1,172,262		$ 1,217,330	-3.7%		$ 1,693,447
Obligations of US government-sponsored agencies	7,182		10,649	-32.6%		21,847
US Treasury securities	-		-	0.0%		26,496
CMOs issued by US government-sponsored agencies	176,129		214,394	-17.8%		291,400
GNMA certificates	4,752		7,816	-39.2%		15,164
Puerto Rico government and public instrumentalities	15,671		114,190	-86.3%		120,521
FHLB stock	21,169		24,450	-13.4%		38,411
Other debt securities	3,294		24,047	-86.3%		25,411
Other investments	1,597		1,933	-17.4%		568
Total investments	**1,402,056**		**1,614,809**	**-13.2%**		**2,233,265**
Loans:						
Non-covered loans	4,582,713		4,670,227	-1.9%		4,738,106
Allowance for loan and lease losses on non-covered loans	(69,517)		(54,298)	-28.0%		(39,921)
Non-covered loans receivable, net	**4,513,196**		**4,615,929**	**-2.2%**		**4,698,185**
Mortgage loans held for sale	14,539		46,529	-68.8%		64,145
Total non-covered loans, net	**4,527,735**		**4,662,458**	**-2.9%**		**4,762,330**
Covered loans	363,156		409,690	-11.4%		449,431
Allowance for loan and lease losses on covered loans	(64,245)		(52,729)	-21.8%		(54,124)
Total covered loans, net	**298,911**		**356,961**	-16.3%		**395,307**
Total loans, net	**4,826,646**		**5,019,419**	**-3.8%**		**5,157,637**
Securities purchased under agreements to resell	-		60,000	**-100.0%**		80,000
Total securities and loans	**6,228,702**		**6,694,228**	**-7.0%**		**7,470,902**
Other assets:						
Cash and due from banks (including restricted cash)	577,159		696,501	-17.1%		855,490
Money market investments	4,675		6,967	-32.9%		13,205

FDIC indemnification asset		97,378		189,240	-48.5%		302,295
Foreclosed real estate		95,661		90,024	6.3%		74,173
Accrued interest receivable		21,345		18,734	13.9%		14,654
Deferred tax asset, net		108,708		137,564	-21.0%		126,652
Premises and equipment, net		80,599		82,903	-2.8%		84,997
Servicing assets		13,992		13,801	1.4%		10,795
Derivative assets		8,107		20,502	-60.5%		21,889
Goodwill		86,069		86,069	0.0%		86,069
Other assets and customers' liability on acceptances		126,714		121,482	4.3%		150,637
Total other assets		**1,220,407**		**1,463,787**	**-16.6%**		**1,740,856**
Total assets	$	**7,449,109**	$	**8,158,015**	**-8.7%**	$	**9,211,758**
Investments portfolio composition:							
FNMA and FHLMC certificates		83.7%		75.4%			75.8%
Obligations of US government-sponsored agencies		0.5%		0.7%			1.0%
US Treasury securities		0.0%		0.0%			1.2%
CMOs issued by US government-sponsored agencies		12.6%		13.3%			13.0%
GNMA certificates		0.3%		0.5%			0.7%
Puerto Rico government and public instrumentalities		1.1%		7.1%			5.4%
FHLB stock		1.5%		1.5%			1.7%
Other debt securities and other investments		0.3%		1.5%			1.2%
		100.0%		**100.0%**			**100.0%**

TABLE 5 — LOANS RECEIVABLE COMPOSITION				
	December 31,			
	2014	2013	Variance %	2012
	(Dollars in thousands)			
Non-covered loans:				
Originated and other loans and leases held for investment:				
Mortgage	$ 791,751	$ 766,265	3.3%	$ 806,883
Commercial	1,289,732	1,127,657	14.4%	349,075
Consumer	186,760	127,744	46.2%	46,667
Auto and leasing	575,582	379,874	51.5%	37,577
Total originated and other loans and leases held for investment	**2,843,825**	**2,401,540**	**18.4%**	**1,240,202**
Acquired loans:				
Accounted for under ASC 310-20				
Commercial	12,675	77,681	-83.7%	350,242
Consumer	45,344	56,174	-19.3%	70,347
Auto	184,782	301,584	-38.7%	470,601
Total acquired loans accounted for under ASC 310-20	**242,801**	**435,439**	**-44.2%**	**891,190**
Accounted for under ASC 310-30				
Mortgage	656,122	717,904	-8.6%	799,433
Commercial	452,201	545,117	-17.0%	1,133,844
Construction	106,361	126,427	-15.9%	-
Consumer	29,888	63,620	-53.0%	123,825
Auto	247,233	379,145	-34.8%	553,075
Total acquired loans accounted for under ASC 310-30	**1,491,805**	**1,832,213**	**-18.6%**	**2,610,177**
Total acquired loans	**1,734,606**	**2,267,652**	**-23.5%**	**3,501,367**
Total non-covered loans	**4,578,431**	**4,669,192**	**-1.9%**	**4,741,569**
Deferred loans fees, net	4,282	1,035	313.7%	(3,463)
Loans receivable	**4,582,713**	**4,670,227**	**-1.9%**	**4,738,106**
Allowance for loan and lease losses on non-covered loans	(69,517)	(54,298)	-28.0%	(39,921)
Loans receivable, net	**4,513,196**	**4,615,929**	**-2.2%**	**4,698,185**
	14,539	46,529	-68.8%	64,145

Mortgage loans held-for-sale									
Total non-covered loans, net		**4,527,735**			**4,662,458**		**-2.9%**		**4,762,330**
Covered loans:									
Loans secured by 1-4 family residential properties		117,171			121,748		-3.8%		128,811
Construction and development secured by 1-4 family residential properties		19,562			17,304		13.0%		15,969
Commercial and other construction		221,917			264,249		-16.0%		289,070
Consumer		4,506			6,119		-26.4%		8,493
Leasing		-			270		-100.0%		7,088
Total covered loans		**363,156**			**409,690**		**-11.4%**		**449,431**
Allowance for loan and lease losses on covered loans		(64,245)			(52,729)		-21.8%		(54,124)
Total covered loans, net		**298,911**			**356,961**		**-16.3%**		**395,307**
Total loans receivable, net	**$**	**4,826,646**		**$**	**5,019,419**		**-3.8%**	**$**	**5,157,637**

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As shown in Table 5 above, total loans, net, amounted to $4.827 billion at December 31, 2014 and $5.019 billion at December 31, 2013.

The Company's originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to $791.8 million (27.8% of the gross originated loan portfolio) compared to $766.3 million (31.9% of the gross originated loan portfolio) at December 31, 2013. Mortgage loan production totaled $215.4 million for 2014, which represents a decrease of 29.8% from $306.6 million in the previous year. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $42.2 million and $34.9 million at December 31, 2014 and 2013, respectively. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

- Commercial loan portfolio amounted to $1.290 billion (45.4% of the gross originated loan portfolio) compared to $1.128 billion (47.0% of the gross originated loan portfolio) at December 31, 2013. Commercial loan production decreased 63.1% to $262.9 million for 2014 from $700.8 million for 2013.

- Consumer loan portfolio amounted to $186.8 million (6.6% of the gross originated loan portfolio) compared to $127.7 million (5.3% of the gross originated loan portfolio) at December 31, 2013. Consumer loan production increased 18.2% to $119.9 million for 2014 from $101.4 million for 2013.

- Auto and leasing portfolio amounted to $575.6 million (20.2% of the gross originated loan portfolio) compared to $379.9 million (15.8% of the gross originated loan portfolio) at December 31, 2013. Auto and leasing production decreased by 14.4% to $321.2 million for 2014, compared to $375.3 million for 2013.

At December 31, 2014 and 2013, the Company's non-covered acquired loan portfolio composition was as follows:

	December 31, 2014					December 31, 2013			
Portfolio Type		**Carrying Amounts**		**% of Gross Non-Covered Acquired Loan Portfolio**			**Carrying Amounts**		**% of Gross Non-Covered Acquired Loan Portfolio**
	(Dollars in thousands)								
Mortgage	$	656,122		37.8%		$	717,904		31.7%
Commercial		571,237		32.9%			749,225		33.0%
Consumer		75,232		4.3%			119,794		5.3%
Auto		432,015		24.9%			680,729		30.0%

	$	**1,734,606**		**100.00%**	$	**2,267,652**		**100.00%**

The following table summarizes the remaining contractual maturities of the Company's total gross non-covered loans, excluding loans accounted for under ASC 310-30, segmented to reflect cash flows as of December 31, 2014. Contractual maturities do not necessarily reflect the period of resolution of a loan, considering prepayments.

		Maturities				
			After One Year to Five Years		After Five Years	
	Balance Outstanding at December 31, 2014	One Year or Less	Fixed Interest Rates	Variable Interest Rates*	Fixed Interest Rates	Variable Interest Rates*
	(In thousands)					
Originated and other loans:						
Mortgage	$ 791,751	$ 1,844	$ 12,384	$ -	$ 777,015	$ 508
Commercial	1,289,732	590,936	299,514	204,984	77,989	116,309
Consumer	186,760	26,374	93,450	-	66,936	-
Auto and leasing	575,582	1,392	139,988	-	434,202	-
Total	**$ 2,843,825**	**$ 620,546**	**$ 545,336**	**$ 204,984**	**$ 1,356,142**	**$ 116,817**
Acquired loans accounted under ASC 310-20:						
Commercial	$ 8,193	$ 7,095	$ -	$ 1,098	$ -	$ -
Commercial secured by real estate	4,482	1,954	-	1,252	226	1,050
Consumer	45,344	45,344	-	-	-	-
Auto	184,782	9,091	175,384	-	307	-
Total	**$ 242,801**	**$ 63,484**	**$ 175,384**	**$ 2,350**	**$ 533**	**$ 1,050**

TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	December 31, 2014								
	Higher-Risk Residential Mortgage Loans*								
							High Loan-to-Value Ratio Mortgages		
	Junior Lien Mortgages			Interest Only Loans			LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 13,126	$ 235	1.79%	$ 22,193	$ 954	4.30%	$ 88,935	$ 1,811	2.04%
90 - 119 days	524	9	1.72%	365	16	4.38%	2,004	78	3.89%
120 - 179 days	125	6	0.00%	277	24	0.00%	650	45	6.92%
180 - 364 days	113	5	4.42%	-	-	0.00%	899	36	4.00%
365+ days	242	39	16.12%	1,073	429	39.98%	2,257	254	11.25%
Total	$ 14,130	$ 294	2.08%	$ 23,908	$ 1,423	5.95%	$ 94,745	$ 2,224	2.35%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.46%			0.77%			3.05%		
Refinanced or Modified Loans:									
Amount	$ 1,900	$ 170	8.95%	$ 196	$ 19	0.00%	$ 14,299	$ 1,161	8.12%
Percentage of Higher-Risk Loan Category	13.45%			0.82%			15.09%		
Loan-to-Value Ratio:									
Under 70%	$ 8,473	$ 199	2.35%	$ 2,457	$ 215	8.75%	$ -	$ -	-
70% - 79%	2,715	53	1.95%	3,238	191	5.90%	-	-	-
80% - 89%	762	23	3.02%	7,116	492	6.91%	-	-	-
90% and over	2,180	19	0.87%	11,097	525	4.73%	94,745	2,224	2.35%
	$ 14,130	$ 294	2.08%	$ 23,908	$ 1,423	5.95%	$ 94,745	$ 2,224	2.35%

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

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The following table includes the Company's lending and investment exposure to the Puerto Rico government, including its agencies, instrumentalities, municipalities and public corporations:

TABLE 7 - PUERTO RICO GOVERNMENT RELATED LOANS AND SECURITIES

	December 31, 2014				
			Maturity		
Loans and Securities:	**Carrying Value**	**Less than 1 Year**	**1 to 3 Years**	**More than 3 Years**	**Comments**
	(In thousands)				
Central government	$ 25,065	$ -	$ -	$ 25,065	Repayment sources include all available revenues of the Commonwealth
Public corporations	381,001	299,982	1,169	79,850	$79.9 million which mature in more than 3 years, with pledged securities (rating > A)
Municipalities	212,932	-	1,174	211,758	Repayment from property taxes
Investment securities	20,931	-	443	20,488	
Total	**$ 639,929**	**$ 299,982**	**$ 2,786**	**$ 337,161**	

Some highlights follow on the data included above:

- Loans to municipalities are backed by their unlimited taxing power or real and personal property taxes.
- 48% of loans and securities balances mature in 12-months or less.
- Deposits from municipalities, central government and other government entities totaled $318.5 million at December 31, 2014. However, this amount may decline as a result of recently enacted legislation to improve the liquidity of the Government Development Bank for Puerto Rico (“GDB”) by requiring the Commonwealth’s agencies,

instrumentalities and public corporations to maintain certain deposits at GDB.

• In June 2014, Puerto Rico enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"), which established procedures for the adjustment of debts of certain public corporations owned by the Commonwealth, which, as Puerto Rico governmental instrumentalities, 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, such as, for example, the PREPA, and promoting their economic independence. In February 2015, the United States District Court for the District of Puerto Rico held that the Recovery Act is preempted by the U.S Bankruptcy Code and is therefore void pursuant to the Supremacy Clause of the United States Constitution. It also permanently enjoined the Commonwealth from enforcing the Recovery Act. Although the Puerto Rico government has announced that it will appeal the district court's decision, the Commonwealth's current 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. Our participation in the line of credit has an unpaid principal balance of $200 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. After the extension, we classified the credit as substandard and a troubled-debt restructuring due to several factors, including (i) our agreement to forbear from commencing any legal proceedings against PREPA or exercising any other remedies until March 31, 2015, and to permit monthly interest-only payments during the forbearance period with a principal payment due at maturity; and (ii) PREPA's weak liquidity position. We 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 loan should be maintained in accrual status requiring no impairment. As of December 31, 2014, the loan is performing in accordance with the terms of the forbearance agreement.

- On December 15, 2014, pursuant to the requirements of the forbearance agreement, PREPA presented to its forbearing creditors a preliminary business plan focusing on its short to medium-term prospects and analyzing PREPA's operations, including generation, transmission, distribution and corporate services. The preliminary business plan includes PREPA's projections for operating and capital needs under various scenarios to establish a baseline for ongoing discussions.

Credit Risk Management

Allowance for Loan and Lease Losses

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. Tables 8 through 12 set forth an analysis of activity in the allowance for loan and lease losses and present selected loan loss statistics. In addition, Table 5 sets forth the composition of the loan portfolio.

At December 31, 2014, the Company's allowance for non-covered loan and lease losses amounted to $69.5 million, an increase from $54.3 million at December 31, 2013. At December 31, 2014, $51.4 million of the allowance corresponded to originated and other loans held for investment, or 1.81% of total non-covered originated and other loans held for investment, compared to $49.1 million or 2.04% of total non-covered originated and other loans held for investment at December 31, 2013. The allowance increased as a result of a $31.4 million provision for loan and lease losses and $10.2 million of recoveries, which were partially offset by charge-offs of $39.3 million during 2014. The allowance for residential mortgage loans and commercial loans decreased by 1.3% (or $258 thousand), and 43.4% (or $6.5 million), respectively, when compared with the balances recorded at December 31, 2013. The allowance for consumer loans and auto and leases increased by 51.0% (or $3.1 million) and 81.2% (or $6.4 million), respectively, when compared with the balances recorded at December 31, 2013. The unallocated allowance at December 31, 2014 decreased by 99.7% when compared with the balance of $374 thousand recorded at December 31, 2013. Changes are related to the level of losses, evolution, and the current trends of the portfolios.

Allowance for loan and lease losses recorded for acquired non-covered loans accounted for under the provisions of ASC 310-20 at December 31, 2014 was $4.6 million compared to $2.4 million at December 31, 2013, a 95.3% increase. The allowance increased as a result of a $12.9 million provision for loan and lease losses and $2.8 million of recoveries, which were partially offset by $13.4 million in charge-offs during the year ended December 31, 2014. The

allowance for commercial loans decreased by 93.0% (or $860 thousand), when compared with the balance recorded at December 31, 2013. The allowance for consumer and auto loans increased by 100% (or $1.2 million) and 132.6% (or $1.9 million), respectively, when compared with the balances recorded at December 31, 2013, due to the normal amortization of credit discount of these acquired loans.

Allowance for loan and lease losses recorded for acquired non-covered loans accounted for under ASC-310-30 at December 31, 2014 was $13.5 million as compared to $2.9 million at December 31, 2013. The allowance increased as a result of a $10.6 million provision for loan and lease losses during 2014. The allowance for commercial loans increased by 686.7% (or $11.8 million), when compared with the balance recorded at December 31, 2013. The allowance for consumer and auto loans decreased by 98.8% (or $413 thousand) and 100% (or $732 thousand), respectively, when compared with the balances recorded at December 31, 2013.

Allowance for loan and lease losses recorded for covered loans at December 31, 2014 was $64.2 million as compared to $52.7 million at December 31, 2013. The allowance increased as a result of a $5.7 million provision for loan and lease losses and $5.8 million of FDIC shared-loss portion of provision for covered loan and lease losses during 2014. The allowance for loan and lease losses on covered loans is accounted under the provisions of ASC 310-30. Under this accounting guidance, the allowance for loan and lease losses on covered loans is evaluated at each financial reporting period, based on forecasted cash flows. Credit related decreases in expected cash flows, compared to those previously forecasted, are recognized by recording a provision for credit losses on covered loans when it is probable that all cash flows expected at acquisition will not be collected. The portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC indemnification asset.

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

Non-performing Assets

The Company's non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At December 31, 2014 and 2013, the Company had $108.9 million and $86.2 million, respectively, of non-accrual loans, including acquired loans accounted under ASC 310-20 (loans with revolving feature and/or acquired at a premium). At December 31, 2014 and 2013, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $274.4 million and $66.5 million, respectively. The increase was primarily due to the classification of our participation in the PREPA fuel line of credit as a troubled-debt-restructuring.

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. The Company, as part of the bank syndicate, agreed during the third quarter to extend its credit facility 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. PREPA also committed to delivering a full debt restructuring plan by March 2, 2015. 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. Based on the experience and knowledge of the borrower, independent scenarios were developed to assess the collectability of the Company's current credit exposure to PREPA. Such scenarios project very probable outcomes based on a conservative set of assumptions related to PREPA's ability for future cash flow generation. The Company concluded that the loan should be maintained in accrual status requiring no impairment. Based on the experience and knowledge of the borrower, independent scenarios were developed to assess the collectability of the Company's current credit exposure to PREPA. Such scenarios project very probable outcomes based on a conservative set of assumptions related to PREPA's ability for future cash flow generation. The Company concluded that the loan should be maintained in accrual status requiring no impairment. On December 15, 2014, pursuant to the requirements of the forbearance agreement, PREPA presented to its forbearing creditors a preliminary business plan focusing on its short to medium-term prospects and analyzing PREPA's operations, including generation, transmission, distribution and corporate services. The preliminary business plan includes PREPA's projections for operating and capital needs under various scenarios to establish a baseline for ongoing discussions.

Covered loans and loans acquired in the BBVAPR Acquisition with credit deterioration are considered to be performing due to the application of the accretion method under ASC 310-30, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses. Credit related decreases in expected cash flows, compared to those previously forecasted are recognized by recording a provision for credit losses on non-covered loans when it is probable that all cash flows expected at acquisition will not be collected.

At December 31, 2014, the Company's non-performing assets increased by 14.7% to $178.1 million (4.30% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) from $155.3 million (3.78% of

total assets, excluding covered assets and acquired loans with deteriorated credit quality) at December 31, 2013. The Company does not expect non-performing loans to result in significantly higher losses as most are well-collateralized with adequate loan-to-value ratios. At December 31, 2014, the allowance for non-covered originated loan and lease losses to non-performing loans coverage ratio was 49.11% (61.52% at December 31, 2013).

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

The following items comprise non-performing assets:

- Originated and other loans held for investment:

Mortgage loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 18 months or more past due. At December 31, 2014, the Company's originated non-performing mortgage loans totaled $72.8 million (66.8% of the Company's non-performing loans), a 42.6% increase from $51.1 million (59.3% of the Company's non-performing loans) at December 31, 2013. Non-performing loans in this category are primarily residential mortgage loans.

Commercial loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At December 31, 2014, the Company's originated non-performing commercial loans amounted to $21.7 million (19.9% of the Company's non-performing loans), a 5.0% decrease from $22.8 million at December 31, 2013 (26.5% of the Company's non-performing loans). Most of this portfolio is collateralized by commercial real estate properties.

Consumer loans — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days in personal loans and 180 days in credit cards and personal lines of credit. At December 31, 2014, the Company's originated non-performing consumer loans amounted to $1.6 million (1.5% of the Company's total non-performing loans), a 97.5% increase from $805 thousand at December 31, 2013 (0.9% of the Company's total non-performing loans).

Auto loans and leases — are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At December 31, 2014, the Company's originated non-performing auto loans and leases amounted to $8.7 million (8.0% of the Company's total non-performing loans), an increase of 70.3% from $5.1 million at December 31, 2013 (5.9% of the Company's total non-performing loans).

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

Commercial revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At December 31, 2014, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $1.2 million (1.1% of the Company's non-performing loans), a 53.3% decrease from $2.5 million at December 31, 2013 (3.0% of the Company's non-performing loans).

Consumer revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 180 days. At December 31, 2014, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $1.5 million (1.4% of the Company's non-performing loans), a 33.5% decrease from $2.2 million at December 31, 2013 (2.6% of the Company's non-performing loans).

Auto loans acquired at premium - are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At December 31, 2014, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled $1.5 million (1.4% of the Company's non-performing loans), a 6.0% decrease from $1.6 million at December 31, 2013 (1.9% of the Company's non-performing loans).

- Foreclosed real estate is initially recorded at fair value less the estimated cost to sell as of the date of foreclosure. Any excess of the loan balance over the fair value of the property is charged against the allowance for loan and lease losses. Subsequently, any excess of the carrying value over the estimated fair value less disposition cost is charged to operations. Net losses on foreclosed real estate and other repossessed assets for 2014 and 2013, amounted to $16.4 million and $9.4 million, respectively.

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

The Loss Mitigation Program helps mortgage borrowers who are or will become financially unable to meet the current or scheduled mortgage payments. Loans that qualify under this program are those guaranteed by FHA, VA, RHS, "Banco de la Vivienda de Puerto Rico," conventional loans guaranteed by Mortgage Guaranty Insurance Corporation (MGIC), conventional loans sold to FNMA and FHLMC, and conventional loans retained by the Company. The program offers diversified alternatives such as regular or reduced payment plans, payment moratorium, mortgage loan modification, partial claims (only FHA), short sale, and payment in lieu of foreclosure.

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

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

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY								
	Year Ended December 31,							
					Variance			
		2014		2013	%			2012
	(Dollars in thousands)							
Non-covered loans								
Originated and other loans:								
Balance at beginning of year	$	49,081	$	39,921	22.9%		$	37,010
Provision for non-covered loan and lease losses		31,427		55,579	-43.5%			13,854
Charge-offs		(39,258)		(48,541)	-19.1%			(11,451)
Recoveries		10,189		2,122	380.2%			508
		51,439		49,081	4.8%			39,921
Acquired loans accounted for under ASC 310-20:								
Balance at beginning of year	$	2,354	$	-	100.0%		$	-
Provision for non-covered loan and lease losses		12,915		9,117	41.7%			-
Charge-offs		(13,445)		(11,205)	20.0%			-
Recoveries		2,773		4,442	-37.6%			-
		4,597		2,354	95.3%			-
Acquired loans accounted for under ASC 310-30:								
Balance at beginning of year	$	2,863	$	-	100.0%		$	-
Provision for non-covered loan and lease losses		10,618		2,863	270.9%			-
		13,481		2,863	370.9%			-
Total non-covered loans balance at end of year	**$**	**69,517**	**$**	**54,298**	**28.0%**		**$**	**39,921**
Allowance for loans and lease losses on								

originated and other loans to:							
Total originated loans		1.81%		2.04%	-11.3%		3.22%
Non-performing originated loans		49.11%		61.52%	-20.2%		27.52%
Allowance for loans and lease losses on acquired loans accounted for under ASC 310-20 to:							
Total acquired loans accounted for under ASC 310-20		1.89%		0.54%	250.6%		0.00%
Non-performing acquired loans accounted for under ASC 310-20		110.11%		36.95%	198.0%		0.00%
<u>Covered loans</u>							
Balance at beginning of year	$	52,729	$	54,124	-2.6%	$	37,256
Provision for covered loan and lease losses, net		5,680		5,335	6.5%		9,827
FDIC shared-loss portion on (provision for) recapture of loan and lease losses		5,836		(6,730)	-186.7%		7,041
Balance at end of year	**$**	**64,245**	**$**	**52,729**	**21.8%**	**$**	**54,124**

TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN							
		December 31,					
		2014		2013	Variance %		2012
	(Dollars in thousands)						
Originated and other loans held for investment							
Allowance balance:							
Mortgage	$	19,679	$	19,937	-1.3%	$	21,092
Commercial		8,432		14,897	-43.4%		17,072
Consumer		9,072		6,006	51.0%		856
Auto and leasing		14,255		7,866	81.2%		533
Unallocated allowance		1		375	-99.7%		368
Total allowance balance	**$**	**51,439**	**$**	**49,081**	**4.8%**		**39,921**
Allowance composition:							
Mortgage		38.26%		40.62%	-5.8%		52.83%
Commercial		16.39%		30.35%	-46.0%		42.76%
Consumer		17.64%		12.24%	44.1%		2.14%
Auto and leasing		27.71%		16.03%	72.9%		1.34%
Unallocated allowance		0.00%		0.76%	-100.0%		0.93%
		100.00%		**100.00%**			**100.0%**
Allowance coverage ratio at end of period applicable to:							
Mortgage		2.49%		2.60%	-4.5%		2.61%
Commercial		0.65%		1.32%	-50.5%		4.89%
Consumer		4.86%		4.70%	3.3%		1.83%
Auto and leasing		2.48%		2.07%	19.6%		1.42%
Unallocated allowance to total originated loans		0.00%		0.02%	-99.8%		0.03%
Total allowance to total originated loans		**1.81%**		**2.04%**	**-11.5%**		**3.22%**
Allowance coverage ratio to non-performing loans:							
Mortgage		27.03%		39.05%	-30.8%		18.34%
Commercial		38.89%		65.25%	-40.4%		57.86%
Consumer		570.57%		746.09%	-23.5%		193.67%
Auto and leasing		164.46%		154.57%	6.4%		406.87%
Total		**49.11%**		**61.52%**	**-20.2%**		**27.52%**
Acquired loans accounted for under ASC 310-20							

Allowance balance:						
Commercial	$	65	$	926	-93.0%	-
Consumer		1,211		-	100.0%	-
Auto		3,321		1,428	132.6%	-
Total allowance balance	**$**	**4,597**	**$**	**2,354**	**95.3%**	**-**
Allowance composition:						
Commercial		1.41%		39.34%	-96.4%	-
Consumer		26.34%		0.00%	100.0%	-
Auto		72.25%		60.66%	19.1%	-
		100.00%		**100.00%**		**-**
Allowance coverage ratio at end of period applicable to:						
Commercial		0.51%		1.19%	-57.0%	-
Consumer		2.67%		0.00%	100.0%	-
Auto		1.80%		0.47%	279.6%	-
Total allowance to total acquired loans		**1.89%**		**0.54%**	**250.2%**	**-**
Allowance coverage ratio to non-performing loans:						
Commercial		5.48%		36.41%	-85.0%	-
Consumer		82.05%		0.00%	100.0%	-
Auto		219.64%		88.81%	147.3%	-
Total		**110.11%**		**36.95%**	**198.0%**	**-**

TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN (CONTINUED)								
	December 31,							
	2014			**2013**		**Variance %**		**2012**
	(Dollars in thousands)							
Acquired loans accounted for under ASC 310-30								
Allowance balance:								
Commercial	$	13,476	$	1,713		686.7%	$	-
Consumer		5		418		-98.8%		-
Auto		-		732		-100.0%		-
Total allowance balance	**$**	**13,481**	**$**	**2,863**		**370.9%**	**$**	**-**
Allowance composition:								
Commercial		99.96%		59.83%		67.1%		-
Consumer		0.04%		14.60%		-99.7%		-
Auto		0.00%		25.57%		-100.0%		-
		100.00%		**100.00%**				**-**

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TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30

	Year Ended December 31,								
						Variance			
	2014			2013		%			2012
	(Dollar in thousands)								
Originated and other loans and leases:									
Mortgage									
Charge-offs	$	(5,011)		$	(36,566)	-86.3%		$	(6,492)
Recoveries		428			6	100.0%			131
Total		**(4,583)**			**(36,560)**	**-87.5%**			**(6,361)**
Commercial									
Charge-offs		(2,424)			(5,889)	-58.8%			(4,081)
Recoveries		333			383	-13.1%			156
Total		**(2,091)**			**(5,506)**	**-62.0%**			**(3,925)**
Consumer									
Charge-offs		(5,782)			(1,485)	289.4%			(739)
Recoveries		570			165	245.5%			194
Total		**(5,212)**			**(1,320)**	**294.8%**			**(545)**
Auto									
Charge-offs		(26,041)			(4,601)	466.0%			(139)
Recoveries		8,858			1,568	464.9%			27
Total		**(17,183)**			**(3,033)**	**466.5%**			**(112)**
Net credit losses									
Total charge-offs		(39,258)			(48,541)	-19.1%			(11,451)
Total recoveries		10,189			2,122	380.2%			508
Total	**$**	**(29,069)**		**$**	**(46,419)**	**-37.4%**		**$**	**(10,943)**
Net credit losses to average loans outstanding:									
Mortgage		0.58%			4.80%	-87.9%			0.81%
Commercial		0.18%			0.83%	-78.3%			1.23%
Consumer		3.41%			1.53%	122.9%			1.33%
Auto		3.43%			1.42%	141.5%			0.37%
Total		**1.11%**			**2.69%**	**-58.7%**			0.93%
Recoveries to charge-offs		**25.95%**			**4.37%**	**493.7%**			**4.44%**
Average originated loans:									
Mortgage	$	786,607		$	762,403	3.2%		$	781,838
Commercial		1,190,038			663,968	79.2%			318,716

Consumer		153,067			86,250	77.5%		41,022
Auto		500,720			213,127	134.9%		30,266
Total	**$**	**2,630,432**		**$**	**1,725,748**	**52.4%**	**$**	**$ 1,171,842**

TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30 (CONTINUED)

	Year Ended December 31,				
				Variance	
	2014		2013	%	2012
	(Dollars in thousands)				
Acquired loans accounted for under ASC 310-20:					
Commercial					
Charge-offs	$	(532)	$	(25)	100.0%	$	-
Recoveries		73		9	711.1%		-
Total		**(459)**		**(16)**	**2768.8%**		**-**
Consumer							
Charge-offs		(6,902)		(5,530)	24.8%		-
Recoveries		532		1,035	-48.6%		-
Total		**(6,370)**		**(4,495)**	**41.7%**		**-**
Auto							
Charge-offs		(6,011)		(5,650)	6.4%		-
Recoveries		2,169		3,398	-36.2%		-
Total		**(3,842)**		**(2,252)**	**70.6%**		**-**
Net credit losses							
Total charge-offs		(13,445)		(11,205)	20.0%		-
Total recoveries		2,774		4,442	-37.6%		-
Total	**$**	**(10,671)**	**$**	**(6,763)**	**57.8%**	**$**	**-**
Net credit losses to average loans outstanding:							
Commercial		1.61%		0.01%	31249.7%		-
Consumer		9.53%		7.03%	35.7%		-
Auto		1.61%		0.59%	173.6%		-
Total		**3.20%**		**0.89%**	**258.3%**		**-**
Recoveries to charge-offs		**20.63%**		**39.64%**	**-48.0%**		**-**
Average loans accounted for under ASC 310-20:							
Commercial	$	28,509	$	311,546	-90.8%	$	12,893
Consumer		66,812		63,983	4.4%		2,440
Auto		238,653		382,770	-37.7%		16,842
Total	**$**	**333,974**	**$**	**758,299**	**-56.0%**	**$**	**32,175**

TABLE 11 — NON-PERFORMING ASSETS				
	December 31,			
	2014	2013	Variance (%)	2012
	(Dollars in thousands)			
Non-performing assets:				
Non-accruing loans				
Troubled-Debt Restructuring loans	$ 27,707	$ 26,847	3.2%	$ 50,468
Other loans	73,835	56,430	30.8%	96,176
Accruing loans				
Troubled-Debt Restructuring loans	3,862	1,898	103.5%	-
Other loans	3,523	977	260.6%	-
Total non-performing loans	$ 108,927	$ 86,152	26.4%	$ 146,644
Foreclosed real estate not covered under the shared-loss agreements with the FDIC	48,147	56,815	-15.3%	51,890
Other repossessed assets	21,043	12,314	70.9%	5,941
Mortgage loans held for sale	-	-	0.0%	319
	$ **178,117**	$ **155,281**	**14.7%**	**204,794**
Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)	**4.30%**	**3.78%**	**13.62%**	**5.50%**
Non-performing assets to total capital	**18.90%**	**17.55%**	**7.73%**	**23.71%**

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Interest that would have been recorded in the year if the loans had not been classified as non-accruing loans	$ 2,204	$ 1,468	$ 5,867

TABLE 12 — NON-PERFORMING LOANS				
	December 31,			
	2014	2013	Variance %	2012
	(Dollars in thousands)			
Non-performing loans:				
Originated and other loans held for investment				
Mortgage	$ 72,815	$ 51,058	42.6%	$ 115,002
Commercial	21,679	22,830	-5.0%	29,506
Consumer	1,590	805	97.5%	442
Auto and leasing	8,668	5,089	70.3%	131
	104,752	79,782	31.3%	145,081
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)				
Commercial	1,187	2,543	-53.3%	193
Consumer	1,476	2,219	-33.5%	1,095
Auto	1,512	1,608	-6.0%	275
	4,175	6,370	-34.5%	1,563
Total	**$ 108,927**	**$ 86,152**	**26.4%**	**146,644**
Non-performing loans composition percentages:				
Originated loans				
Mortgage	66.8%	59.3%		78.5%
Commercial	19.9%	26.5%		20.1%
Consumer	1.5%	0.9%		0.3%
Auto and leasing	8.0%	5.9%		0.1%
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)				
Commercial	1.1%	3.0%		0.1%
Consumer	1.4%	2.6%		0.7%
Auto	1.4%	1.9%		0.2%
Total	**100.0%**	**100.0%**		**100.0%**
Non-performing loans to:				
Total loans, excluding covered loans and loans accounted for	**3.53%**	**3.04%**	**16.1%**	**6.88%**

under ASC 310-30 (including those by analogy)				
Total assets, excluding covered assets and loans accounted for under ASC 310-30 (including those by analogy)	**2.63%**	**2.10%**	**25.2%**	**3.94%**
Total capital	**11.56%**	**9.74%**	**18.7%**	**17.04%**
Non-performing loans with partial charge-offs to:				
Total loans, excluding covered loans and loans accounted for under ASC 310-30 (including those by analogy)	**1.04%**	**0.83%**	**25.3%**	**2.01%**
Non-performing loans	**29.42%**	**27.35%**	**7.6%**	**29.17%**
Other non-performing loans ratios:				
Charge-off rate on non-performing loans to non-performing loans on which charge-offs have been taken	**53.42%**	**56.05%**	**-4.7%**	**27.86%**
Allowance for loan and lease losses to non-performing loans on which no charge-offs have been taken	**72.88%**	**82.18%**	**-11.3%**	**37.81%**

FDIC Indemnification Asset

The Company recorded the FDIC indemnification asset, measured separately from the covered loans, as part of the Eurobank FDIC-assisted transaction. Based on the accounting guidance in ASC Topic 805, at each reporting date subsequent to the initial recording of the indemnification asset, the Company measures the indemnification asset on the same basis as the covered loans and assesses its collectability. The amount to be ultimately collected for the indemnification asset is dependent upon the performance of the underlying covered assets, the passage of time, claims submitted to the FDIC and the Corporation's compliance with the terms of the loss sharing agreements. Refer to Note 7 to the consolidated financial statements for additional information on the FDIC loss share agreements.

TABLE 13 - ACTIVITY OF FDIC INDEMNIFICATION ASSET				
	Year Ended December 31,			
	2014	**2013**		**2012**
	(In thousands)			
FDIC indemnification asset:				
Balance at beginning of year	$ 189,240	$ 302,295		$ 405,646
Shared-loss agreements reimbursements from the FDIC	(47,666)	(47,100)		(96,664)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net	5,836	(6,730)		7,041
FDIC indemnification asset expense	(62,285)	(66,253)		(25,805)
Incurred expenses to be reimbursed under shared-loss agreements	12,253	7,028		12,077
Balance at end of year	**$ 97,378**	**$ 189,240**		**$ 302,295**

TABLE 14 - ACTIVITY IN THE REMAINING FDIC INDEMNIFICATION ASSET DISCOUNT				
	Year Ended December 31,			
	2014	**2013**		**2012**
	(In thousands)			
Balance at beginning of year	$ 71,451	$ 105,903		$ 55,625
Amortization of negative discount	(62,285)	(66,253)		(25,805)
Impact of lower projected losses	12,516	31,801		76,083
Balance at end of year	**$ 21,682**	**$ 71,451**		**$ 105,903**

TABLE 15 - LIABILITIES SUMMARY AND COMPOSITION									
	December 31,								
		2014		2013		Variance %			2012
	(Dollars in thousands)								
Deposits:									
Non-interest bearing deposits	$	745,142	$	744,327		0.1%		$	799,679
NOW accounts		1,251,943		1,393,646		-10.2%			1,647,072
Savings and money market accounts		1,385,823		1,194,566		16.0%			634,133
Certificates of deposit		1,539,752		2,048,040		-24.8%			2,604,701
Total deposits		**4,922,660**		**5,380,579**		**-8.5%**			**5,685,585**
Accrued interest payable		1,746		2,686		-35.0%			4,994
Total deposits and accrued interest payable		**4,924,406**		**5,383,265**		**-8.5%**			**5,690,579**
Borrowings:									
Short term borrowings		-		-		0.0%			92,210
Securities sold under agreements to repurchase		980,087		1,267,618		-22.7%			1,695,247
Advances from FHLB		334,331		336,143		-0.5%			536,542
Federal funds purchased		-		-		0.0%			9,901
Other term notes		4,004		3,663		9.3%			6,726
Subordinated capital notes		101,584		100,010		1.6%			146,038
Total borrowings		**1,420,006**		**1,707,434**		**-16.8%**			**2,486,664**
Total deposits and borrowings		**6,344,412**		**7,090,699**		**-10.5%**			**8,177,243**
Other Liabilities:									
Derivative liabilities		11,221		14,937		-24.9%			26,260
Acceptances outstanding		17,989		23,042		-21.9%			26,996
Other liabilities		133,290		144,424		-7.7%			117,653
Total liabilities	**$**	**6,506,912**	**$**	**7,273,102**		**-10.5%**		**$**	**8,348,152**
Deposits portfolio composition percentages:									
Non-interest bearing deposits		15.1%		13.8%					14.1%
NOW accounts		25.4%		25.9%					29.0%
Savings and money market accounts		28.2%		22.2%					11.2%
Certificates of deposit		31.3%		38.1%					45.7%

		100.0%			**100.0%**					**100.0%**
Borrowings portfolio composition percentages:										
Short term borrowings		0.0%			0.0%					3.7%
Securities sold under agreements to repurchase		69.0%			74.2%					68.1%
Advances from FHLB		23.5%			19.7%					21.6%
Federal funds purchased		0.0%			0.0%					0.4%
Other term notes		0.3%			0.2%					0.3%
Subordinated capital notes		7.2%			5.9%					5.9%
		100.0%			**100.0%**					**100.0%**
Securities sold under agreements to repurchase (excluding accrued interest)										
Amount outstanding at period-end	$	977,816		$	1,265,000				$	1,695,247
Daily average outstanding balance	$	1,041,378		$	1,353,011				$	2,888,558
Maximum outstanding balance at any month-end	$	1,149,167		$	1,552,269				$	3,060,578

Liabilities and Funding Sources

As shown in Table 15 above, at December 31, 2014, the Company’s total liabilities were $6.507 billion, 10.5% less than the $7.273 billion reported at December 31, 2013. Deposits and borrowings, the Company’s funding sources, amounted to $6.344 billion at December 31, 2014 versus $7.091 billion at December 31, 2013, a 10.5% decrease.

At December 31, 2014, deposits represented 78% and borrowings represented 22% of interest-bearing liabilities, compared to 76% and 24%, respectively, at December 31, 2013. At December 31, 2014, deposits, the largest category of the Company’s interest-bearing liabilities, were $4.924 billion, down 8.5% from $5.383 billion at December 31, 2013. Non-maturing deposit balances increased 1.51%, to $3.383 billion, while higher-priced time deposits declined 24.8% as part of efforts to reduce the cost of deposits, which averaged 0.66% as of December 31, 2014 compared to 0.73% at December 31, 2013.

Borrowings consist mainly of repurchase agreements, FHLB-NY advances, and subordinated capital notes. At December 31, 2014, borrowings amounted to $1.420 billion, 16.8% lower than the $1.707 billion reported at December 31, 2013. Repurchase agreements as of December 31, 2014 decreased $287.5 million to $980.1 million from $1.268 billion at December 31, 2013, as the Company used available cash to pay off repurchase agreements at maturity.

As a member of the FHLB-NY, the Bank can obtain advances from the FHLB-NY secured by the FHLB-NY stock owned by the Bank as well as by certain of the Bank’s mortgage loans and investment securities. Advances from the FHLB-NY amounted to $334.3 million and $336.1 million as of December 31, 2014 and 2013, respectively. These advances mature from January 2015 through July 2020.

Stockholders’ Equity

At December 31, 2014, the Company’s total stockholders’ equity was $942.2 million, a 6.5% increase when compared to $884.9 million at December 31, 2013. Increase in stockholders’ equity was mainly driven by the net income for 2014 and an increase in accumulated other comprehensive income, partially offset by an increase in treasury stock, as a result of the 1,153,998 repurchased shares of outstanding common stock during 2014.

At year-end 2014, tangible common equity to total assets increased to 9.14% from 7.61%, Tier 1 Leverage Capital Ratio increased to 10.61% from 9.06%, Tier 1 Risk-Based Capital Ratio increased to 16.02% from 14.38%, and Total Risk-Based Capital Ratio increased to 17.57% from 16.16%.

Taking into consideration the strong capital position, in the fourth quarter of 2014, the Company increased the cash dividend per common share to $0.10 from the dividend of $0.08 paid in previous quarters in 2014. For 2014, the dividend increased by $0.08 when compared to 2013. This represents an increase to $0.34 per share from $0.26 per share in 2013, or an estimated annual increase of $3.6 million based on 44.6 million shares outstanding at December 31, 2014.

The following are the consolidated capital ratios of the Company at December 31, 2014, 2013 and 2012:

TABLE 16 — CAPITAL, DIVIDENDS AND STOCK DATA								
		December 31,						
					Variance			
		2014		2013	%			2012
	(Dollars in thousands, except per share data)							
Capital data:								
Stockholders' equity	$	942,197	$	884,913	6.5%		$	863,606
Regulatory Capital Ratios data:								
Leverage capital ratio		**10.61%**		**9.06%**	17.1%			**6.55%**
Minimum leverage capital ratio required		4.00%		4.00%				4.00%
Actual tier 1 capital	$	776,525	$	736,106	5.5%		$	692,017
Minimum tier 1 capital required	$	292,738	$	324,910	-9.9%		$	422,862
Excess over regulatory requirement	$	483,787	$	411,196	17.7%		$	269,155
Tier 1 risk-based capital ratio		**16.02%**		**14.38%**	**11.4%**			**13.18%**
Minimum tier 1 risk-based capital ratio required		4.00%		4.00%				4.00%
Actual tier 1 risk-based capital	$	776,525	$	736,106	5.5%		$	692,017
Minimum tier 1 risk-based capital required	$	193,886	$	204,757	-5.3%		$	209,971
Excess over regulatory requirement	$	582,639	$	531,349	9.7%		$	482,046
Risk-weighted assets	$	4,847,150	$	5,118,917	-5.3%		$	5,249,270
Total risk-based capital ratio		**17.57%**		**16.16%**	8.7%			**15.40%**
Minimum total risk-based capital ratio required		8.00%		8.00%				8.00%
Actual total risk-based capital	$	851,437	$	827,459	2.9%		$	808,188
Minimum total risk-based capital required	$	387,772	$	409,514	-5.3%		$	419,942
Excess over regulatory requirement	$	463,665	$	417,945	10.9%		$	388,246
Risk-weighted assets	$	4,847,150	$	5,118,917	-5.3%		$	5,249,270
		9.14%		**7.61%**	20.1%			**6.48%**

Tangible common equity to total assets								
Tangible common equity to risk-weighted assets		**14.04%**		**12.13%**		15.7%		**11.38%**
Total equity to total assets		**12.65%**		**10.85%**		16.6%		**9.38%**
Total equity to risk-weighted assets		**19.44%**		**17.29%**		12.4%		**16.45%**
Tier 1 common equity to risk-weighted assets		**11.88%**		**10.46%**		13.6%		**8.76%**
Tier 1 common equity capital	$	575,655	$	535,237		7.6%	$	459,961
Stock data:								
Outstanding common shares		44,613,615		45,676,922		-2.3%		45,580,281
Book value per common share	$	17.40	$	15.74		10.5%	$	15.31
Tangible book value per common share	$	15.25	$	13.60		12.1%	$	13.10
Market price at end of period	$	16.65	$	17.34		-4.0%	$	13.35
Market capitalization at end of period	$	742,817	$	792,038		-6.2%	$	608,497

	December 31,							
						Variance		
	2014			2013		%		2012
Common dividend data:								
Cash dividends declared	$	15,286	$	11,875		28.7%	$	10,067
Cash dividends declared per share	$	0.34	$	0.26		30.8%	$	0.24
Payout ratio		22.67%		15.03%		50.8%		68.36%
Dividend yield		2.04%		1.50%		36.1%		1.80%

The following table presents a reconciliation of the Company's total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2014, 2013 and 2012:

	December 31,		
	2014	2013	2012
	(In thousands, except share or per share information)		
Total stockholders' equity	$ 942,197	$ 884,913	$ 863,606
Preferred stock	(176,000)	(176,000)	(176,000)
Preferred stock issuance costs	10,130	10,130	10,115
Goodwill	(86,069)	(86,069)	(86,069)
Core deposit intangible	(6,463)	(7,804)	(9,463)
Customer relationship intangible	(3,280)	(4,108)	(5,027)
Total tangible common equity	**$ 680,515**	**$ 621,062**	**$ 597,162**
Total assets	7,449,109	8,158,015	9,211,758
Goodwill	(86,069)	(86,069)	(86,069)
Core deposit intangible	(6,463)	(7,804)	(9,463)
Customer relationship intangible	(3,280)	(4,108)	(5,027)
Total tangible assets	**$ 7,353,297**	**$ 8,060,034**	**$ 9,111,199**
Tangible common equity to tangible assets	**9.25%**	**7.71%**	**6.55%**
Common shares outstanding at end of period	44,613,615	45,676,922	45,580,281
Tangible book value per common share	**$ 15.25**	**$ 13.60**	**$ 13.10**

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

The Tier 1 common equity to risk-weighted assets ratio is another non-GAAP measure. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Company's capital position. In connection with the 2009 Supervisory Capital Assessment Program, the Federal Reserve Board supplemented its assessment of the capital adequacy of certain large bank holding companies based on a variation of Tier 1 capital, known as Tier 1 common equity.

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

The table below presents a reconciliation of the Company's total common equity (GAAP) at December 31, 2014, 2013, and 2012 to Tier 1 common equity (non-GAAP):

	December 31,								
	2014			2013			2012		
	(Dollars in thousands)								
Common stockholders' equity	$	776,327		$	719,043		$	697,721	
Unrealized gains on available-for-sale securities, net of income tax		(25,765)			(11,434)			(68,245)	
Unrealized losses on cash flow hedges, net of income tax		6,054			8,243			12,365	
Disallowed deferred tax assets		(83,750)			(81,254)			(80,242)	
Disallowed servicing assets		(1,399)			(1,380)			(1,079)	
Intangible assets:									
Goodwill		(86,069)			(86,069)			(86,069)	
Other intangible assets		(9,743)			(11,912)			(14,490)	
Total Tier 1 common equity	**$**	**575,655**		**$**	**535,237**		**$**	**459,961**	
Tier 1 common equity to risk-weighted assets		**11.88%**			**10.46%**			**8.76%**	

The following table presents the Company's capital adequacy information at December 31, 2014, 2013 and 2012:

	December 31,							
	2014			2013			2012	
	(Dollars in thousands)							
Risk-based capital:								
Tier 1 capital	$	776,525		$	736,106		$	692,017
Supplementary (Tier 2) capital		74,912			91,353			116,171
Total risk-based capital	**$**	**851,437**		**$**	**827,459**		**$**	**808,188**
Risk-weighted assets:								
Balance sheet items	$	4,761,644		$	4,953,901		$	4,908,636
Off-balance sheet items		85,506			165,016			340,634
Total risk-weighted assets	**$**	**4,847,150**		**$**	**5,118,917**		**$**	**5,249,270**
Ratios:								
Tier 1 capital (minimum required - 4%)		**16.02%**			**14.38%**			**13.18%**
Total capital (minimum required - 8%)		**17.57%**			**16.16%**			**15.40%**
Leverage ratio		**10.61%**			**9.06%**			**6.55%**
Equity to assets		**12.65%**			**10.85%**			**9.38%**
Tangible common equity to assets		**9.14%**			**7.61%**			**6.48%**

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

The Bank is considered "well capitalized" under the regulatory framework for prompt corrective action. The table below shows the Bank's regulatory capital ratios at December 31, 2014, 2013 and 2012:

	December 31 ,							
						Variance		
	2014			2013		%		2012
	(Dollars in thousands)							
Oriental Bank Regulatory Capital Ratios:								
Total Tier 1 Capital to Total Assets		**10.26%**		**8.54%**		**20.1%**		**5.76%**
Actual tier 1 capital	$	746,177	$	688,350		8.4%	$	604,997
Minimum capital requirement (4%)	$	290,879	$	322,395		-9.8%	$	420,298
Minimum to be well capitalized (5%)	$	363,599	$	402,993		-9.8%	$	525,373
Tier 1 Capital to Risk-Weighted Assets		**15.45%**		**13.51%**		**14.4%**		**11.80%**
Actual tier 1 risk-based capital	$	746,524	$	688,350		8.5%	$	604,997
Minimum capital requirement (4%)	$	193,222	$	203,819		-5.2%	$	205,134
Minimum to be well capitalized (6%)	$	289,833	$	305,728		-5.2%	$	307,701
Total Capital to Risk-Weighted Assets		**16.99%**		**15.30%**		**11.0%**		**14.03%**
Actual total risk-based capital	$	820,884	$	779,413		5.3%	$	719,675
Minimum capital requirement (8%)	$	386,444	$	407,637		-5.2%	$	410,268
Minimum to be well capitalized (10%)	$	483,055	$	509,547		-5.2%	$	512,835

Capital Ratios under Basel III Rules

New Capital Rules to Implement Basel III Capital Requirements In July 2013, the Board of Governors of the Federal Reserve System (the "Board"), the Office of the Comptroller of the Currency (the "OCC") and the FDIC and together with the Board and the OCC (the "Agencies") approved new rules ("New Capital Rules") to establish a revised comprehensive regulatory capital framework for all U.S. banking organizations. On July 9, 2013, the New Capital Rules were approved by the OCC and (as interim final rules) by the FDIC (together with the Board, the "Agencies"). The New Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including OFG Bancorp and Oriental Bank, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The

New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the New Capital Rules implement certain provisions of Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The New Capital Rules are effective for OFG Bancorp and Oriental Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. Among other matters, the New Capital Rules: (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the New Capital Rules, for most banking organizations, including the Company, the most common form of Additional Tier 1 capital is noncumulative

perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 will be as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and
- 4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The New Capital Rules also introduce a new 2.5% "capital conservation buffer", composed entirely of CET1, on top of the three minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, OFG Bancorp and Oriental Bank will be required to maintain such an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition (as noted above), under the current general risk-based capital rules, the effects of AOCI items included in shareholders' equity (for example, mark-to-market adjustments to the value of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approach banking organizations, including OFG Bancorp and Oriental Bank, may make a one-time permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of the OFGBancorp's, and Oriental Bank's periodic regulatory reports in the beginning of 2015. OFG Bancorp and Oriental Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolio. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out in the case of bank holding companies that had $15 billion or more in total consolidated assets as of December 31, 2009. Therefore, the Company is permitted to continue to include its existing trust preferred securities as Tier 1 capital.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to Oriental Bank, the New Capital Rules revise the "prompt corrective action" ("PCA") regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be

adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category.

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, and resulting in higher risk weights for a variety of asset classes.

The Company has evaluated the impact of the New Capital Rules on our regulatory capital ratios and estimates an increase of approximately 54 basis points to our Basel I Tier I Common risk-based capital ratio based on our December 30, 2014 balance sheet composition, assuming a full phase-in of the New Capital Rules. The following table presents a preliminary estimate of the computation of the Company's regulatory capital ratios and risk-weighted assets on a fully-phased in basis under the methodologies set forth in the New Capital Rules based on our current understanding of those Rules and subject to certain assumptions.

We believe that OFGBancorp and Oriental Bank will be able to meet the required well-capitalized capital ratios on a Basel III basis.

	December 31, 2014					
	Actual Capital Components under Basel I		Adjustment to Capital Components under Basel III		Estimated Capital Components under Basel III	
	(Dollars in thousands)					
Total capital	$	924,197	$	-	$	924,197
Tier 1 common equity	$	575,655	$	40,240	$	615,895
Risk-based capital:						
Tier 1 capital	$	776,525	$	40,240	$	816,765
Supplementary (Tier 2) capital		74,912		1,403		76,315
Total risk-based capital	$	851,437	$	41,643	$	893,080
Risk-weighted assets:						
Balance sheet items	$	4,761,644	$	3,393	$	4,765,037
Off-balance sheet items		85,506		110,236		195,742
Total risk-weighted assets	$	4,847,150	$	113,629	$	4,960,779
Ratios:						
Tier 1 common equity to risk-weighted assets		**11.88%**				**12.42%**
Tier 1 risk-based capital ratio		**16.02%**				**16.46%**
Total risk-based capital ratio		**17.57%**				**18.00%**
Leverage capital ratio		**10.61%**				**11.10%**
Equity to assets		**12.65%**				**12.65%**
Tangible common equity to assets		**9.14%**				**9.14%**

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At December 31, 2014 and 2013, the Company's market capitalization for its outstanding common stock was $742.8 million ($16.65 per share) and $792.0 million ($17.34 per share), respectively.

The following table provides the high and low prices and dividends per share of the Company's common stock for each quarter of the last two calendar years:

	Price		Cash Dividend
	High	Low	Per share
2014			
December 31, 2014	$ 16.76	$ 14.35	$ 0.10
September 30, 2014	$ 18.89	$ 14.92	$ 0.08
June 30, 2014	$ 18.88	$ 16.38	$ 0.08
March 31, 2014	$ 17.54	$ 14.30	$ 0.08
2013			
December 31, 2013	$ 17.34	$ 14.74	$ 0.08
September 30, 2013	$ 18.97	$ 16.13	$ 0.06
June 30, 2013	$ 18.11	$ 14.26	$ 0.06
March 31, 2013	$ 15.83	$ 13.85	$ 0.06

Under the Company's current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by the Company as treasury shares. During 2014, the Company purchased 1,153,998 shares under this program for a total of $16.9 million, at an average price of $14.66 per share. There were no repurchases during 2013. The number of shares that may yet be purchased under the $70 million program is estimated at 1,000,379 and was calculated by dividing the remaining balance of $16.7 million by the closing price of the Company's common stock at December 31, 2014 ($16.65).

Contractual Obligations and Commercial Commitments

As disclosed in the notes to the Company's consolidated financial statements, the Company has certain obligations and commitments to make future payments under contracts. At December 31, 2014, the aggregate contractual obligations and commercial commitments, excluding accrued interest and unamortized premiums (discounts), are as follows:

	Payments Due by Period									
		Total		Less than 1 year		1 - 3 years		3 - 5 years		After 5 years
CONTRACTUAL OBLIGATIONS:	(In thousands)									
Securities sold under agreements to repurchase	$	977,816	$	307,816	$	170,000	$	500,000	$	-
Advances from FHLB		333,998		264,317		4,500		55,000		10,181
Subordinated capital notes		101,584		-		67,000		-		34,584
Other term notes		4,004		-		1,000		-		3,004
Annual rental commitments under noncancelable operating leases		51,483		8,304		14,881		11,996		16,302
Certificates of deposits		1,534,759		777,730		672,452		84,577		-
Total	**$**	**3,003,644**	**$**	**1,358,167**	**$**	**257,381**	**$**	**566,996**	**$**	**64,071**

Loan commitments, which represent unused lines of credit and letters of credit provided to customers, decreased to $493.2 million for 2014, as compared to $520.3 million at December 31, 2013. Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates, bear variable interest rate and may require payment of a fee. Since the commitments may expire unexercised, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the customer. At December 31, 2014, commitments for loans covered under the FDIC shared-loss agreements amounted to $7.9 million, compared to $11.4 million at December 31, 2013.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein (except for certain non-GAAP measures as previously indicated) have been prepared in accordance with GAAP which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution’s performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services since such prices are affected by inflation.

QUARTERLY FINANCIAL DATA (Unaudited)

TABLE 15 — SELECTED QUARTERLY FINANCIAL DATA:

	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	Total 2014
EARNINGS DATA:	(In thousands, except per share data)				
Interest income	$ 123,074	$ 125,900	$ 120,301	$ 115,982	$ 485,257
Interest expense	19,676	19,822	18,430	18,854	76,782
Net interest income	**103,398**	**106,078**	**101,871**	**97,128**	**408,475**
Provision for non-covered loan and lease losses	10,062	13,220	16,142	15,536	54,960
Provision for covered loan and lease losses, net	1,629	1,595	1,115	1,341	5,680
Total provision for loan and lease losses, net	**11,691**	**14,815**	**17,257**	**16,877**	**60,640**
Net interest income after provision for loan and lease losses	**91,707**	**91,263**	**84,614**	**80,251**	**347,835**
Non-interest income	5,229	507	2,491	9,096	17,323
Non-interest expenses	61,404	59,848	59,575	61,898	242,725
Income before taxes	**35,532**	**31,922**	**27,530**	**27,449**	**122,433**
Income tax expense	11,785	10,613	7,998	6,856	37,252
Net income	**23,747**	**21,309**	**19,532**	**20,593**	**85,181**
Less: dividends on preferred stock	(3,465)	(3,466)	(3,465)	(3,466)	(13,862)
Income available to common shareholders	**$ 20,282**	**$ 17,843**	**$ 16,067**	**$ 17,127**	**$ 71,319**
PER SHARE DATA:					
Basic	$ 0.45	$ 0.40	$ 0.36	$ 0.38	**$ 1.58**
Diluted	$ 0.42	$ 0.38	$ 0.34	$ 0.36	**$ 1.50**

	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	Total 2013
EARNINGS DATA:	(In thousands, except per share data)				

Interest income	$	114,172	$	126,302	$	121,101	$	132,057	$	493,632
Interest expense		20,556		20,007		22,010		21,387		83,960
Net interest income		**93,616**		**106,295**		**99,091**		**110,670**		**409,672**
Provision for non-covered loan and lease losses		7,916		37,527		9,900		12,216		67,559
Provision for covered loan and lease losses, net		672		1,211		3,074		378		5,335
Total provision for loan and lease losses, net		**8,588**		**38,738**		**12,974**		**12,594**		**72,894**
Net interest income after provision for loan and lease losses		**85,028**		**67,557**		**86,117**		**98,076**		**336,778**
Non-interest income		9,902		6,736		3,325		(2,866)		17,097
Non-interest expenses		66,612		68,687		63,236		65,603		264,138
Income (loss) before taxes		**28,318**		**5,606**		**26,206**		**29,607**		**89,737**
Income tax expense (benefit)		7,126		(31,934)		6,585		9,514		(8,709)
Net Income (loss)		**21,192**		**37,540**		**19,621**		**20,093**		**98,446**
Less: dividends on preferred stock		(3,465)		(3,466)		(3,465)		(3,466)		(13,862)
Income (loss) available to common shareholders	**$**	**17,727**	**$**	**34,074**	**$**	**16,156**	**$**	**16,627**	**$**	**84,584**
PER SHARE DATA:										
Basic	**$**	0.39	**$**	0.75	**$**	0.35	**$**	0.36	**$**	**1.85**
Diluted	**$**	0.37	**$**	0.68	**$**	0.34	**$**	0.35	**$**	**1.73**

Certain reclassifications from non-interest income to non-interest expense have been made to 2013 amounts to conform to the current year presentation.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Background

The Company's risk management policies are established by its Board of Directors (the "Board") with the assistance of the Board's Risk and Compliance Committee formed during the second quarter of 2014. Such policies are implemented by management through the adoption of a risk management program, which is overseen and monitored by the Chief Risk Officer, the Executive Risk and Compliance Committee and the Board's Risk and Compliance Committee. The Company has continued to refine and enhance its risk management program by strengthening policies, processes and procedures necessary to maintain effective risk management.

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

Market Risk

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

Interest Rate Risk

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

In discharging its responsibilities, ALCO examines current and expected conditions in global financial markets, competition and prevailing rates in the local deposit market, liquidity, unrealized gains and losses in securities, recent

or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps, and any tax or regulatory issues which may be pertinent to these areas.

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

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

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

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

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

These simulations are complex, and use many assumptions that are intended to reflect the general behavior of the Company over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates. The following table presents the results of the simulations at December 31, 2014 for the most likely scenario, assuming a one-year time horizon:

	Net Interest Income Risk (one year projection)									
	Static Balance Sheet					Growing Simulation				
	Amount Change			Percent Change		Amount Change			Percent Change	
Change in interest rate	(Dollars in thousands)									
+ 200 Basis points	$	9,945		2.73%	_	$	10,622	_	2.86%	
+ 100 Basis points	$	5,364		1.47%	_	$	5,698	_	1.54%	
- 50 Basis points	$	(1,612)		-0.44%	_	$	(1,758)	_	-0.47%	

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

Future net interest income could be affected by the Company's investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed securities, and any structured repurchase agreements and advances from the FHLB-NY in which it may enter into from time to time. As part of the strategy to limit the interest rate risk and reduce the re-pricing gaps of the Company's assets and liabilities, the Company has executed certain transactions which include extending the maturity and the re-pricing frequency of the liabilities to longer terms reducing the amounts of its structured repurchase agreements and entering into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings that only consist of advances from the FHLB-NY as of December 31, 2014.

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

decrease.

Derivative instruments that are used as part of the Company's interest risk management strategy include interest rate swaps, forward-settlement swaps, futures contracts, and option contracts that have indices related to the pricing of specific balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties based on a common notional principal amount and maturity date. Interest rate futures generally involve exchanged-traded contracts to buy or sell U.S. Treasury bonds and notes in the future at specified prices. Interest rate options represent contracts that allow the holder of the option to (i) receive cash or (ii) purchase, sell, or enter into a financial instrument at a specified price within a specified period. Some purchased option contracts give the Company the right to enter into interest rate swaps and cap and floor agreements with the writer of the option. In addition, the Company enters into certain transactions that contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value. Please refer to Note 10 to the accompanying consolidated financial statements for further information concerning the Company's derivative activities.

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

Interest rate swaps — The Company entered into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in the one-month LIBOR rate. Once the forecasted wholesale borrowings transactions occurred, the interest rate swap effectively fixes the Company's interest payments on an amount of forecasted interest expense attributable to the one-month LIBOR rate corresponding to the swap notional stated rate. A derivative liability of $8.6 million (notional amount of $264.3 million) was recognized at December 31, 2014 related to the valuation of these swaps.

In addition, the Company has certain derivative contracts, including interest rate swaps not designated as hedging instruments, which are utilized to convert certain variable rate loans to fixed-rate loans, and the mirror-images of these interest rate swaps in which the Company enters into to minimize its interest rate risk exposure that results from offering the derivatives to clients. These interest rate swaps are marked to market through earnings. At December 31, 2014, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of $2.4 million (notional amounts of $32.9 million), and the mirror-image interest rate swaps in which BBVAPR entered into represented a derivative liability of $2.4 million (notional amounts of $32.9 million).

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

At December 31, 2014, the fair value of the purchased options used to manage the exposure to the S&P 500 Index on stock-indexed certificates of deposit represented an asset of $5.6 million (notional amounts of $10.7 million) and the options sold to customers embedded in the certificates of deposit represented a liability of $5.5 million (notional amount of $10.5 million).

Wholesale borrowings — The Company uses interest rate swaps to hedge the variability of interest cash flows of certain advances from the FHLB-NY that are tied to a variable rate index. The interest rate swaps effectively fix the Company's interest payments on these borrowings. As of December 31, 2014, the Company had $264.3 million in interest rate swaps at an average rate of 2.6% designated as cash flow hedges for $264.3 million in advances from the FHLB-NY that reprice or are being rolled over on a monthly basis.

Credit Risk

Credit risk is the possibility of loss arising from a borrower or counterparty in a credit-related contract failing to perform in accordance with its terms. The principal source of credit risk for the Company is its lending activities. In Puerto Rico, the Company's principal market, economic conditions are challenging, as they have been for the last nine years, due to a shrinking population, a protracted economic recession, a housing sector that remains under pressure, the Puerto Rico government's large indebtedness, structural budget deficit and liquidity constraints, and the rating downgrades of Puerto Rico general obligations and other government bonds to levels that are below investment grade.

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

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

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

Liquidity Risk

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

The Company's business requires continuous access to various funding sources. While the Company is able to fund its operations through deposits as well as through advances from the FHLB-NY and other alternative sources, the Company's business is dependent upon other wholesale funding sources. Although the Company has selectively reduced its use of wholesale funding sources, such as repurchase agreements and brokered deposits, it is still dependent on wholesale funding sources. As of December 31, 2014, the Company had $980.1 billion in repurchase agreements and $619.3 million in brokered deposits.

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

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

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

operations and financial condition.

As of December 31, 2014, the Company had approximately $568.8 million in unrestricted cash and cash equivalents, $207.4 million in investment securities that are not pledged as collateral, $606.6 million in borrowing capacity at the FHLB-NY and $715.5 million in borrowing capacity at the Federal Reserve's discount window available to cover liquidity needs.

Operational Risk

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

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

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

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

Concentration Risk

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

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

OFG Bancorp

FORM 10-K

FINANCIAL DATA INDEX

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OFG Bancorp

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and stockholders of OFG Bancorp:

The management of OFG Bancorp (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, and for the assessment of internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As called for by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. Management made its assessment using the criteria set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Criteria").

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014 based on the COSO Criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014, has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report dated February 26, 2015.

By: *\/s/ José Rafael Fernández*	By: *\/s/ Ganesh Kumar*
José Rafael Fernández	*Ganesh Kumar*
President and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*
Date: February 26, 2015	Date: February 26, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

OFG Bancorp:

We have audited the accompanying consolidated statements of financial condition of OFG Bancorp and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, and changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OFG Bancorp and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), OFG Bancorp and its subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Juan, Puerto Rico

February 26, 2015

Stamp No. E148734 of the Puerto Rico

Society of Certified Public Accountants

was affixed to the record copy of this report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

OFG Bancorp:

We have audited OFG Bancorp and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, OFG Bancorp and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of OFG Bancorp and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014 and our report dated February 26, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Juan, Puerto Rico

February 26, 2015

Stamp No. E148732 of the Puerto Rico

Society of Certified Public Accountants

was affixed to the record copy of this report.

OFG BANCORP

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2014 AND DECEMBER 31, 2013

	December 31,			
	2014		2013	
	(In thousands)			
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$	568,752	$	614,302
Money market investments		4,675		6,967
Total cash and cash equivalents		**573,427**		**621,269**
Restricted cash		8,407		82,199
Securities purchased under agreements to resell		-		60,000
Investments:				
Trading securities, at fair value, with amortized cost of $2,419 (December 31, 2013 - $2,448)		1,594		1,869
Investment securities available-for-sale, at fair value, with amortized cost of $1,187,679 (December 31, 2013 - $1,575,043)		1,216,538		1,588,425
Investment securities held-to-maturity, at amortized cost, with fair value of $164,154		162,752		-
Federal Home Loan Bank (FHLB) stock, at cost		21,169		24,450
Other investments		3		65
Total investments		**1,402,056**		**1,614,809**
Loans:				
Mortgage loans held-for-sale, at lower of cost or fair value		14,539		46,529
Non-covered loans, net of allowance for loan and lease losses of $69,517 (December 31, 2013 - $54,298)		4,513,196		4,615,929
Covered loans, net of allowance for loan and lease losses of $64,245 (December 31, 2013 - $52,729)		298,911		356,961
Total loans, net		**4,826,646**		**5,019,419**
Other assets:				
FDIC indemnification asset		97,378		189,240
Foreclosed real estate covered under shared-loss agreements with the FDIC		47,514		33,209
Foreclosed real estate not covered under shared-loss agreements with the FDIC		48,147		56,815
Accrued interest receivable		21,345		18,734

Deferred tax asset, net			108,708		137,564
Premises and equipment, net			80,599		82,903
Customers' liability on acceptances			17,989		23,042
Servicing assets			13,992		13,801
Derivative assets			8,107		20,502
Goodwill			86,069		86,069
Other assets			108,725		98,440
Total assets		$	**7,449,109**	$	**8,158,015**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Demand deposits		$	1,997,108		2,138,005
Savings accounts			1,385,824		1,194,567
Time deposits			1,541,474		2,050,693
Total deposits			**4,924,406**		**5,383,265**
Borrowings:					
Securities sold under agreements to repurchase			980,087		1,267,618
Advances from FHLB			334,331		336,143
Subordinated capital notes			101,584		100,010
Other borrowings			4,004		3,663
Total borrowings			**1,420,006**		**1,707,434**
Other liabilities:					
Derivative liabilities			11,221		14,937
Acceptances executed and outstanding			17,989		23,042
Accrued expenses and other liabilities			133,290		144,424
Total liabilities			**6,506,912**		**7,273,102**
Commitments and contingencies (See Note 24)					
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, 2013 - 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, 2013 - 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:					
44,613,615 shares outstanding (December 31, 2013 - 52,707,023; 45,676,922)			52,626		52,707
Additional paid-in capital			539,311		538,071
Legal surplus			70,467		61,957
Retained earnings			181,152		133,629
Treasury stock, at cost, 8,012,254 shares (December 31, 2013 - 7,030,101 shares)			(97,070)		(80,642)

Accumulated other comprehensive income, net of tax of $447 (December 31, 2013 -$831)			19,711		3,191
Total stockholders' equity			**942,197**		**884,913**
Total liabilities and stockholders' equity	$	**7,449,109**		$	**8,158,015**

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

OFG BANCORP

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Year Ended December 31,							
	2014			2013			2012	
	(In thousands, except per share data)							
Interest income:								
Non-covered loans	$	346,584		$	352,133		$	80,023
Covered loans		88,969			91,769			85,376
Total interest income from loans		**435,553**			**443,902**			**165,399**
Mortgage-backed securities		44,836			40,927			88,508
Investment securities and other		4,868			8,803			6,901
Total interest income		**485,257**			**493,632**			**260,808**
Interest expense:								
Deposits		33,954			40,977			29,649
Securities sold under agreements to repurchase		29,654			29,249			60,575
Advances from FHLB and other borrowings		9,185			8,620			10,906
FDIC-guaranteed term notes		-			-			909
Subordinated capital notes		3,989			5,114			1,479
Total interest expense		**76,782**			**83,960**			**103,518**
Net interest income		**408,475**			**409,672**			**157,290**
Provision for non-covered loan and lease losses		54,960			67,559			13,854
Provision for covered loan and lease losses, net		5,680			5,335			9,827
Total provision for loan and lease losses		**60,640**			**72,894**			**23,681**
Net interest income after provision for loan and lease losses		**347,835**			**336,778**			**133,609**
Non-interest income:								
Banking service revenue		40,712			44,239			13,573
Wealth management revenue		29,855			30,924			25,350
Mortgage banking activities		7,381			10,994			8,706
Total banking and financial service revenues		**77,948**			**86,157**			**47,629**
FDIC shared-loss expense, net:								
FDIC indemnification asset expense		(62,285)			(66,253)			(25,805)
		(3,471)			(3,014)			(2,217)

Change in true-up payment obligation						
		(65,756)		(69,267)		(28,022)
Net gain (loss) on:						
Sale of securities		4,366		-		74,210
Derivatives		(608)		(1,526)		(42,048)
Early extinguishment of debt		-		1,061		(26,052)
Other non-interest income		1,373		670		338
Total non-interest income, net		**17,323**		**17,095**		**26,055**
Non-interest expense:						
Compensation and employee benefits		85,283		91,957		45,778
Professional and service fees		15,996		21,321		17,500
Occupancy and equipment		34,710		34,408		17,530
Insurance		8,830		8,795		6,742
Electronic banking charges		19,081		16,702		6,268
Information technology expenses		6,019		10,546		4,774
Advertising, business promotion, and strategic initiatives		7,014		7,025		6,254
Merger and restructuring charges		-		17,660		4,990
Foreclosure, repossession and other real estate expenses		25,125		16,484		7,628
Loan servicing and clearing expenses		7,567		7,588		3,309
Taxes, other than payroll and income taxes		14,409		15,539		3,502
Communication		3,430		3,377		1,627
Printing, postage, stationary and supplies		2,533		3,459		1,254
Director and investor relations		1,106		1,098		1,039
Other		11,622		8,177		3,613
Total non-interest expense		**242,725**		**264,136**		**131,808**
Income before income taxes		**122,433**		**89,737**		**27,856**
Income tax expense (benefit)		37,252		(8,709)		3,301
Net income		**85,181**		**98,446**		**24,555**
Less: dividends on preferred stock		(13,862)		(13,862)		(9,939)
Income available to common shareholders	$	**71,319**	$	**84,584**	$	**14,616**
Earnings per common share:						
Basic	$	**1.58**	$	**1.85**	$	**0.35**
Diluted	$	**1.50**	$	**1.73**	$	**0.35**
Average common shares outstanding and equivalents		**52,326**		**53,033**		**45,304**
Cash dividends per share of common stock	$	**0.34**	$	**0.26**	$	**0.24**

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

OFG BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Year Ended December 31,							
_	2014			2013			2012	
	(In thousands)							
Net income	$	**85,181**		$	**98,446**		$	**24,555**
Other comprehensive income (loss) before tax:								
Unrealized gain (loss) on securities available-for-sale		19,843			(62,080)			63,152
Realized gain on investment securities included in net income		(4,366)			-			(74,210)
Unrealized gain on cash flow hedges		2,322			6,758			(7,702)
Realized loss on cash flow hedges included in net income		-			-			37,463
Other comprehensive income (loss) before taxes		**17,799**			**(55,322)**			**18,703**
Income tax effect		(1,279)			2,633			46
Other comprehensive income (loss) after taxes		**16,520**			**(52,689)**			**18,749**
Comprehensive income	$	**101,701**		$	**45,757**		$	**43,304**

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

OFG BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	December 31,					
	2014		2013		2012	
	(In thousands)					
Preferred stock:						
Balance at beginning of year	$	176,000	$	176,000	$	68,000
Issuance of preferred stock		-		-		108,000
Balance at end of year		**176,000**		**176,000**		**176,000**
Common stock:						
Balance at beginning of year		52,707		52,671		47,809
Issuance of common stock		-		-		4,829
Exercised stock options		55		36		33
Reclassification to treasury stock		(136)		-		-
Balance at end of year		**52,626**		**52,707**		**52,671**
Additional paid-in capital:						
Balance at beginning of year		538,071		537,453		499,096
Issuance of common stock		-		-		48,776
Stock-based compensation expense		1,036		1,823		1,552
Exercised stock options		591		399		361
Lapsed restricted stock units		(387)		(1,563)		(494)
Common stock issuance costs		-		(16)		(4,385)
Preferred stock issuance costs		-		(25)		(7,453)
Balance at end of year		**539,311**		**538,071**		**537,453**
Legal surplus:						
Balance at beginning of year		61,957		52,143		50,178
Transfer from retained earnings		8,510		9,814		1,965
Balance at end of year		**70,467**		**61,957**		**52,143**
Retained earnings:						
Balance at beginning of year		133,629		70,734		68,149
Net income		85,181		98,446		24,555
Cash dividends declared on common stock		(15,286)		(11,875)		(10,066)
Cash dividends declared on preferred stock		(13,862)		(13,862)		(9,939)
Transfer to legal surplus		(8,510)		(9,814)		(1,965)
Balance at end of year		**181,152**		**133,629**		**70,734**
Treasury stock:						
Balance at beginning of year		(80,642)		(81,275)		(74,808)

Stock repurchased		(16,948)		-		(7,022)
Lapsed restricted stock units		384		556		494
Reclassification from common stock		136		-		-
Stock used to match defined contribution plan		-		77		61
Balance at end of year		**(97,070)**		**(80,642)**		**(81,275)**
Accumulated other comprehensive income, net of tax:						
Balance at beginning of year		3,191		55,880		37,131
Other comprehensive income (loss), net of tax		16,520		(52,689)		18,749
Balance at end of year		**19,711**		**3,191**		**55,880**
Total stockholders' equity	**$**	**942,197**	**$**	**884,913**	**$**	**863,606**

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

OFG BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Cash flows from operating activities:			
Net income	$ **85,181**	$ **98,446**	$ **24,555**
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred loan origination fees, net of costs	2,883	1,258	658
Amortization of fair value premiums, net of discounts, on acquired loans	12,310	12,224	-
Amortization of investment securities premiums, net of accretion of discounts	3,124	19,014	41,768
Amortization of core deposit and customer relationship intangibles	2,169	2,577	230
Amortization of fair value premiums on acquired deposits	4,772	14,400	-
FDIC shared-loss expense, net	65,756	69,267	28,022
Other impairments on securities	-	8	-
Other	62	-	-
Amortization of prepaid FDIC assessment	-	-	5,148
Depreciation and amortization of premises and equipment	10,199	10,318	4,845
Deferred income tax expense (benefit), net	24,155	(11,066)	1,513
Provision for covered and non-covered loan and lease losses, net	60,640	72,894	23,681
Stock-based compensation	1,036	1,823	1,552
(Gain) loss on:			
Sale of securities	(4,366)	-	(74,210)
Sale of mortgage loans held-for-sale	(5,123)	(2,980)	(6,432)
Derivatives	752	220	43,046
Early extinguishment of debt	-	(1,061)	26,052
Foreclosed real estate	9,195	6,255	4,366
Sale of other repossessed assets	6,770	3,089	(112)
Sale of premises and equipment	(11)	5	(83)
Originations of loans held-for-sale	(176,199)	(307,339)	(199,991)
Proceeds from sale of loans held-for-sale	96,804	147,531	102,474

Net (increase) decrease in:			
Trading securities	275	(1,374)	333
Accrued interest receivable	(2,611)	(4,080)	3,510
Servicing assets	(191)	(3,006)	(341)
Other assets	11,738	29,123	4,899
Net increase (decrease) in:			
Accrued interest on deposits and borrowings	(1,292)	(2,155)	(4,640)
Accrued expenses and other liabilities	(33,028)	18,425	19,397
Net cash provided by operating activities	**175,000**	**173,816**	**50,240**
Cash flows from investing activities:			
Purchases of:			
Investment securities available-for-sale	(219,853)	(33,294)	(1,657,754)
Investment securities held-to-maturity	(166,562)	-	(119,026)
Purchases of swap options	-	-	(3,492)
FHLB stock	(86,175)	(104,337)	(454)
Maturities and redemptions of:			
Investment securities available-for-sale	490,048	554,801	1,574,727
Investment securities held-to-maturity	3,612	-	230,958
FHLB stock	89,456	118,298	1,370
Proceeds from sales of:			
Investment securities available-for-sale	214,518	141,202	2,265,594
Foreclosed real estate and other repossessed assets	54,639	57,449	18,159
Loans held-for-investment	9,378	-	-
Premises and equipment	25	891	168
Origination and purchase of loans, excluding loans held-for-sale	(739,017)	(1,176,875)	(260,821)
Principal repayment of loans, including covered loans	751,215	1,171,150	265,584
Reimbursements from the FDIC on shared-loss agreements	32,692	47,100	96,664
Additions to premises and equipment	(7,909)	(9,120)	(1,927)
Net change in securities purchased under agreements to resell	60,000	20,000	(80,000)
Net change in restricted cash	73,792	(68,739)	(13,460)
Outlays for business acquisitions	-	-	(500,000)
Cash and cash equivalents received in BBVAPR Acquisition	-	-	394,638
Net cash provided by investing activities	**559,859**	**718,526**	**2,210,928**

OFG BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 – (Continued)

	Year Ended December 31,							
	2014			2013			2012	
	(In thousands)							
Cash flows from financing activities:								
Net increase (decrease) in:								
Deposits		(450,976)			(323,899)			(251,452)
Short term borrowings		-			(92,210)			(4,401)
Securities sold under agreements to repurchase		(287,184)			(427,931)			(1,741,605)
FHLB advances, federal funds purchased, and other borrowings		(1,469)			(213,144)			20,618
Subordinated capital notes		1,574			(44,968)			-
FDIC-guaranteed term notes		-			-			(105,000)
Exercise of stock options and restricted units lapsed, net		643			(572)			394
Issuance of common stock, net		-			(16)			49,220
Issuance of preferred stock, net		-			(25)			100,547
Purchase of treasury stock		(16,948)			-			(7,022)
Termination of derivative instruments		-			1,108			(38,714)
Dividends paid on preferred stock		(13,862)			(13,862)			(9,939)
Dividends paid on common stock		(14,479)			(10,789)			(10,066)
Net cash used in financing activities		**(782,701)**			**(1,126,308)**			**(1,997,420)**
Net change in cash and cash equivalents		**(47,842)**			**(233,966)**			**263,748**
Cash and cash equivalents at beginning of year		621,269			855,235			591,487
Cash and cash equivalents at end of year	**$**	**573,427**		**$**	**621,269**		**$**	**855,235**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:								
Interest paid	$	81,506		$	98,856		$	110,622
Income taxes paid	$	7,114		$	378		$	8,031
Mortgage loans securitized into mortgage-backed securities	$	95,909		$	137,943		$	78,037

Transfer from loans to foreclosed real estate and other repossessed assets	$	85,459		$	89,142	$	34,000
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	5,202		$	41,780	$	9,871
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	25,801		$	-	$	-
Investment securities held-to-maturity transferred to available-for-sale		-		$	-	$	762,340
The accompanying notes are an integral part of these consolidated financial statements.							

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of OFG Bancorp (the "Company") conform with U.S. generally accepted accounting principles ("GAAP") and to banking industry practices. The following is a description of the Company's most significant accounting policies:

Nature of Operations

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, Caribbean Pension Consultants, Inc. ("CPC"). The Company also has a special purpose entity, Oriental Financial (PR) Statutory Trust II (the "Statutory Trust II"). 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.

The main offices of the Company and its subsidiaries are located in San Juan, Puerto Rico, except for CPC, which is located in Boca Raton, Florida. The Company is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") under the U.S. Bank Holding Company Act of 1956, as amended, and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("The Dodd-Frank Act").

The Bank is also subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of Puerto Rico (the "OCFI") and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank offers banking services such as commercial, and consumer lending, leasing, auto loans, savings and time deposit products, financial planning, and corporate and individual trust services, and capitalizes on its commercial banking network to provide mortgage lending products to its clients. Oriental International Bank Inc. ("OIB"), a wholly-owned subsidiary of the Bank, and Oriental Overseas, a unit of the Bank, are international banking entities licensed pursuant to International Banking Center Regulatory Act of Puerto Rico, as amended. OIB and Oriental Overseas offer the Bank certain Puerto Rico tax advantages. Their activities are limited under Puerto Rico law to persons and assets/liabilities located outside of Puerto Rico.

Oriental Financial Services is a securities broker-dealer and is subject to the supervision, examination and regulation of the Financial Industry Regulatory Authority (the "FINRA"), the Securities and Exchange Commission (the "SEC"), and the OCFI. Oriental Financial Services is also a member of the Securities Investor Protection Corporation. Oriental Insurance is an insurance agency and is subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico.

The Company's mortgage banking activities are conducted through a division of the Bank. The mortgage banking activities include the origination of mortgage loans for the Bank's own portfolio, and the sale of loans directly in the secondary market or the securitization of conforming loans into mortgage-backed securities. The Bank originates Federal Housing Administration ("FHA") insured and Veterans Administration ("VA") guaranteed mortgages that are primarily securitized for issuance of Government National Mortgage Association ("GNMA") mortgage-backed securities which can be resold to individual or institutional investors in the secondary market. Conventional loans that meet the underwriting requirements for sale or exchange under certain Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC") programs are referred to as conforming mortgage loans and are also securitized for issuance of FNMA or FHLMC mortgage-backed securities. The Bank is an approved seller of FNMA, as well as FHLMC, mortgage loans for issuance of FNMA and FHLMC mortgage-backed securities. The Bank is also an approved issuer of GNMA mortgage-backed securities. The Bank is the master servicer of the GNMA, FNMA and FHLMC pools that it issues and of its mortgage loan portfolio, and has a subservicing arrangement with a third party.

On December 18, 2012, the Company purchased from Banco Bilbao Vizcaya Argentaria, S. A. ("BBVA"), all of the outstanding common stock of each of (i) BBVAPR Holding Corporation ("BBVAPR Holding"), the sole shareholder of Banco Bilbao Vizcaya Argentaria Puerto Rico ("BBVAPR Bank"), a Puerto Rico chartered commercial bank, and BBVA Seguros, Inc. ("BBVA Seguros"), a subsidiary offering insurance services, and (ii) BBVA Securities of Puerto Rico, Inc. ("BBVA Securities"), a registered broker-dealer. This transaction is referred to as the "BBVAPR Acquisition" and BBVAPR Holding, BBVAPR Bank, BBVA Seguros and BBVA Securities are collectively referred to as the "BBVAPR Companies" or "BBVAPR."

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Business Combinations

The Company accounted for the BBVAPR Acquisition and the FDIC-assisted acquisition of Eurobank under the accounting guidance of ASC Topic No. 805, Business Combinations, which requires the use of the purchase method of accounting. All identifiable assets and liabilities acquired were initially recorded at fair value. No allowance for loan losses related to the acquired loans was recorded on the acquisition date. Loans acquired were recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the FDIC applicable to the FDIC-assisted acquisition. These fair value estimates associated with the loans included estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows. Because the FDIC has agreed to reimburse the Company for losses related to the acquired loans in the FDIC-assisted acquisition, subject to certain provisions specified in the shared-loss agreements, an indemnification asset was recorded at fair value at the acquisition date. The indemnification asset was recognized at the same time as the loans covered under FDIC shared-loss agreements, and is measured on the same basis, subject to collectability or contractual limitations. The loss share indemnification asset on the acquisition date reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflected counterparty credit risk and other uncertainties. The initial valuation of these loans and related indemnification asset required management to make subjective judgments concerning estimates about how the acquired loans would perform in the future using valuation methods, including discounted cash flow analyses and independent third-party appraisals. Factors that may significantly affect the initial valuation include, among others, market-based and industry data related to expected changes in interest rates, assumptions related to probability and severity of credit losses, estimated timing of credit losses including the timing of foreclosure and liquidation of collateral, expected prepayment rates, the specific terms and provisions of any shared-loss agreements, and specific industry and market conditions that may impact independent third-party appraisals. The Company applied the guidance of ASC 310-30 to most of the loans acquired in the FDIC-assisted acquisition (including applying ASC 310-30 by analogy to loans that do not meet the scope of ASC 310-30 but meet certain other criteria as outlined below), except for credit cards. Also, the Company applied the guidance of ASC 310-30 to most of the loans from the BBVAPR Acquisition, except for credit cards, retail and commercial lines of credits, floor plans and performing auto loans with Fair Isaac Corporation (“FICO”) scores over 660 which were acquired at a premium.

ASC 310-30 provides two specific criteria that have to be met in order for a loan to be within its scope: (i) credit deterioration on the loan from its inception until the acquisition date and (ii) that it is probable that not all of the contractual cash flows will be collected on the loan. Once in the scope of ASC 310-30, the credit portion of the fair value discount on an acquired loan cannot be accreted into income until the acquirer has assessed that it expects to receive more cash flows on the loan than initially anticipated. Acquired loans that meet the definition of nonaccrual status fall within the Company’s definition of impaired loans under ASC 310-30. Performing loans would generally not meet either criteria and, therefore, not fall within the scope of ASC 310-30. Many of the acquired loans that did not meet the Company’s definition of non-accrual status also resulted in the recognition of a discount attributable to credit quality. The Company elected to analogize to ASC 310-30 and only accrete the portion of the fair value discount unrelated to credit pursuant to the provisions of the AICPA letter dated December 18, 2009, where the AICPA summarized the SEC staff’s view regarding the accounting in subsequent periods for the pooling of discount accretion associated with loan receivables acquired in a business combination or asset purchase. The Company adopted an accounting policy consistent with accounting of the Eurobank acquisition to consistently apply by analogy the expected cash flow approach under ASC 310-30 to acquired loan portfolios.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate mainly to the determination of the allowance for loan and lease losses, the valuation of securities and derivative instruments, revisions to expected cash flows in acquired loans, accounting for the indemnification asset, and the determination of income taxes and other-than-temporary impairment of securities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Statutory Trust II is exempt from the consolidation requirements of GAAP.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Cash Equivalents

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.

Earnings per Common Share

Basic earnings per share is calculated by dividing income available to common shareholders (net income reduced by dividends on preferred stock) by the weighted average of outstanding common shares. Diluted earnings per share is similar to the computation of basic earnings per share except that the weighted average of common shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares underlying stock options and restricted units had been issued, assuming that proceeds from exercise are used to repurchase shares in the market (treasury stock method). Any stock splits and dividends are retroactively recognized in all periods presented in the consolidated financial statements.

Securities Purchased/Sold Under Agreements to Resell/Repurchase

The Company purchases securities under agreements to resell the same or similar securities. Amounts advanced under these agreements represent short-term loans and are reflected as assets in the consolidated statements of financial condition. It is the Company's policy to take possession of securities purchased under resale agreements while the counterparty retains effective control over the securities. The Company monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral when deemed appropriate.

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

Investment Securities

Securities are classified as held-to-maturity, available-for-sale or trading. Securities for which the Company has the intent and ability to hold until maturity are classified as held-to-maturity and are carried at amortized cost. Securities that might be sold prior to maturity because of interest rate changes to meet liquidity needs or to better match the repricing characteristics of funding sources are classified as available-for-sale. These securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported net of tax in other comprehensive income.

The Company classifies as trading those securities that are acquired and held principally for the purpose of selling them in the near future. These securities are carried at fair value with realized and unrealized changes in fair value included in earnings in the period in which the changes occur.

The Company's investment in the Federal Home Loan Bank ("FHLB") of New York stock, a restricted security, has no readily determinable fair value and can only be sold back to the FHLB-NY at cost. Therefore, these stocks are deemed to be nonmarketable equity securities and are carried at cost.

Premiums and discounts are amortized to interest income over the life of the related securities using the interest method. Net realized gains or losses on sales of investment securities and unrealized gains and losses valuation adjustments considered other than temporary, if any, on securities classified as either available-for-sale or held-to-maturity are reported separately in the statements of operations. The cost of securities sold is determined by the specific identification method.

Financial Instruments

Certain financial instruments, including derivatives, trading securities and investment securities available-for-sale, are recorded at fair value and unrealized gains and losses are recorded in other comprehensive income or as part of non-interest income, as appropriate. Fair values are based on listed market prices, if available. If listed market prices are not available, fair value is determined based on other relevant factors, including price quotations for similar instruments. The fair values of certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments as the well as time value and yield curve or volatility factors underlying the positions.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company determines the fair value of its financial instruments based on the fair value measurement framework, which establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 — Level 1 assets and liabilities include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on valuations obtained from third-party pricing services for identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments and (iii) derivative contracts and financial liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models for which the determination of fair value requires significant management judgment or estimation.

Impairment of Investment Securities

The Company conducts periodic reviews to identify and evaluate each investment in an unrealized loss position for other-than-temporary impairments. The Company separates the amount of total impairment into credit and noncredit-related amounts. The term "other-than-temporary impairment" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Any portion of a decline in value associated with a credit loss is recognized in income, while the remaining noncredit-related component is 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 it to 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.”

The Company’s review for impairment generally entails, but is not limited to:

- the identification and evaluation of investments that have indications of possible other-than-temporary impairment;
- the analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position, and the expected recovery period;
- the financial condition of the issuer or issuers;
- the creditworthiness of the obligor of the security;
- actual collateral attributes;
- any rating changes by a rating agency;
- current analysts’ evaluations;
- the payment structure of the debt security and the likelihood of the issuer being able to make payments;
- current market conditions;
- adverse conditions specifically related to the security, industry, or a geographic area;
- the Company’s intent to sell the debt security;
- whether it is more-likely-than-not that the Company will be required to sell the debt security before its anticipated recovery; and
- other qualitative factors that could support or not an other-than-temporary impairment.

OFG BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivative Instruments and Hedging Activities

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

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

The Company has offered its customers certificates of deposit with an option tied to the performance of the Standard & Poor’s 500 stock market index (“S&P 500 Index”). The Company has purchased options from major financial entities to manage its exposure to changes in this index. Under the terms of the option agreements, the Company receives a certain percentage of the increase, if any, in the initial month-end value of the S&P 500 Index over the average of the monthly index observations in a five-year period 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. The embedded option in the certificates of deposit is bifurcated, and the changes in the value of that option are also recorded in earnings.

When using derivative instruments, the Company exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract due to insolvency or any other event of default, the Company's credit risk will equal the fair value gain in a derivative plus any cash or securities that may have been delivered to the counterparty as part of the transaction terms. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Company, thus creating a repayment risk for the Company. This risk is generally mitigated by requesting cash or securities from the counterparty to cover the positive fair value. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, assumes no credit risk other than to the extent that the cash or value of the collateral delivered as part of the transactions exceeds the fair value of the derivative. The Company minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties.

The Company uses forward-settlement swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in LIBOR. Once the forecasted wholesale borrowing transactions occur, the interest rate swap will effectively lock-in the Company's interest rate payments on an amount of forecasted interest expense attributable to the one-month LIBOR corresponding to the swap notional amount. By employing this strategy, the Company minimizes its exposure to volatility in LIBOR.

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As part of its hedging strategy, the Company formally documents all relationships between hedging instruments and hedged items, as the well as its risk-management objective and strategy for undertaking various hedging transactions. This process includes linking all derivatives that are designated as cash flow hedges to (i) specific assets and liabilities on the balance sheet or (ii) specific firm commitments or forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The changes in fair value of the forward-settlement swaps are recorded in accumulated other comprehensive income to the extent there is no significant ineffectiveness.

The Company discontinues hedge accounting prospectively when (i) it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (ii) the derivative expires or is sold, terminated, or exercised; (iii) it is no longer probable that the forecasted transaction will occur; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; or (v) management determines that designating the derivative as a hedging instrument is no longer appropriate or desired.

The Company's derivative activities are monitored by its Asset/Liability Management Committee which is also responsible for approving hedging strategies developed through the analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Company's overall interest rate risk-management.

Off-Balance Sheet Instruments

In the ordinary course of business, the Company enters into off-balance sheet instruments consisting of commitments to extend credit, further discussed in Note 24 hereto. Such financial instruments are recorded in the financial statements when these are funded or related fees are incurred or received. The Company periodically evaluates the credit risks inherent in these commitments and establishes accruals for such risks if and when these are deemed necessary.

Mortgage Banking Activities and Loans Held-For-Sale

The residential mortgage loans reported as held-for-sale are stated at the lower of cost or fair value, cost being determined on the outstanding loan balance less unearned income, and fair value determined in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Realized gains or losses on these loans are determined using the specific identification method. Loans held-for-sale include all conforming mortgage loans originated and purchased, which from time to time the Company sells to other financial institutions or securitizes conforming mortgage loans into GNMA, FNMA and FHLMC pass-through certificates.

Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Company recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

The Company is not engaged in sales of mortgage loans and mortgage-backed securities subject to recourse provisions except for those provisions that allow for the repurchase of loans as a result of a breach of certain representations and warranties other than those related to the credit quality of the loans included in the sale transactions.

The transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset in which the Company surrenders control over the assets is accounted for as a sale if all of the following conditions set forth in ASC Topic 860 are met: (i) the assets must be isolated from creditors of the transferor, (ii) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When the Company transfers financial assets and the transfer fails any one of these criteria, the Company is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing. For federal and Puerto Rico income tax purposes, the Company treats the transfers of loans which do not qualify as “true sales” under the applicable accounting guidance, as sales, recognizing a deferred tax asset or liability on the transaction. For transfers of financial assets that satisfy the conditions to be accounted for as sales, the Company derecognizes all assets sold; recognizes all assets obtained and liabilities incurred in consideration as proceeds of the sale, including servicing assets and servicing liabilities, if applicable; initially measures at fair value assets obtained and liabilities incurred in a sale; and recognizes in earnings any gain or loss on the sale. The guidance on transfer of financial assets requires a true sale analysis of the treatment of the transfer under state law as if the Company was a debtor under the

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bankruptcy code. A true sale legal analysis includes several legally relevant factors, such as the intent of the parties, the nature and level of recourse to the transferor, and the nature of retained interests in the loans sold. The analytical conclusion as to a true sale is never absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law. Once the legal isolation test has been met, other factors concerning the nature and extent of the transferor's control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted.

When the Company sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. Conforming conventional mortgage loans are combined into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or may sell the loans directly to FNMA or other private investors for cash. To the extent the loans do not meet the specified characteristics, investors are generally entitled to require the Company to repurchase such loans or indemnify the investor against losses if the assets do not meet certain guidelines. GNMA programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the Company provides servicing. At the Company's option and without GNMA prior authorization, the Company may repurchase such delinquent loans for an amount equal to 100% of the loan's remaining principal balance. This buy-back option is considered a conditional option until the delinquency criteria is met, at which time the option becomes unconditional. When the loans backing a GNMA security are initially securitized, the Company treats the transaction as a sale for accounting purposes because the conditional nature of the buy-back option means that the Company does not maintain effective control over the loans, and therefore these are derecognized from the balance sheet. When individual loans later meet GNMA's specified delinquency criteria and are eligible for repurchase, the Company is deemed to have regained effective control over these loans, and these must be brought back onto the Company's books as assets at fair value, regardless of whether the Company intends to exercise the buy-back option. Quality review procedures are performed by the Company as required under the government agency programs to ensure that asset guideline qualifications are met. The Company has not recorded any specific contingent liability in the consolidated financial statements for these customary representation and warranties related to loans sold by the Company, and management believes that, based on historical data, the probability of payments and expected losses under these representation and warranty arrangements is not significant.

As part of the BBVAPR Acquisition, on December 18, 2012, the Company assumed a liability for residential mortgage loans sold by BBVAPR subject to credit recourse, principally loans associated with FNMA residential mortgage loan sales and securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Company is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Company would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. In the event of nonperformance by the borrower, the Company has rights to the underlying collateral securing the mortgage loan. The Company suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. The Company has established a liability to cover the estimated credit loss exposure related to loans sold with credit recourse.

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights, and are updated by accruing or reversing expense (categorized in the line item "mortgage banking activities" in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The

methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 120 days delinquent, in which case the Company is obligated to repurchase the loan.

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. 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.

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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 and reports changes in fair value of servicing asset in earnings in the period in which the changes occur, and includes these changes, if any, with mortgage banking activities in the consolidated statement 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.

Non-covered Loans and Leases

Originated and Other Loans and Leases Held in Portfolio

Loans the Company originates and intends to hold in portfolio are stated at the principal amount outstanding, adjusted for unamortized deferred fees and costs which are amortized to interest income over the expected life of the loan using the interest method. The Company discontinues accrual of interest on originated loans after payments become more than 90 days past due or earlier if the Company does not expect the full collection of principal or interest, except for FHA and VA insured mortgage loans for which accrual of interest is discontinued when they become 18 months or more past due. The delinquency status is based upon the contractual terms of the loans.

Loans for which the recognition of interest income has been discontinued are designated as non-accruing. Collections are accounted for on the cash method thereafter, until qualifying to return to accrual status. Such loans are not reinstated to accrual status until interest is received on a current basis and other factors indicative of doubtful collection cease to exist. The determination as to the ultimate collectability of the loan's balance may involve management's judgment in the evaluation of the borrower's financial condition and prospects for repayment.

The Company follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan and lease losses to provide for inherent losses in the non-covered loan portfolio. This methodology includes the consideration of factors such as economic conditions, portfolio risk characteristics, prior loss experience, and results of periodic credit reviews of individual loans. The provision for loan and lease losses charged to current operations is based on such methodology. Loan and lease losses are charged and recoveries are credited to the allowance for loan and lease losses on non-covered originated and other loans.

Larger commercial loans that exhibit potential or observed credit weaknesses are subject to individual review and grading. Where appropriate, allowances are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow, and legal options available to the Company.

Included in the review of individual loans are those that are impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Loans are individually evaluated for impairment, except large groups of small balance homogeneous loans that are collectively evaluated for impairment and loans that are recorded at fair value or at the lower of cost or fair value. The Company measures for impairment all commercial loans over $250 thousand (i) that are either over 90 days past due or adversely classified, or (ii) when deemed necessary by management. The portfolios of mortgage loans, auto and leasing, and consumer loans are considered homogeneous and are evaluated collectively for impairment.

The Company uses a rating system to apply an overall allowance percentage to each non-covered originated and other loan portfolio segment based on historical credit losses adjusted for current conditions and trends. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent twelve months, except for consumer and auto loan portfolios which use the actual loss history experienced by the Company over the most recent twenty four months. The actual loss factor is adjusted by the appropriate loss realization period as calculated for each portfolio. Then, the adjusted loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: the credit grading assigned to commercial loans; levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth

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of lending management and other relevant staff, including the bank's loan review system as graded by regulatory agencies in their last examination; local economic trends and conditions; industry conditions; effects of external factors such as competition and regulatory requirements on the level of estimated credit losses in the current portfolio; and effects of changes in credit concentrations and collateral value. Additional impact from the historical loss experience is applied based on levels of delinquency and loan classification, and for the auto loan portfolio by FICO score.

At origination, a determination is made whether a loan will be held in our portfolio or is intended for sale in the secondary market. Loans that will be held in the Company's portfolio are carried at amortized cost. Residential mortgage loans held for sale are recorded at the lower of the aggregate cost or market value ("LOCOM").

Acquired Loans and Leases

Loans that the Company acquire in acquisitions are recorded at fair value with no carryover of the related allowance for loan losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The Company has acquired loans in two separate acquisitions, the BBVAPR Acquisition in December 2012 and the FDIC-assisted Eurobank acquisition in April 2010. For each acquisition, the Company considered the following factors as indicators that an acquired loan had evidence of deterioration in credit quality and was therefore in the scope of ASC 310-30:

- Loans that were 90 days or more past due,
- Loans that had an internal risk rating of substandard or worse. Substandard is consistent with regulatory definitions and is defined as having a well-defined weakness that jeopardizes liquidation of the loan,
- Loans that were classified as nonaccrual by the acquired bank at the time of acquisition, and
- Loans that had been previously modified in a troubled debt restructuring.

Any acquired loans that were not individually in the scope of ASC 310-30 because they did not meet the criteria above were either (i) pooled into groups of similar loans based on the borrower type, loan purpose, and collateral type and accounted for under ASC 310-30 by analogy or (ii) accounted for under ASC 310-20 (Non-refundable fees and other costs).

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

Revolving credit facilities such as credit cards, retail and commercial lines of credit and floor plans which are specifically scoped out of ASC 310-30 are accounted for under the provisions of ASC 310-20. Also, performing auto loans with FICO scores over 660 acquired at a premium in the BBVAPR Acquisition are accounted for under this guidance. Auto loans with FICO scores below 660 were acquired at a discount and are accounted for under the provisions of ASC 310-30. The provisions of ASC 310-20 require that any differences between the contractually required loan payments 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 acquired in the BBVAPR Acquisition that were accounted for under the provisions of ASC 310-20 which had fully amortized their premium or discount, recorded at the date of acquisition, are removed from the acquired loan category. Loans accounted for under ASC 310-20 are placed on non-accrual status when past due in accordance with the Company's non-accruing policy and any accretion of discount is discontinued. These assets were recorded at estimated fair value on their acquisition date, incorporating an estimate of future expected cash flows. Such fair value includes a credit discount which accounts for expected loan losses over the estimated life of these loans. Management takes into consideration this credit discount when determining the necessary allowance for acquired loans that are accounted for under the provisions of ASC 310-20.

The allowance for loan and lease losses model for acquired loans accounted for under ASC 310-20 is the same as for the originated and other loan portfolio.

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

The Company performed a fair market valuation of each of the loan pools, and each pool was recorded at a discount. The Company determined that at least part of the discount on the acquired individual or pools of loans was attributable to credit quality by reference to the valuation model used to estimate the fair value of these pools of loans. The valuation model incorporated lifetime expected credit losses into the loans' fair valuation in consideration of factors such as evidence of credit deterioration since origination and the amounts of contractually required principal and interest that the Company did not expect to collect as of the acquisition date. Based on the guidance included in the December 18, 2009 letter from the AICPA Depository Institutions Panel to the Office of the Chief Accountant of the SEC, the Company has made an accounting policy election to apply ASC 310-30 by analogy to all of these acquired pools of loans as they all (i) were acquired in a business combination or asset purchase, (ii) resulted in recognition of a discount attributable, at least in part, to credit quality; and (iii) were not subsequently accounted for at fair value.

The excess of expected cash flows from acquired loans over the estimated fair value of acquired loans at acquisition is referred to as the accretable discount and is recognized into interest income over the remaining life of the acquired loans using the interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount represents estimated future credit losses expected to be incurred over the life of the acquired loans. Subsequent decreases to the expected cash flows require the Company to evaluate the need for an addition to the allowance for loan losses. Subsequent improvements in expected cash flows result in the reversal of the associated allowance for loan losses, if any and the reversal of a corresponding amount of the nonaccretable discount which the Company then reclassifies as accretable discount that is recognized into interest income over the remaining life of the loan using the interest method. The Company's evaluation of the amount of future cash flows that it expects to collect takes into account actual credit performance of the acquired loans to date and the Company's best estimates for the expected lifetime credit performance of the loans using currently available information. Charge-offs of the principal amount on acquired loans would be first applied to the nonaccretable discount portion of the fair value adjustment. To the extent that the Company experiences deterioration in credit quality in its expected cash flows subsequent to the acquisition of the loans; an allowance for loan losses would be established based on the estimate of future credit losses over the remaining life of the loans.

In accordance with ASC 310-30, recognition of income is dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. The Company performs such an evaluation on a quarterly basis on both its acquired loans individually accounted for under ASC 310-30 and those in pools accounted for under ASC 310-30 by analogy.

Cash flows for acquired loans individually accounted for under ASC 310-30 are estimated on a quarterly basis. Based on this evaluation, a determination is made as to whether or not the Company has a reasonable expectation about the timing and amount of cash flows. Such an expectation includes cash flows from normal customer repayment, collateral value, foreclosure or other collection efforts. Cash flows for acquired loans accounted for on a pooled basis under ASC 310-30 by analogy are also estimated on a quarterly basis. For residential real estate, home equity and other consumer loans, cash flow loss estimates are calculated by a vintage and FICO based model which incorporates a projected forward loss curve. For commercial loans, lifetime loss rates are assigned to each pool with consideration given for pool make-up, including risk rating profile. Lifetime loss rates are developed from internally generated loss data and are applied to each pool.

To the extent that the Company cannot reasonably estimate cash flows, interest income recognition is discontinued. The unit of account for loans in pools accounted for under ASC 310-30 by analogy is the pool of loans. Accordingly, as long as the Company can reasonably estimate cash flows for the pool as a whole, accretable yield on the pool is recognized and all individual loans within the pool - even those more than 90 days past due - would be considered to be accruing interest in the Company’s financial statement disclosures, regardless of whether or not the Company expects any principal or interest cash flows on an individual loan 90 days or more past due.

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Covered loans

Because of the loss protection provided by the FDIC, the risks of the loans acquired in the FDIC-assisted Eurobank acquisition that are covered under the FDIC shared-loss agreements are significantly different from those loans not covered under the FDIC shared-loss agreements. Accordingly, the Company presents loans subject to the shared-loss agreements as "covered loans."

Loans acquired in the FDIC-assisted acquisition were accounted for under ASC 310-30, except for credit card balances which were subsequently cancelled. To the extent credit deterioration occurs in covered loans after the date of acquisition, the Company will record an allowance for loan and lease losses and an increase in the FDIC shared-loss indemnification asset for the expected reimbursement from the FDIC under the shared-loss agreements.

Allowance for Loan and Lease Losses for Non-covered Loans and Leases

During the third quarter of 2013, management changed the methodology of the general reserve calculation in order to adapt the calculation to the new Company structure after the BBVAPR Acquisition, and better capture the risk characteristics of the different portfolio segments. Principal changes were concentrated in the commercial, consumer, and auto and leasing portfolios. The commercial loans portfolio was further segmented by business line (corporate, institutional, middle market, corporate retail, floor plan, and real estate), by collateral type (secured by real estate and other commercial and industrial), and by risk rating/classification (pass, special mention, substandard, doubtful, and individually measured for impairment). The loss factor used for the general reserve of these loans is established considering the Bank's historical loss experience of each segment and the consideration of environmental factors. The sum of the loss experience factors and the environmental factors will be the general valuation reserve ("GVA") factor to be used for the determination of the allowance for loan and lease losses on each category. The consumer loans portfolio consists of smaller retail loans such as retail credit cards, overdrafts, unsecured personal lines of credit, and personal unsecured loans. The allowance factor, consisting of the historical loss factors and the environmental risk factors is calculated for each sub-class of loans by delinquency bucket. The allowance factor on auto portfolio is impacted by the historical losses, the environmental risk factors and by delinquency buckets. For the determination of the allowance factor, the auto portfolio is segmented by FICO score, which is updated on a quarterly basis. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period for determination of the historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months. The same analysis was performed during the second and fourth quarter for commercial and residential mortgages portfolios, respectively, with no resulting changes to the 12 months period currently used. In addition, during the fourth quarter, an assessment of environmental factors was performed in which

management concluded that the environmental factors continue to reflect our assessment of the impact to the portfolio, taking into consideration their evolution, recent economic developments, changes in values of collateral and delinquencies, among others. Also, during fourth quarter the loss realization period was revised to 1.20 years for commercial real estate, other portfolios remained at 1 year. These changes in the allowance for loan and lease losses' look back period for the consumer and auto and leasing portfolios, and economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

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

The Company determined the allowance for loan and lease losses by portfolio segment, which consist of mortgage loans, commercial loans, consumer loans, and auto and leasing, as follows:

Mortgage loans: These loans are further divided into four classes: traditional mortgages, non-traditional mortgages, loans in loan modification programs and home equity secured personal loans. Traditional mortgage loans include loans secured by a dwelling, fixed coupons and regular amortization schedules. Non-traditional mortgages include loans with interest-first amortization schedules and loans with balloon considerations as part of their terms. Mortgages in loan modification programs are loans that are being serviced under such programs. Home equity loans are mainly equity lines of credit. The allowance factor on these loans is impacted by the historical loss factors on the sub-segments, vintages, the environmental risk factors described above and by delinquency buckets. The traditional mortgage loan portfolio is further segregated by vintages.

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Commercial loans: These loans are further segmented by business line (corporate, institutional, middle market, corporate retail, floor plan, and real estate), by collateral type (secured by real estate and other commercial and industrial), and by risk rating/classification (pass, special mention, substandard, doubtful, and individually measured for impairment). The loss factor used for the GVA of these loans is established considering the Bank's past twelve-month historical loss experience of each segment and the consideration of environmental factors. The sum of the loss experience factors and the environmental factors is the GVA factor used for the determination of the allowance for loan and lease losses on each category.

Consumer loans: The consumer portfolio consists of smaller retail loans such as retail credit cards, overdrafts, unsecured personal lines of credit, and personal unsecured loans. The allowance factor, consisting of the historical loss factors and the environmental risk factors are calculated for each sub-class of loans by delinquency bucket.

Auto and Leasing: The financing for the purchase of new or used motor vehicles for private or public use. These loans are granted mainly through dealers authorized and approved by the credit committee of the Bank’s auto department. The auto department has the specialized structure and resources to provide the service required for this product according to market demands. In addition, this segment includes personal loans guaranteed by vehicles in the form of lease financing. The allowance factor on auto and leasing portfolio is impacted by the historical losses, the environmental risk factors and by delinquency buckets. For the determination of the allowance factor, the portfolio is segmented by FICO score, which is updated on a quarterly basis.

The Company establishes its allowance for loan losses through a provision for credit losses based on the evaluation of the credit quality of the loan portfolio. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, and other factors that warrant recognition in determining our allowance for loan losses. The Company continues to monitor and modify the level of the allowance for loan losses to ensure it is adequate to cover losses inherent in our loan portfolio.

Our allowance for loan losses consists of the following elements: (i) specific valuation allowances based on probable losses on specifically identified impaired loans; and (ii) valuation allowances based on net historical loan loss experience for similar loans with similar inherent risk characteristics and performance trends, adjusted, as appropriate, for qualitative risk factors specific to respective loan types.

When current information and events indicate that it is probable that we will be unable to collect all amounts of principal and interest due under the original terms of a business or commercial real estate loan greater than $250 thousand, such loan will be classified as impaired. Additionally, all loans modified in a TDR (as defined below) are considered impaired. The need for specific valuation allowances are determined for impaired loans and recorded as

necessary. For impaired loans, we consider the fair value of the underlying collateral, less estimated costs to sell, if the loan is collateral dependent, or we use the present value of estimated future cash flows in determining the estimates of impairment and any related allowance for loan losses for these loans. Confirmed losses are charged off immediately. Prior to a loan becoming impaired, we typically would obtain an appraisal through our internal loan grading process to use as the basis for the fair value of the underlying collateral.

Loan loss ratios and credit risk categories are updated at least quarterly and are applied in the context of GAAP as prescribed by ASC. While management uses current available information in estimating possible loan and lease losses, factors beyond the Company's control, such as those affecting general economic conditions, may require future changes to the allowance.

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

For our acquired loans accounted for under ASC 310-30, our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows (which are used as a proxy to identify probable incurred losses) subsequent to the acquisition of the loans, an allowance for loan losses is established based on our estimate of future credit losses over the remaining life of the loans.

Acquired loans accounted for under ASC Subtopic 310-30 are not considered non-performing and continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs on loans accounted under ASC Subtopic 310-30 are recorded only to the extent that losses exceed the non-accretable difference established by purchase accounting.

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Allowance for Loan and Lease Losses for Covered Loans and Leases

Covered loans are accounted for under ASC Subtopic 310-30. For covered loans, the portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC shared-loss indemnification asset.

Lease Financing

The Company leases vehicles for personal and commercial use to individual and corporate customers. The direct finance lease method of accounting is used to recognize revenue on leasing contracts that meet the criteria specified in the guidance for leases in ASC Topic 840. Aggregate rentals due over the term of the leases, less unearned income, are included in lease financing contracts receivable. Unearned income is amortized using a method over the average life of the leases as an adjustment to the interest yield.

Troubled Debt Restructuring

A troubled debt restructuring ("TDR") is the restructuring of a receivable in which the Company, as creditor, grants a concession for legal or economic reasons due to the debtor's financial difficulties. A concession is granted when, as a result of the restructuring, the Company does not expect to collect all amounts due, including interest accrued at the original contract rate. These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses.

To assess whether the debtor is having financial difficulties, the Company evaluates whether it is probable that the debtor will default on any of its debt in the foreseeable future.

Receivables that are restructured in a TDR are presumed to be impaired and are subject to a specific impairment-measurement method. If the payment of principal at original maturity is primarily dependent on the value of collateral, the Company considers the current value of that collateral in determining whether the principal will be paid. For non-collateral dependent loans, the specific reserve is calculated based on the present value of expected cash flows discounted at the loan's effective interest rate. An accruing loan that is modified in a TDR can remain in accrual

status if, based on a current, well-documented credit analysis, collection of principal and interest in accordance with the modified terms is reasonably assured, and the borrower has demonstrated sustained historical repayment performance for a reasonable period before the modification.

Reserve for Unfunded Commitments

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in other liabilities in the consolidated statements of financial condition. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities. Net adjustments to the reserve for unfunded commitments are included in other operating expenses in the consolidated statements of operations.

FDIC Indemnification Asset and True-up Payment Obligation

The FDIC indemnification asset is accounted for and measured separately from the covered loans acquired in the FDIC-assisted acquisition as it is not contractually embedded in any of the covered loans. The indemnification asset related to estimated future loan and lease losses is not transferable should the Company sell a loan prior to foreclosure or maturity. The indemnification asset was recorded at fair value at the acquisition date and represents the present value of the estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit adjustment estimated for each covered asset and the shared-loss percentages. This balance also includes incurred expenses under the shared-loss agreements. These cash flows are then discounted at a market-based rate to reflect the uncertainty of the timing and receipt of the shared-loss reimbursements from the FDIC. The amount ultimately collected for this asset is dependent upon the performance of the underlying covered assets, the passage of time, the proper submission of claims to the FDIC and compliance with the obligations set forth in the FDIC shared-loss agreements. The time value of money incorporated into the present value computation is accreted into earnings over the shorter of the life of the shared-loss agreements or the holding period of the covered assets.

The FDIC indemnification asset is reduced as losses are recognized on covered loans and shared-loss payments are received from the FDIC. Realized credit losses in excess of acquisition-date estimates result in an increase in the FDIC indemnification asset.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Conversely, if realized credit losses are less than acquisition-date estimates, the FDIC indemnification asset is amortized through the term of the shared-loss agreements.

The true-up payment obligation associated with the loss share agreements is accounted for at fair value in accordance with ASC Section 805-30-25-6 as it is considered contingent consideration. The true-up payment obligation is included as part of other liabilities in the consolidated statements of financial condition. Any changes in the carrying value of the obligation are included in the category of FDIC loss share income (expense) in the consolidated statements of operations.

Goodwill and Intangible Assets

The Company records the excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired less the fair value of liabilities assumed as goodwill. The Company amortizes the acquired identifiable intangible assets with definite useful economic lives over their useful economic life utilizing an accelerated amortization method. On a periodic basis, the Company assesses whether events or changes in circumstances indicate that the carrying amounts of the Company's core deposit and other intangible assets may be impaired. The Company does not amortize goodwill or any acquired identifiable intangible assets with an indefinite useful economic life, but reviews them for impairment at the reporting unit level on an annual basis, or when events or changes in circumstances indicate that the carrying amounts may be impaired. The Company defines a reporting unit as a distinct, separately identifiable component of one of its operating segments for which complete, discrete financial information is available and reviewed regularly by that segment's management.

The Company has the option to first assess qualitative factors to determine whether there are events or circumstances that exist that make it more likely than not that the fair value of the reporting unit is less than its carrying amount. If it is more likely than not that the fair value of the reporting unit is less than its carrying amount, or if the Company chooses to bypass the qualitative assessment, the Company compares each reporting unit's fair value to its carrying value to identify potential impairment. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. However, if the carrying amount of the reporting unit were to exceed its estimated fair value, a second step would be performed that would compare the implied fair value of the reporting unit's goodwill with the carrying amount. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the reporting units. The Company performs annual goodwill impairment test as of October 31 and monitors for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a qualitative assessment or a two-step process. The Company has an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If the Company chooses to perform a qualitative assessment and determines the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where the Company performs the two-step process, the first step requires the Company to compare the fair value of each reporting unit, which the Company primarily determines using an income approach

based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss. The Company performed its annual impairment review of goodwill during the fourth quarter of 2014 using October 31, 2014 as the annual evaluation date. There was no impairment at December 31, 2014.

Foreclosed Real Estate and Other Repossessed Property

Non-Covered Foreclosed Real Estate and Other Repossessed Property

Foreclosed real estate and other repossessed property are initially recorded at the fair value of the real estate or repossessed property less the cost of selling it at the date of foreclosure or repossession. At the time properties are acquired in full or partial satisfaction of loans, any excess of the loan balance over the estimated fair value of the property is charged against the allowance for loan and lease losses on non-covered loans. After foreclosure or repossession, these properties are carried at the lower of cost or fair value less estimated cost to sell, based on recent appraised values or options to purchase the foreclosed or repossessed property. Any excess of the carrying value over the estimated fair value, less estimated costs to sell, is charged to non-interest expense. The costs and expenses associated to holding these properties in portfolio are expensed as incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Foreclosed Real Estate and Other Repossessed Property

Covered foreclosed real estate and other repossessed property are initially recorded at their estimated fair value on the acquisition date, based on appraisal value less estimated selling costs. Any subsequent write-downs due to declines in fair value and costs and expenses associated with holding these properties in portfolio are charged as incurred to non-interest expense with a partially offsetting non-interest income for the loss reimbursement under the FDIC shared-loss agreement. Any recoveries of previous write-downs are credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed using the straight-line method over the terms of the leases or estimated useful lives of the improvements, whichever is shorter.

Impairment of Long-Lived Assets

The Company periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an estimate of the future cash flows expected to result from the use of the asset and its eventual disposition is made. If the sum of the future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, an impairment loss is recognized. The amount of the impairment is the excess of the carrying amount over the fair value of the asset. As of December 31, 2014, there was no indication of impairment as a result of such review.

Income Taxes

In preparing the consolidated financial statements, the Company is required to estimate income taxes. This involves an estimate of current income tax expense together with an assessment of temporary differences resulting from differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The determination of current income tax expense involves estimates and assumptions that require the Company to assume certain positions based on its interpretation of current tax laws and regulations. Changes in assumptions affecting estimates may be required in the future, and estimated tax assets or liabilities may need to be increased or decreased accordingly. The accrual for tax contingencies is adjusted in light of changing facts

and circumstances, such as the progress of tax audits, case law and emerging legislation. When particular matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective tax rate and may require the use of cash in such year.

The determination of deferred tax expense or benefit is based on changes in the carrying amounts of assets and liabilities that generate temporary differences. The carrying value of the Company's net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change in the future, the Company may be required to record valuation allowances against its deferred tax assets resulting in additional income tax expense in the consolidated statements of operations.

Management evaluates on a regular basis whether the deferred tax assets can be realized and assesses the need for a valuation allowance. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowance from period to period are included in the Company's tax provision in the period of change.

In addition to valuation allowances, the Company establishes accruals for uncertain tax positions when, despite the belief that the Company's tax return positions are fully supported, the Company believes that certain positions are likely to be challenged. The accruals for uncertain tax positions are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law, and emerging legislation. The accruals for the Company's uncertain tax positions are reflected as income tax payable as a component of accrued expenses and other liabilities. These accruals are reduced upon expiration of the applicable statute of limitations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company follows a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The Company's policy is to include interest and penalties related to unrecognized income tax benefits within the provision for income taxes on the consolidated statements of operations.

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

Other provisions applicable to tax years commencing after December 31, 2013 is the additional tax on gross income ("patente nacional") defined as a separate tax, rather than a component of the Alternative Minimum Tax (AMT) for non-financial institutions and, therefore is no longer accounted for under the provisions of ASC 740. For financial institutions, the additional tax on gross income remained mostly unaltered at a tax rate of 1% of its gross income of a taxable year, of which fifty percent (50%) may be claimed as a credit against the financial institution's applicable income tax of that year.

Equity-Based Compensation Plan

The Company's 2007 Omnibus Performance Incentive Plan, as amended and restated (the "Omnibus Plan"), provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted units and dividend equivalents, as well as equity-based performance awards. The Omnibus Plan was adopted in 2007, amended and restated in 2008, and further amended in 2010.

The purpose of the Omnibus Plan is to provide flexibility to the Company to attract, retain and motivate directors, officers, and key employees through the grant of awards based on performance and to adjust its compensation practices to the best compensation practice and corporate governance trends as they develop from time to time. The Omnibus Plan is further intended to motivate high levels of individual performance coupled with increased

shareholder returns. Therefore, awards under the Omnibus Plan (each, an "Award") are intended to be based upon the recipient's individual performance, level of responsibility and potential to make significant contributions to the Company. Generally, the Omnibus Plan will terminate as of (a) the date when no more of the Company's shares of common stock are available for issuance under the Omnibus Plan or, (b) if earlier, the date the Omnibus Plan is terminated by the Company's Board of Directors.

The Board's Compensation Committee (the "Committee"), or such other committee as the Board may designate, has full authority to interpret and administer the Omnibus Plan in order to carry out its provisions and purposes. The Committee has the authority to determine those persons eligible to receive an Award and to establish the terms and conditions of any Award. The Committee may delegate, subject to such terms or conditions or guidelines as it shall determine, to any employee or group of employees any portion of its authority and powers under the Omnibus Plan with respect to participants who are not directors or executive officers subject to the reporting requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Only the Committee may exercise authority in respect to Awards granted to such participants.

The Omnibus Plan replaced and superseded the Company's 1996, 1998 and 2000 Incentive Stock Option Plans (the "Stock Option Plans"). All outstanding stock options under the Stock Option Plans continue in full force and effect, subject to their original terms and conditions.

The expected term of stock options granted represents the period of time that such options are expected to be outstanding. Expected volatilities are based on historical volatility of the Company's shares of common stock over the most recent period equal to the expected term of the stock options. For stock options issued during 2014, 2013, and 2012, the expected volatilities are based on both historical and implied volatility of the Company's shares of common stock.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company follows the fair value method of recording stock-based compensation. The Company uses the modified prospective transition method since July 2005, which requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award with the cost to be recognized over the service period. It applies to all awards unvested and granted after its effective date and awards modified, repurchased, or cancelled after that date.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except for those resulting from investments by owners and distributions to owners. GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and on derivative activities that qualify and are designated for cash flows hedge accounting, net of taxes, are reported as a separate component of the stockholders' equity section of the consolidated statements of financial condition, such items, along with net income, are components of comprehensive income.

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Subsequent Events

The Company has evaluated other events subsequent to the balance sheet date and prior to the filing of this annual report on Form 10-K for the year ended December 31, 2014, and has adjusted and disclosed those events that have occurred that would require adjustment or disclosure in the consolidated financial statements.

Reclassifications

When necessary, certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications did not change net income, total assets, liabilities, or stockholders' equity as reported.

Recent Accounting Developments

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists - In July 2013, FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists (a consensus of the FASB Emerging Issues Task Force,* which requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. When a net operating loss, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. Currently, there is no explicit guidance under U.S. GAAP on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendment of this guidance does not require new recurring disclosures. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments of this ASU should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this guidance did not have a material effect on our consolidated financial statements, since the Company already follows this approach.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Future Application of Accounting Standards

Reclassification of Defaulted Consumer Mortgage Loans upon Foreclosure - In January 2014, the FASB issued ASU 2014-04, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This ASU clarifies when an in-substance repossession or foreclosure occurs that would require a transfer of the mortgage loan to other real estate owned (OREO). Under the ASU, repossession or foreclosure is deemed to have occurred when (1) the creditor obtains legal title to the residential real estate property or (2) the borrower conveys all interest in the residential real estate property to the creditor to satisfy the mortgage loan through completion of a deed in lieu of foreclosure or a similar legal agreement. The ASU becomes effective for annual and interim periods beginning after December 15, 2014. The ASU can be adopted using either a modified retrospective method or a prospective transition method with the cumulative effect being recognized in the beginning retained earnings of the earliest annual period for which the ASU is adopted. The adoption of this guidance will not have a material effect on our consolidated financial statements, since the Company already follows this approach.

Revenue from Contracts with Customers - In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in ASU 2014-09 supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The general principle of the amendments require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance sets forth a five step approach to be utilized for revenue recognition. The amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Management is currently assessing the impact to the Company's consolidated financial statements.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures - In June 2014, FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The amendments in the ASU require repurchase-to-maturity transactions to be recorded and accounted for as secured borrowings. Amendments to Topic 860 also require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (i.e., a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement, as well as additional required disclosures. The accounting amendments and disclosures are effective for interim and annual periods beginning after December 15, 2014. The disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings are required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of this guidance will not have a material effect on our consolidated financial statements.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period - In June 2014, FASB issued ASU No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.* The amendments require that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. Specifically, if the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Management is currently assessing the impact to the Company's consolidated financial statements.

Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure- In August 2014, FASB issued ASU No. 2014-14, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.* The amendments require a mortgage loan to be derecognized and a separate receivable to be recognized upon foreclosure if the loan has a government guarantee that is non-separable from the loan before foreclosure, the creditor has the ability and intent to convey the real estate property to the guarantor, and any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Additionally, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor upon foreclosure. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Management does not believe the amendments will have a material impact to the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Going Concern - In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* a new going concern standard, which requires management to assess at each interim and annual reporting period whether substantial doubt exists about the company's ability to continue as a going concern. Substantial doubt exists if it is probable (the same threshold that is used for contingencies) that the company will be unable to meet its obligations as they become due within one year after the date the financial statements are issued or available to be issued (assessment date). Management needs to consider known (and reasonably knowable) events and conditions at the assessment date. For all entities, this standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, with earlier adoption permitted. The adoption of this standard will have no material impact on our financial position or results of operations.

Hybrid Financial Instruments - In December 2014, the FASB recently issued ASU No. 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force),* a standard that will require a company that issues or invests in a hybrid financial instrument (e.g., a preferred share with a redemption feature, a conversion feature, or both) to determine the nature of the host contract by considering the economic characteristics of the entire instrument, including the embedded derivative feature that is being evaluated for separate accounting. Concluding the host contract is debt-like (versus equity-like) may result in substantially different answers about whether certain features must be accounted for separately. The guidance provides a modified retrospective transition for all existing hybrid financial instruments in the form of a share, with the option for full retrospective application. The new standard is effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The adoption of this standard will have no material impact on our financial position or results of operations.

Other Potential Amendments to Current Accounting Standards - FASB and the International Accounting Standards Board, either jointly or separately, are currently working on several major projects, including amendments to existing accounting standards governing financial instruments, leases, and consolidation and investment companies. As part of the joint financial instruments project, FASB has issued a proposed ASU that would result in significant changes to the guidance for recognition and measurement of financial instruments, in addition to the proposed ASU that would change the accounting for credit losses on financial instruments discussed above. FASB is also working on a joint project that would require substantially all leases to be capitalized on the balance sheet. Upon completion of the standards, the Company will need to re-evaluate its accounting and disclosures. However, due to ongoing deliberations of the standard setters, the Company is currently unable to determine the effect of future amendments or proposals.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

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

	December 31,				
	2014			2013	
	(In thousands)				
Cash pledged as collateral to other financial institutions to secure:					
Securities sold under agreements to repurchase	$	-		$	67,029
Derivatives		2,980			2,980
Obligations under agreement of loans sold with recourse		5,427			12,190
	$	**8,407**		**$**	**82,199**

At 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 the OCFI's prior written approval.

The Company delivers cash as collateral to meet margin calls for some long term securities sold under agreements to repurchase. At December 31, 2014 there was no cash pledged as collateral. At December 31, 2013, the Company had cash pledged as collateral for securities sold under agreements to repurchase amounting to $67.0 million.

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At both December 31, 2014 and 2013, the Company had delivered $3.0 million of cash as collateral for such derivatives activities.

The Company's bank subsidiary, Oriental Bank, is required by law to maintain average weekly reserve balances to cover demand deposits. The amount of those minimum average reserve balances for the week that covered December 31, 2014 was $141.5 million (December 31, 2013 - $27.5 million). As of December 31, 2014 and 2013, 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 – SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND 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 December 31, 2014 and 2013, money market instruments included as part of cash and cash equivalents amounted to $4.7 million and $7.0 million, respectively.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell consist of short-term investments and are carried at the amounts at which the assets will be subsequently resold as specified in the respective agreements. At December 31, 2013, securities purchased under agreements to resell amounted to $60.0 million. At December 31, 2014, there were no securities purchased under agreements to resell.

The amounts advanced under those agreements are reflected as assets in the consolidated statements of financial condition. It is the Company’s policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Company’s right to request additional collateral based on its monitoring of the fair value of the underlying securities on a daily basis. The fair value of the collateral securities held by the Company on these transactions as of December 31, 2013 was approximately $64.6 million.

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NOTES TO 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 December 31, 2014 and 2013 were as follows:

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

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 1,190,910	$ 33,089	$ 6,669	$ 1,217,330	2.93%
GNMA certificates	7,406	433	24	7,815	4.92%
CMOs issued by US government-sponsored agencies	220,801	407	6,814	214,394	1.78%
Total mortgage-backed securities	**1,419,117**	**33,929**	**13,507**	**1,439,539**	**2.76%**
Investment securities					
Obligations of US government-sponsored agencies	10,691	-	42	10,649	1.21%
Obligations of Puerto Rico government and public instrumentalities	121,035	-	6,845	114,190	4.38%
Other debt securities	24,200	167	320	24,047	3.46%
Total investment securities	**155,926**	**167**	**7,207**	**148,886**	**2.99%**
Total securities available-for-sale	**$ 1,575,043**	**$ 34,096**	**$ 20,714**	**$ 1,588,425**	**2.89%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The amortized cost and fair value of the Company's investment securities at December 31, 2014, 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.

	December 31, 2014									
	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	$	21,181		$	21,550		$	-	$	-
Total due after 5 to 10 years		**21,181**			**21,550**			**-**		**-**
Due after 10 years										
FNMA and FHLMC certificates		951,655			987,959			162,752		164,154
GNMA certificates		4,473			4,753			-		-
CMOs issued by US government-sponsored agencies		179,146			176,129			-		-
Total due after 10 years		**1,135,274**			**1,168,841**			**162,752**		**164,154**
Total mortgage-backed securities		**1,156,455**			**1,190,391**			**162,752**		**164,154**
Investment securities										
Due from 1 to 5 years										
Obligations of Puerto Rico government and public instrumentalities		10,473			8,872			-		-
Total due from 1 to 5 years		**10,473**			**8,872**			**-**		**-**
Due after 5 to 10 years										
Obligations of US government and sponsored agencies		7,148			7,181			-		-
Total due after 5 to 10 years		**7,148**			**7,181**			**-**		**-**
Due after 10 years										
Obligations of Puerto Rico government and		10,466			6,800			-		-

public instrumentalities										
Other debt securities		3,137			3,294			-		-
Total due after 10 years		**13,603**			**10,094**			**-**		**-**
Total investment securities		**31,224**			**26,147**			**-**		**-**
Total securities available-for-sale	**$**	**1,187,679**		**$**	**1,216,538**		**$**	**162,752**	**$**	**164,154**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At December 31, 2013, obligations of the Puerto Rico government and its public instrumentalities included a $98.7 million principal amount, LIBOR floating rate bond with a maturity date of July 1, 2024, that was subject to mandatory tender for purchase by the end of the third year anniversary of the closing date, which was June 1, 2014. The bond was also subject to optional demand tender for purchase upon the occurrence and continuance of certain events, including (among others) the withdrawal, suspension or reduction below investment grade of the credit rating on any general obligation of the Commonwealth by any of the three major rating agencies. This bond was repaid by the issuer on March 17, 2014.

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 2014, 2013 and 2012, the Company sold $99.4 million, $141.2 million, and $188.0 million, respectively, of available-for-sale Government National Mortgage Association ("GNMA") certificates as part of its recurring mortgage loan origination and securitization activities. These sales realized nominal or no any gains or losses during such periods.

In addition, during 2014, the Company sold $110.8 million of available-for-sale FNMA and FHLMC certificates because the Company believed that gains could be realized and that there were good opportunities to invest the proceeds in other investment securities with attractive yields and terms that would allow the Company to continue protecting its net interest margin. The Company recorded a net gain on sale of these securities of $4.4 million.

The table below presents the sale of investment securities, including its gross realized gains and losses by category, for the years ended 2014, 2013 and 2012:

	Year Ended December 31, 2014							
			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	$	115,158	$	110,792	$	4,366	$	-
GNMA certificates		99,360		99,360		-		-
Total	**$**	**214,518**	**$**	**210,152**	**$**	**4,366**	**$**	**-**

	Year Ended December 31, 2013

Description	Sale Price	Book Value at Sale	Gross Gains	Gross Losses
	(In thousands)			
Sale of securities available-for-sale				
Mortgage-backed securities				
GNMA certificates	$ 141,202	$ 141,237	$ -	$ 35
Total	**$ 141,202**	**$ 141,237**	**$ -**	**$ 35**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Year Ended December 31, 2012			
		Book Value		
Description	Sale Price	at Sale	Gross Gains	Gross Losses
	(In thousands)			
Sale of Securities Available-for-Sale				
Mortgage-backed securities and CMOs				
FNMA and FHLMC certificates	$ 1,422,405	$ 1,346,561	$ 75,844	$ -
GNMA certificates	187,973	187,971	2	-
CMOs issued by US Government-sponsored agencies	334,687	333,334	1,353	-
Total mortgage-backed securities and CMOs	1,945,065	1,867,866	77,199	-
Investment securities				
US Treasury securities	238,796	238,797	-	1
Obligations of Puerto Rico Government and public instrumentalities	35,882	36,478	32	628
Structured credit investments	44,577	46,969	-	2,392
Other mortgage securities	1,274	1,274	-	-
Total investment securities	320,529	323,518	32	3,021
Total	**$ 2,265,594**	**$ 2,191,384**	**$ 77,231**	**$ 3,021**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013					
	12 months or more					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico Government and public instrumentalities	$	20,845	$	5,470	$	15,375
CMOs issued by US government-sponsored agencies		2,559		237		2,322
GNMA certificates		81		11		70
	$	**23,485**	**$**	**5,718**	**$**	**17,767**
	Less than 12 months					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico Government and public instrumentalities	$	100,190	$	1,375	$	98,815
CMOs issued by US government-sponsored agencies		182,661		6,577		176,084
GNMA certificates		122		13		109
FNMA and FHLMC certificates		220,914		6,669		214,244
Obligations of US government and sponsored agencies		10,691		42		10,649
Other debt securities		20,000		320		19,680
	$	**534,578**	**$**	**14,996**	**$**	**519,581**
	Total					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico Government and public instrumentalities	$	121,035	$	6,845	$	114,190
CMOs issued by US government-sponsored agencies		185,220		6,814		178,406

GNMA certificates		203			24		179
FNMA and FHLMC certificates		220,914			6,669		214,244
Obligations of US government and sponsored agencies		10,691			42		10,649
Other debt securities		20,000			320		19,680
	$	**558,063**		$	**20,714**	$	**537,348**

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NOTES TO 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 investment securities ($336.3 million, amortized cost, or 94%) with an unrealized loss position at December 31, 2014 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 investment securities ($20.9 million, amortized cost, or 6%) with an unrealized loss position at December 31, 2014 consist of obligations issued or guaranteed by the government of Puerto Rico and its public 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, structural budget deficits and liquidity constraints, high unemployment and a shrinking population. Moreover, the market value of these securities may be affected by the uncertainty in regards to the effect of the recent ruling issued by the United States District Court of P.R. declaring the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") unconstitutional, and the decisions taken by the credit agencies in February 2015 to lower the Commonwealth's General Obligation bonds rating on concerns that Puerto Rico's economy and the liquidity position of GDB may weaken further.

As of December 31, 2014, the Company continued to apply 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 were projected based on the key terms as set forth in the official statements for each investment. Such key terms included among others the interest rate, amortization schedule, if any, and maturity date.

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

- The adjusted future cash flows were 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 2.509% to 15.340%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 84.660% and 97.491%). Based on this analysis, and taking into account that there have been no material changes in the economic conditions or credit ratings of Puerto Rico government bond issuers, the Bank has concluded that there is no other than temporary impairment related to these securities as of December 31, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - PLEDGED ASSETS

The following table shows a summary of pledged and not pledged assets at December 31, 2014 and 2013. Investment securities are presented at fair value, and residential mortgage loans, commercial loans and leases are presented at amortized cost:

	December 31,				
	2014			2013	
	(In thousands)				
Pledged investment securities to secure:					
Securities sold under agreements to repurchase	$	1,088,526		$	1,277,919
Puerto Rico public fund deposits		-			97,772
Derivatives		7,043			8,100
Puerto Rico cash and money market fund		76,259			67,507
Bond for the Bank's trust operations		105			105
Total pledged investment securities		**1,171,933**			**1,451,403**
Pledged residential mortgage loans to secure:					
Advances from the Federal Home Loan Bank		**1,013,106**			**1,151,836**
Pledged commercial loans to secure:					
Advances from the Federal Home Loan Bank		139,043			130,607
Federal Reserve Bank credit facility		179,895			184,772
Puerto Rico public fund deposits		414,481			548,979
		733,419			**864,358**
Pledged auto loans and leases to secure:					
Federal Reserve Bank credit facility		**884,339**			**877,673**
Total pledged assets	**$**	**3,802,797**		**$**	**4,345,270**
Financial assets not pledged:					
Investment securities	$	207,357		$	128,876
Residential mortgage loans		586,040			517,913
Commercial loans		1,349,467			1,276,773
Consumer loans		266,498			253,658
Auto loans and leases		123,258			183,200
Total assets not pledged	**$**	**2,532,620**		**$**	**2,360,420**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 - 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 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 December 31, 2014 and 2013 was as follows:

	December 31,				
	2014			2013	
	(In thousands)				
Non-covered loans:					
Originated and other loans and leases held for investment:					
Mortgage	$	791,751		$	766,265
Commercial		1,289,732			1,127,657
Consumer		186,760			127,744
Auto and leasing		575,582			379,874
		2,843,825			**2,401,540**
Acquired loans:					
Accounted for under ASC 310-20 (Loans with revolving feature and/or					
acquired at a premium)					
Commercial		12,675			77,681
Consumer		45,344			56,174
Auto and leasing		184,782			301,584
		242,801			**435,439**
Accounted for under ASC 310-30 (Loans acquired with deteriorated					
credit quality, including those by analogy)					
Mortgage		656,122			717,904
Commercial		452,201			545,117
Construction		106,361			126,427

Consumer		29,888		63,620
Auto and leasing		247,233		379,145
		1,491,805		**1,832,213**
		4,578,431		**4,669,192**
Deferred loan cost , net		4,282		1,035
Loans receivable		**4,582,713**		**4,670,227**
Allowance for loan and lease losses on non-covered loans		(69,517)		(54,298)
Loans receivable, net		**4,513,196**		**4,615,929**
Mortgage loans held-for-sale		14,539		46,529
Total non-covered loans, net		**4,527,735**		**4,662,458**
Covered loans:				
Loans secured by 1-4 family residential properties		117,171		121,748
Construction and development secured by 1-4 family residential properties		19,562		17,304
Commercial and other construction		221,917		264,249
Consumer		4,506		6,119
Auto and leasing		-		270
Total covered loans		**363,156**		**409,690**
Allowance for loan and lease losses on covered loans		(64,245)		(52,729)
Total covered loans, net		**298,911**		**356,961**
Total loans, net	$	**4,826,646**	$	**5,019,419**

During the year ended December 31, 2014, the Company reclassified $25.8 million in mortgage loans held-for-sale to held-for-investment. During the year ended December 31, 2013, the Company did not reclassify any mortgage loans held-for-sale to held-for-investment.

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NOTES TO 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 December 31, 2014 and 2013 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.

	December 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 4,128	$ 3,157	$ 4,395	$ 11,680	$ 54,064	$ 65,744	$ 134
Years 2003 and 2004	10,484	4,735	6,489	21,708	87,961	109,669	-
Year 2005	3,824	2,205	4,454	10,483	49,989	60,472	-
Year 2006	5,706	3,298	8,667	17,671	67,879	85,550	89
Years 2007, 2008 and 2009	5,283	1,809	7,646	14,738	78,751	93,489	-

Years 2010, 2011, 2012, 2013 and 2014	3,684	2,992	6,900	13,576	190,848	204,424	365
	33,109	18,196	38,551	89,856	529,492	619,348	588
Non-traditional	1,477	584	3,223	5,284	30,916	36,200	-
Loss mitigation program	8,199	7,106	14,114	29,419	64,024	93,443	2,766
	42,785	**25,886**	**55,888**	**124,559**	**624,432**	**748,991**	**3,354**
Home equity secured personal loans	-	-	-	-	517	517	-
GNMA's buy-back option program	-	-	42,243	42,243	-	42,243	-
	42,785	**25,886**	**98,131**	**166,802**	**624,949**	**791,751**	**3,354**
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	133,076	133,076	-
Institutional	-	-	-	-	36,611	36,611	-
Middle market	-	645	396	1,041	163,009	164,050	-
Retail	330	561	7,275	8,166	167,462	175,628	-
Floor plan	-	-	-	-	1,650	1,650	-
Real estate	-	-	-	-	12,628	12,628	-
	330	1,206	7,671	9,207	514,436	523,643	-
Other commercial and industrial:							
Corporate	-	-	-	-	63,746	63,746	-
Institutional	-	-	-	-	478,935	478,935	-
Middle market	-	-	618	618	91,716	92,334	-
Retail	866	412	1,061	2,339	87,832	90,171	-
Floor plan	-	-	-	-	40,903	40,903	-
	866	412	1,679	2,957	763,132	766,089	-
	1,196	**1,618**	**9,350**	**12,164**	**1,277,568**	**1,289,732**	**-**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 6,697	$ 1,635	$ 3,408	$ 11,740	$ 64,772	$ 76,512	$ 79
Years 2003 and 2004	4,722	2,163	1,845	8,730	56,387	65,117	-
Year 2005	8,527	2,119	4,808	15,454	74,087	89,541	-
Year 2006	12,055	4,312	4,418	20,785	99,537	120,322	-
Years 2007, 2008 and 2009	3,464	1,104	4,663	9,231	91,919	101,150	152
Years 2010, 2011, 2012 and 2013	3,923	1,609	4,453	9,985	139,561	149,546	459
	39,388	12,942	23,595	75,925	526,263	602,188	690
Non-traditional	3,217	1,162	2,311	6,690	35,412	42,102	-
Loss mitigation program	9,759	5,560	13,191	28,510	57,808	86,318	2,185
	52,364	19,664	39,097	111,125	619,483	730,608	2,875
Home equity secured personal loans	-	-	138	138	598	736	-
GNMA's buy-back option program	-	-	34,921	34,921	-	34,921	-
	52,364	**19,664**	**74,156**	**146,184**	**620,081**	**766,265**	**2,875**

Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	54,796	54,796	-
Institutional	-	-	-	-	4,050	4,050	-
Middle market	1,356	-	10,294	11,650	149,933	161,583	-
Retail	4,253	1,015	3,190	8,458	158,184	166,642	-
Floor plan	-	-	-	-	1,835	1,835	-
Real estate	-	-	-	-	11,655	11,655	-
	5,609	1,015	13,484	20,108	380,453	400,561	-
Other commercial and industrial:							
Corporate	236	-	-	236	32,362	32,598	-
Institutional	-	-	-	-	536,445	536,445	-
Middle market	-	299	1,134	1,433	57,464	58,897	-
Retail	1,830	552	539	2,921	58,589	61,510	-
Floor plan	39	-	-	39	37,607	37,646	-
	2,105	851	1,673	4,629	722,467	727,096	-
	7,714	**1,866**	**15,157**	**24,737**	**1,102,920**	**1,127,657**	**-**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	287	168	232	687	14,554	15,241	-
Overdrafts	46	4	-	50	322	372	-
Personal lines of credit	33	38	66	137	1,844	1,981	-
Personal loans	1,324	399	352	2,075	92,485	94,560	-
Cash collateral personal loans	324	43	-	367	15,223	15,590	-
	2,014	**652**	**650**	**3,316**	**124,428**	**127,744**	**-**
Auto and leasing	**25,531**	**9,437**	**5,089**	**40,057**	**339,817**	**379,874**	-
Total	**$ 87,623**	**$ 31,619**	**$ 95,052**	**$ 214,294**	**$ 2,187,246**	**$ 2,401,540**	**$ 2,875**

At December 31, 2014, delinquencies in the consumer and the auto and leasing portfolios reflect the fact that these portfolios are increasing as new originations are ramping up the balances outstanding. Two years from the BBVAPR Acquisition, those portfolios are beginning to reflect delinquency levels as expected for similar seasoned portfolios. Non-performing loans of acquired non-covered loan portfolio were accounted for under ASC 310-30. At December 31, 2014, higher delinquencies in the mortgage portfolio reflect Puerto Rico's prolonged recession.

At December 31, 2014 and 2013, the Company had $450.2 million and $515.4 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. This entire amount was current at December 31, 2014.

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NOTES TO 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 December 31, 2014 and 2013, by class of loans:

	December 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Retail	-	-	351	351	-	351	-
Floor plan	-	62	345	407	3,724	4,131	-
	-	62	696	758	3,724	4,482	-
Other commercial and industrial							
Retail	155	67	192	414	3,707	4,121	-

Floor plan		202			134			223			559			3,513			4,072			-
		357			201			415			973			7,220			8,193			-
		357			**263**			**1,111**			**1,731**			**10,944**			**12,675**			**-**
Consumer																				
Credit cards		1,376			654			1,399			3,429			38,419			41,848			-
Personal loans		151			47			77			275			3,221			3,496			-
		1,527			**701**			**1,476**			**3,704**			**41,640**			**45,344**			**-**
Auto		**11,003**			**3,453**			**1,262**			**15,718**			**169,064**			**184,782**			**-**
Total	**$**	**12,887**		**$**	**4,417**		**$**	**3,849**		**$**	**21,153**		**$**	**221,648**		**$**	**242,801**		**$**	**-**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Corporate	$ -	$ -	$ -	$ -	$ 10,166	$ 10,166	$ -
Retail	431	331	868	1,630	4,140	5,770	-
Floor plan	-	-	101	101	2,576	2,677	-
	431	331	969	1,731	16,882	18,613	-
Other commercial and industrial							
Corporate	14	83	-	97	9,696	9,793	-
Retail	1,717	1,418	659	3,794	23,544	27,338	-
Floor plan	35	193	18	246	21,691	21,937	-
	1,766	1,694	677	4,137	54,931	59,068	-
	2,197	**2,025**	**1,646**	**5,868**	**71,813**	**77,681**	**-**
Consumer							
Credit cards	2,217	1,200	2,068	5,485	46,714	52,199	-
Personal loans	196	7	91	294	3,681	3,975	-
	2,413	**1,207**	**2,159**	**5,779**	**50,395**	**56,174**	**-**
Auto	**12,534**	**3,616**	**1,608**	**17,758**	**283,826**	**301,584**	**-**
Total	**$ 17,144**	**$ 6,848**	**$ 5,413**	**$ 29,405**	**$ 406,034**	**$ 435,439**	**$ -**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 December 31, 2014 and 2013 is as follows:

		December 31,		
		2014		2013
		(In thousands)		
Contractual required payments receivable		$ 2,394,378		$ 2,929,353
Less: Non-accretable discount		456,627		579,587
Cash expected to be collected		1,937,751		2,349,766
Less: Accretable yield		445,946		517,553
Carrying amount, gross		1,491,805		1,832,213
Less: allowance for loan and lease losses		13,481		2,863
Carrying amount, net		$ 1,478,324		$ 1,829,350

During 2014, the Company sold non-performing residential mortgage loans that were accounted for under ASC 310-30 with a carrying amount of $19.7 million. No gain or loss was realized in the transaction in accordance to ASC 310-30 accounting. During 2013, the Company did not sell any loans that were accounted for under ASC 310-30.

At December 31, 2014 and 2013, the Company had $168.8 million and $180.5 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 December 31, 2014.

The following tables describe the accretable yield and non-accretable discount activity of acquired loans accounted for under ASC 310-30 for the year periods ended December 31, 2014 and 2013, excluding covered loans:

	Year Ended December 31,							
	2014			2013			2012	
	(In thousands)							
Accretable Yield Activity								
Balance at beginning of year	$	517,553		$	655,833		$	-
Additions		-			-			663,700
Accretion		(153,536)			(199,178)			(7,867)
Transfer from non-accretable discount		81,929			60,898			-
Balance at end of year	**$**	**445,946**		**$**	**517,553**		**$**	**655,833**

	Year Ended December 31,							
	2014			2013			2012	
	(In thousands)							
Non-Accretable Discount Activity								
Balance at beginning of year	$	579,587		$	714,462		$	-
Additions		-			-			717,516
Change in actual and expected losses		(41,031)			(73,977)			(3,054)
Transfer to accretable yield		(81,929)			(60,898)			-
Balance at end of year	**$**	**456,627**		**$**	**579,587**		**$**	**714,462**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

The carrying amount of covered loans at the years ended December 31, 2014 and 2013 is as follows:

	December 31,				
	2014			2013	
	(In thousands)				
Contractual required payments receivable	$	535,425		$	702,126
Less: Non-accretable discount		62,410			129,477
Cash expected to be collected		473,015			572,649
Less: Accretable yield		109,859			162,959
Carrying amount, gross		363,156			409,690
Less: Allowance for covered loan and lease losses		64,245			52,729
Carrying amount, net	**$**	**298,911**		**$**	**356,961**

The following tables describe the accretable yield and non-accretable discount activity of covered loans for the years ended December 31, 2014 and 2013:

	Year Ended December 31,							
	2014			2013			2012	
	(In thousands)							
Accretable Yield Activity								
Balance at beginning of year	$	162,959		$	188,008		$	188,822
Accretion		(88,969)			(91,769)			(85,376)
Transfer from non-accretable discount		35,869			66,720			84,562
Balance at end of year	**$**	**109,859**		**$**	**162,959**		**$**	**188,008**
	Year Ended December 31,							
	2014			2013			2012	
	(In thousands)							
Non-Accretable Discount Activity								
Balance at beginning of year	$	129,477		$	237,555		$	412,170
Change in actual and expected losses		(31,198)			(41,358)			(90,053)

Transfer to accretable yield		(35,869)			(66,720)			(84,562)
Balance at end of year	**$**	**62,410**		**$**	**129,477**		**$**	**237,555**

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NOTES TO 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 December 31, 2014 and 2013:

	December 31, 2014			December 31, 2013	
	(In thousands)				
Originated and other loans and leases held for investment					
Mortgage					
Traditional (by origination year):					
Up to the year 2002	$	4,427		$	3,428
Years 2003 and 2004		7,042			1,845
Year 2005		4,585			4,922
Year 2006		9,274			4,418
Years 2007, 2008 and 2009		8,579			4,511
Years 2010, 2011, 2012, 2013 and 2014		7,365			7,818
		41,272			26,942
Non-traditional		3,224			2,311
Loss mitigation program		20,934			18,792
		65,430			48,045
Home equity secured personal loans		-			138
		65,430			**48,183**
Commercial					
Commercial secured by real estate					
Middle market		9,534			11,895
Retail		9,000			7,208
		18,534			19,103
Other commercial and industrial					
Middle market		618			1,134
Retail		2,527			2,485
Floor plan		-			108
		3,145			3,727
		21,679			**22,830**
Consumer					
Credit cards		375			232
Personal lines of credit		110			84

Personal loans		1,092		485
Cash collateral personal loans		13		4
		1,590		**805**
Auto and leasing		**8,668**		**5,089**
Total non-accrual originated and other loans	$	**97,367**	$	**76,907**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014			December 31, 2013	
	(In thousands)				
Acquired loans accounted under ASC 310-20					
Commercial					
Commercial secured by real estate					
Retail	$	351		$	956
Floor plan		407			101
		758			1,057
Other commercial and industrial					
Corporate		-			97
Retail		195			1,371
Floor plan		234			18
		429			1,486
		1,187			**2,543**
Consumer					
Credit cards		1,399			2,068
Personal loans		77			151
		1,476			**2,219**
Auto		**1,512**			**1,608**
Total non-accrual acquired loans		**4,175**			**6,370**
Total non-accrual loans	**$**	**101,542**		**$**	**83,277**

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 when they become 18 months or more past due, since they are insured loans.

At December 31, 2014 and 2013, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $274.4 million and $66.5 million, respectively, as they are performing under their new terms. During the year ended December 31, 2014, the revolving line of credit to finance the purchase of fuel for the day- to-day power generation activities of the Puerto Rico Electric Power Authority (“PREPA”) was classified substandard and a troubled-debt restructuring. Based on our analysis and in accordance with our credit policy, the loan is being maintained in accrual status requiring no impairment. At

December 31, 2014 this line of credit had an unpaid principal balance of $200.0 million.

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NOTES TO 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 $236.9 million and $28.4 million at December 31, 2014 and 2013, respectively. Impaired commercial loans at 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 $841 thousand and $1.4 million at December 31, 2014 and 2013, respectively. The total investment in impaired mortgage loans was $94.2 million and $84.5 million at December 31, 2014 and 2013, 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 $9.0 million and $8.7 million at December 31, 2014 and 2013, 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 December 31, 2014 and 2013 are as follows:

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

	December 31, 2013

	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 6,600	$ 5,553	$ 1,431	26%
Residential troubled-debt restructuring	89,539	84,494	8,708	10%
Impaired loans with no specific allowance				
Commercial	27,914	22,592	N/A	N/A
Total investment in impaired loans	**$ 124,053**	**$ 112,639**	**$ 10,139**	9%

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NOTES TO 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 December 31, 2014 and 2013 are as follows:

	December 31, 2014									
	Unpaid Principal			Recorded Investment			Related 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%**

	December 31, 2013									
	Unpaid Principal			Recorded Investment			Specific Allowance			Coverage
	(In thousands)									
Impaired loans with no specific allowance										
Commercial		208			208			N/A		N/A
Total investment in impaired loans	**$**	**208**		**$**	**208**		**$**	**-**		**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 December 31, 2014 and 2013 are as follows:

	December 31, 2014

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

	December 31, 2013			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired non-covered loan pools:				
Mortgage	$ 5,183	$ 4,718	$ 57	1%
Commercial	48,100	40,411	394	1%
Construction	21,526	17,818	1,319	7%
Consumer	73,043	63,606	361	1%
Auto	379,236	377,316	732	0%
Total investment in impaired non-covered loan pools	**$ 527,088**	**$ 503,869**	**$ 2,863**	1%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 years ended 2014, 2013 and 2012:

	Year Ended December 31,					
	2014		2013		2012	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)					
Impaired loans with specific allowance						
Commercial	$ 237	$ 5,899	$ 160	$ 12,709	$ 259	$ 16,518
Residential troubled-debt restructuring	2,623	90,383	2,266	82,028	1,566	64,444
Impaired loans with no specific allowance						
Commercial	9,400	90,748	1,139	26,188	949	24,956
Total interest income from impaired loans	**$** 12,260	**$** 187,030	**$** 3,565	**$** 120,925	**$** 2,774	**$** 105,918

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 December 31, 2014 and 2013 are as follows:

	December 31, 2014			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired covered loan pools:				
	$ 134,579	$ 106,116	$ 15,522	15%

Loans secured by 1-4 family residential properties								
Construction and development secured by 1-4 family residential properties		57,123		19,562		10,724		55%
Commercial and other construction		93,894		74,069		37,610		51%
Consumer		7,992		4,506		389		9%
Total investment in impaired covered loan pools	**$**	**293,588**	**$**	**204,253**	**$**	**64,245**		31%

	December 31, 2013							
								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	$	52,142	$	38,179	$	12,495		33%
Construction and development secured by 1-4 family residential properties		66,037		17,304		6,866		40%
Commercial and other construction		209,566		111,946		32,753		29%
Consumer		10,512		5,857		615		11%
Total investment in impaired covered loan pools	**$**	**338,257**	**$**	**173,286**	**$**	**52,729**		30%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

The following tables present the troubled-debt restructurings during the years ended 2014, 2013 and 2012:

	Year Ended December 31, 2014						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)						
Mortgage	162	$ 21,188	6.03%	350	$ 20,958	4.25%	
Commercial	26	200,446	7.25%	3	200,125	7.25%	
Consumer	26	212	10.09%	56	240	12.96%	

	Year Ended December 31, 2013						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)						
Mortgage	145	$ 20,143	6.52%	340	$ 20,971	4.34%	
Commercial	2	1,842	8.99%	87	1,842	4.00%	
Consumer	2	15	13.43%	75	15	12.67%	

	Year Ended December 31, 2012						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)						
Mortgage	227	$ 33,286	6.41%	315	$ 35,568	4.75%	
Commercial	2	3,456	6.17%	53	3,462	6.26%	

Commercial troubled-debt restructurings during the year ended December 31, 2014 included 19 contracts with PREPA which amounted to $200.0 million.

The following table presents troubled-debt restructurings for which there was a payment default during the years ended 2014, 2013 and 2012:

	Year Ended December 31,					
	2014		2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)					
Mortgage	15	$ 1,700	15	$ 1,689	32	$ 4,107
Commercial	-	$ -	-	$ -	1	$ 477
Consumer	5	$ 37	1	$ 9	-	$ -

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Credit Quality Indicators

The Company categorizes non-covered originated and other loans and acquired 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, 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 CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of December 31, 2014 and 2013, 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:

	December 31, 2014					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 133,076	$ 109,282	$ 15,615	$ -	$ -	$ 8,179
Institutional	36,611	27,089	9,284	-	-	238
Middle market	164,050	148,360	2,817	-	-	12,873
Retail	175,628	159,209	3,690	2,637	-	10,092
Floor plan	1,650	285	958	-	-	407
Real estate	12,628	12,628	-	-	-	-
	523,643	456,853	32,364	2,637	-	31,789
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	38,148	1,247	126	-	1,382
	766,089	553,914	4,321	2,701	-	205,153
Total	1,289,732	1,010,767	36,685	5,338	-	236,942
Commercial - acquired loans (under ASC 310-20)						

Commercial secured by real estate:						
Retail	351	-	-	351	-	-
Floor plan	4,131	4,131	-	-	-	-
	4,482	4,131	-	351	-	-
Other commercial and industrial:						
Retail	4,121	4,080	8	33	-	-
Floor plan	4,072	4,072	-	-	-	-
	8,193	8,152	8	33	-	-
Total	12,675	12,283	8	384	-	-
Total	**$ 1,302,407**	**$ 1,023,050**	**$ 36,693**	**$ 5,722**	**$ -**	**$ 236,942**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 54,796	$ 54,796	$ -	$ -	$ -	$ -
Institutional	4,050	4,050	-	-	-	-
Middle market	161,583	133,061	16,627	118	-	11,777
Retail	166,642	149,018	2,182	2,258	-	13,184
Floor plan	1,835	1,835	-	-	-	-
Real estate	11,655	11,655	-	-	-	-
	400,561	354,415	18,809	2,376	-	24,961
Other commercial and industrial:						
Corporate	32,598	32,598	-	-	-	-
Institutional	536,445	536,445	-	-	-	-
Middle market	58,897	53,868	3,466	198	-	1,365
Retail	61,510	58,742	257	691	-	1,820
Floor plan	37,646	37,350	188	108	-	-
	727,096	719,003	3,911	997	-	3,185
Total	1,127,657	1,073,418	22,720	3,373	-	28,146
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Corporate	10,166	10,166	-	-	-	-

Retail	5,770	4,378	443	949	-	-
Floor plan	2,677	2,576	-	101	-	-
	18,613	17,120	443	1,050	-	-
Other commercial and industrial:						
Corporate	9,793	9,696	-	97	-	-
Retail	27,338	26,044	150	1,144	-	-
Floor plan	21,937	21,769	168	-	-	-
	59,068	57,509	318	1,241	-	-
Total	77,681	74,629	761	2,291	-	-
Total	**$ 1,205,338**	**$ 1,148,047**	**$ 23,481**	**$ 5,664**	**$ -**	**$ 28,146**

All loans individually measured for impairment are classified as substandard as of December 31, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At December 31, 2014 and 2013, we had approximately $619.0 million and $763.4 million, respectively, of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which $619.0 million and $696.0 million, respectively, were outstanding as of such dates. A substantial portion of our credit exposure to the government of Puerto Rico consists of 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 it. We also have 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 Recovery Act established procedures for the adjustment of debts of certain public corporations owned by the Commonwealth. 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 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 preempted 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. Therefore, 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. 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 loan should be maintained in accrual status requiring no impairment.

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NOTES TO 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 December 31, 2014 and 2013, 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:

	December 31, 2014							
		Delinquency						
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 65,744	$ 53,432	$ 3,963	$ 3,083	$ 1,044	$ 1,360	$ 1,975	$ 887
Years 2003 and 2004	109,669	86,941	10,391	4,362	1,657	3,215	1,330	1,773
Year 2005	60,472	49,275	3,824	2,205	389	1,673	1,893	1,213
Year 2006	85,550	65,113	5,263	2,967	1,242	2,801	4,624	3,540
Years 2007, 2008 and 2009	93,489	76,246	4,230	1,809	337	3,986	2,813	4,068
Years 2010, 2011, 2012	204,424	190,650	2,988	2,490	938	1,397	1,296	4,665

2013 and 2014								
	619,348	521,657	30,659	16,916	5,607	14,432	13,931	16,146
Non-traditional	36,200	30,916	1,477	584	478	600	2,096	49
Loss mitigation program	93,443	10,882	995	1,123	802	405	1,246	77,990
	748,991	563,455	33,131	18,623	6,887	15,437	17,273	94,185
Home equity secured personal loans	517	517	-	-	-	-	-	-
GNMA's buy-back option program	42,243	-	-	-	6,416	20,729	15,098	-
	791,751	**563,972**	**33,131**	**18,623**	**13,303**	**36,166**	**32,371**	**94,185**
Consumer								
Credit cards	19,071	18,198	360	139	171	203	-	-
Overdrafts	307	287	20	-	-	-	-	-
Unsecured personal lines of credit	2,200	1,970	102	25	38	62	3	-
Unsecured personal loans	147,939	144,060	1,752	730	623	55	-	719
Cash collateral personal loans	17,243	16,920	275	39	9	-	-	-
	186,760	**181,435**	**2,509**	**933**	**841**	**320**	**3**	**719**
Auto and Leasing	**575,582**	**503,588**	**47,658**	**16,916**	**5,196**	**2,224**	**-**	**-**
	1,554,093	**1,248,995**	**83,298**	**36,472**	**19,340**	**38,710**	**32,374**	**94,904**
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**	**$ 1,459,699**	**$ 95,828**	**$ 40,626**	**$ 20,735**	**$ 40,053**	**$ 32,374**	**$ 94,904**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013							
	Delinquency							
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 76,512	$ 64,743	$ 6,594	$ 1,634	$ 868	$ 1,082	$ 1,458	$ 133
Years 2003 and 2004	65,117	56,283	4,722	1,938	56	1,437	352	329
Year 2005	89,541	74,016	8,414	2,119	1,198	3,037	573	184
Year 2006	120,322	99,243	12,055	4,312	1,148	2,755	515	294
Years 2007, 2008 and 2009	101,150	91,920	3,464	1,104	1,264	2,844	554	-
Years 2010, 2011, 2012 and 2013	149,546	134,577	3,192	1,609	115	974	989	8,090
	602,188	520,782	38,441	12,716	4,649	12,129	4,441	9,030
Non-traditional	42,102	35,168	3,217	1,162	-	1,324	833	398
Loss mitigation program	86,318	7,762	1,376	149	624	312	1,029	75,066

	730,608	563,712	43,034	14,027	5,273	13,765	6,303	84,494
Home equity secured personal loans	736	598	-	-	-	126	12	-
GNMA's buy-back option program	34,921	-	-	-	7,670	14,425	12,826	-
	766,265	**564,310**	**43,034**	**14,027**	**12,943**	**28,316**	**19,141**	**84,494**
Consumer								
Credit cards	15,241	14,555	287	168	118	113	-	-
Overdrafts	372	322	46	4	-	-	-	-
Unsecured personal lines of credit	1,981	1,844	33	38	25	34	7	-
Unsecured personal loans	94,560	92,102	1,272	399	300	39	13	435
Cash collateral personal loans	15,590	15,223	324	43	-	-	-	-
	127,744	**124,046**	**1,962**	**652**	**443**	**186**	**20**	**435**
Auto and Leasing	**379,874**	339,817	25,532	9,437	3,397	1,691	-	-
	1,273,883	**1,028,173**	**70,528**	**24,116**	**16,783**	**30,193**	**19,161**	**84,929**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	52,199	46,713	2,217	1,200	828	1,241	-	-
Personal loans	3,975	3,681	196	7	60	31	-	-
	56,174	**50,394**	**2,413**	**1,207**	**888**	**1,272**	**-**	**-**
Auto	**301,584**	283,825	12,534	3,616	1,095	514	-	-
	357,758	**334,219**	**14,947**	**4,823**	**1,983**	**1,786**	**-**	**-**
Total	**$ 1,631,641**	**$ 1,362,392**	**$ 85,475**	**$ 28,939**	**$ 18,766**	**$ 31,979**	**$ 19,161**	**$ 84,929**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the Company's allowance for loan and lease losses at December 31, 2014 and 2013 was as follows:

	December 31, 2014		December 31, 2013	
	(In thousands)			
Allowance for loans and lease losses on non-covered loans:				
Originated and other loans and leases held for investment:				
Mortgage	$	19,679	$	19,937
Commercial		8,432		14,897
Consumer		9,072		6,006
Auto and leasing		14,255		7,866
Unallocated		1		375
		51,439		**49,081**
Acquired loans:				
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)				
Commercial		65		926
Consumer		1,211		-
Auto		3,321		1,428
		4,597		**2,354**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)				
Commercial		13,476		1,713
Consumer		5		418
Auto		-		732
		13,481		**2,863**
		69,517		**54,298**
Allowance for loans and lease losses on covered loans:				
Loans secured by 1-4 family residential properties		15,522		12,495
Commercial and other construction		48,334		39,619
Consumer		389		615
		64,245		**52,729**
Total allowance for loan and lease losses	**$**	**133,762**	**$**	**107,027**

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 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:

	Year Ended December 31, 2014					
				Auto and		
	Mortgage	Commercial	Consumer	Leasing	Unallocated	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of year	$ 19,937	$ 14,897	$ 6,006	$ 7,866	$ 375	$ 49,081
Charge-offs	(5,011)	(2,424)	(5,782)	(26,041)	-	(39,258)
Recoveries	428	333	570	8,858	-	10,189
Provision (recapture) for non-covered originated and other loan and lease losses	4,325	(4,374)	8,278	23,572	(374)	31,427
Balance at end of year	**$ 19,679**	**$ 8,432**	**$ 9,072**	**$ 14,255**	**$ 1**	**$ 51,439**
	Year Ended December 31, 2013					
				Auto and		
	Mortgage	Commercial	Consumer	Leasing	Unallocated	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other						

loans:	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
Balance at beginning of year	$ 21,092	$ 17,072	$ 856	$ 533	$ 368	$ 39,921
Charge-offs	(36,566)	(5,889)	(1,485)	(4,601)	-	(48,541)
Recoveries	6	383	165	1,568	-	2,122
Provision (recapture) for non-covered originated and other loan and lease losses	35,405	3,331	6,470	10,366	7	55,579
Balance at end of year	**$ 19,937**	**$ 14,897**	**$ 6,006**	**$ 7,866**	**$ 375**	**$ 49,081**

	Year Ended December 31, 2012					
	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 year	$ 21,652	$ 12,548	$ 1,423	$ 845	$ 542	$ 37,010
Charge-offs	(6,492)	(4,081)	(739)	(139)	-	(11,451)
Recoveries	131	156	194	27	-	508
Provision (recapture) for non-covered originated and other loan and lease losses	5,801	8,449	(22)	(200)	(174)	13,854
Balance at end of year	**$ 21,092**	**$ 17,072**	**$ 856**	**$ 533**	**$ 368**	**$ 39,921**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014					
	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	$ 8,968	$ 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 loan balance	**$ 791,751**	**$ 1,289,732**	**$ 186,760**	**$ 575,582**	**$ -**	**$ 2,843,825**

	December 31, 2013					
	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	$	8,708	$	1,431	$	-	$	-	$	-	$	10,139
Collectively evaluated for impairment		11,229		13,466		6,006		7,866		375		38,942
Total ending allowance balance	**$**	**19,937**	**$**	**14,897**	**$**	**6,006**	**$**	**7,866**	**$**	**375**	**$**	**49,081**
Loans:												
Individually evaluated for impairment	$	84,494	$	28,145	$	-	$	-	$	-	$	112,639
Collectively evaluated for impairment		681,771		1,099,512		127,744		379,874		-		2,288,901
Total ending loans balance	**$**	**766,265**	**$**	**1,127,657**	**$**	**127,744**	**$**	**379,874**	**$**	**-**	**$**	**2,401,540**

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NOTES TO 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:

	Year Ended December 31, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
_	(In thousands)									
Allowance for loan losses for non-covered acquired loans accounted for under ASC 310-20:										
Balance at beginning of year	$	926	$	-	$	1,428	$	-	$	2,354
Charge-offs		(532)		(6,902)		(6,011)		-		(13,445)
Recoveries		73		531		2,169		-		2,773
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		(402)		7,582		5,735		-		12,915
Balance at end of year	**$**	**65**	**$**	**1,211**	**$**	**3,321**	**$**	**-**	**$**	**4,597**

	Year Ended December 31, 2013									
	Commercial		Consumer		Auto		Unallocated		Total	
_	(In thousands)									
Allowance for loan losses for non-covered acquired loans										

accounted for under ASC 310-20:										
Balance at beginning of year	$	-	$	-	$	-	$	-	$	-
Charge-offs		(25)		(5,530)		(5,650)		-		(11,205)
Recoveries		9		1,035		3,398		-		4,442
Provision for non-covered acquired loan and lease losses accounted for under ASC 310-20		942		4,495		3,680		-		9,117
Balance at end of year	**$**	**926**	**$**	**-**	**$**	**1,428**	**$**	**-**	**$**	**2,354**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	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:					
Collectively evaluated for impairment	12,675	45,344	184,782	-	242,801
Total ending loan balance	**$ 12,675**	**$ 45,344**	**$ 184,782**	**$ -**	**$ 242,801**

	December 31, 2013				
	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	926	-	1,428	-	2,354
Total ending allowance balance	**$ 926**	**$ -**	**$ 1,428**	**$ -**	**$ 2,354**
Loans:					
Collectively evaluated for impairment	77,681	56,174	301,584	-	435,439
	$ 77,681	**$ 56,174**	**$ 301,584**	**$ -**	**$ 435,439**

Total ending loan balance																

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NOTES TO 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:

	Year Ended December 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 year	$ -	$ 1,713	$ -	$ 418	$ 732	$ 2,863
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-30	-	11,763	-	(413)	(732)	10,618
Balance at end of year	**$ -**	**$ 13,476**	**$ -**	**$ 5**	**$ -**	**$ 13,481**

	Year Ended December 31, 2013					
	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 year	$ -	$ -	$ -	$ -	$ -	$ -

Provision for non-covered acquired loan and lease losses accounted for under ASC 310-30		-		1,713		-		418		732		2,863
Balance at end of year	**$**	**-**	**$**	**1,713**	**$**	**-**	**$**	**418**	**$**	**732**	**$**	**2,863**

Non-covered acquired loans accounted for under ASC 310-30 were recognized at fair value as of December 18, 2012, which included the impact of expected credit losses, and therefore, no allowance for credit losses was recorded during year ended December 31, 2012.

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NOTES TO 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 years ended December 31, 2014 and 2013 were as follows:

	Year Ended December 31,				
_	2014			2013	
_	(In thousands)				
Balance at beginning of the year	$	52,729		$	54,124
Provision for covered loan and lease losses, net		5,680			5,335
FDIC shared-loss portion of provision for (recapture of)					
covered loan and lease losses, net		5,836			(6,730)
Balance at end of the year	**$**	**64,245**		**$**	**52,729**

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 CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7- 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 years ended December 31, 2014 and 2013:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
FDIC indemnification asset:			
Balance at beginning of year	$ 189,240	$ 302,295	$ 405,646
Shared-loss agreements reimbursements from the FDIC	(47,666)	(47,100)	(96,664)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net	5,836	(6,730)	7,041
FDIC indemnification asset expense	(62,285)	(66,253)	(25,805)
Incurred expenses to be reimbursed under shared-loss agreements	12,253	7,028	12,077
Balance at end of year	**$ 97,378**	**$ 189,240**	**$ 302,295**
True-up payment obligation:			

Balance at beginning of year	$	18,510	$	15,496			$	13,279	
Change in true-up payment obligation		3,471		3,014				2,217	
Balance at end of year	**$**	**21,981**	**$**	**18,510**			**$**	**15,496**	

The FDIC shared-loss expense bears an inverse relationship with a change in the yield of covered 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 previously expected. As a result, lower amortization of the indemnification asset was required during that quarter.

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 year ended December 31, 2014, include $15.0 million corresponding to the third quarter loss-share certification that was received during January 2015. This was also recorded as an account receivable from the FDIC and included in other assets in the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The FDIC indemnification asset expense of $62.3 million for 2014 decreased when compared to $ 66.3 million for 2013 and $25.8 million for 2012. The reduction in 2014 when compared to 2013 is driven by a lower level of stepped up cost recoveries on certain construction, commercial, and leasing loan pools, which amounted to $12.2 million and $16.6 million in 2014 and 2013, respectively. The increase in 2014 and 2013 when compared to 2012 was caused by 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 the covered loans. Forecasted losses showed a decreasing trend during in 2014 and 2013 as compared to the projections in 2012. The reduction in claimable losses amortizes the FDIC indemnification asset through the shorter of the remaining life of the shared loss agreement or the loan holding period. This amortization is net of the 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. The majority of the FDIC indemnification asset, $67.9 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 $22.0 million and $18.5 million, net of discount, as of December 31, 2014 and 2013, respectively. The estimated liability is included within accrued expenses and other liabilities in the 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 2014, the fair value of the true-up payment obligation increased by $3.5 million, compared to increases of $3.0 million and $2.2 million for 2013 and 2012, 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 December 31, 2014 and 2013:

	December 31,				
	2014			2013	
	(In thousands)				
Carrying amount (fair value)	$	21,981		$	18,510
Undiscounted amount	$	40,266		$	40,199

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8 — PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2014 and 2013 are stated at cost less accumulated depreciation and amortization as follows:

	Useful Life	December 31,	
	(Years)	2014	2013
		(In thousands)	
Land	—	$ 5,680	$ 5,680
Buildings and improvements	40	65,430	63,594
Leasehold improvements	5 — 10	23,000	23,031
Furniture and fixtures	3 — 7	12,739	12,203
Information technology and other	3 — 7	26,422	24,876
		133,271	129,384
Less: accumulated depreciation and amortization		(52,672)	(46,481)
		$ 80,599	**$ 82,903**

Depreciation and amortization of premises and equipment totaled $10.2 million in 2014, $10.3 million in 2013 and $4.8 million in 2012. These are included in the consolidated statements of operations as part of occupancy and equipment expenses.

NOTE 9 - 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 December 31, 2014, servicing assets amounted to $14.0 million, related to residential mortgage loans. At December 31, 2013, servicing assets was composed of $13.8 million related to residential mortgage loans and $22 thousand of leasing servicing assets acquired in the FDIC-assisted acquisition of Eurobank.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the changes in servicing rights measured using the fair value method for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,							
		2014		2013			2012	
	(In thousands)							
Fair value at beginning of year	$	13,801	$	10,795		$	10,454	
Servicing from mortgage securitizations or asset transfers		2,149		3,177			1,867	
Changes due to payments on loans		(1,072)		(950)			(1,107)	
Changes in fair value due to changes in valuation model inputs or assumptions		(886)		779			(419)	
Fair value at end of year	**$**	**13,992**	**$**	**13,801**		**$**	**10,795**	

The following table presents key economic assumption ranges used in measuring the mortgage-related servicing asset value for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,				
	2014		2013		2012
Constant prepayment rate	4.16% - 13.98%		5.78% - 14.33%		8.51% - 16.29%
Discount rate	10.00% - 12.00%		10.00% - 12.00%		10.50% - 13.50%

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

	December 31, 2014	
	(In thousands)	
Mortgage-related servicing asset	_	
Carrying value of mortgage servicing asset	$	13,992
Constant prepayment rate		
Decrease in fair value due to 10% adverse change	$	(414)
Decrease in fair value due to 20% adverse change	$	(807)
Discount rate		

Decrease in fair value due to 10% adverse change	$	(643)
Decrease in fair value due to 20% adverse change	$	(1,234)

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 and is recorded as income when earned. Servicing fees on mortgage loans totaled $6.3 million in 2014, $5.5 million in 2013, and $3.6 million in 2012. There were no late fees and ancillary fees recorded in such years because these fees belong to the third party engaged by the Company pursuant to a subservicing agreement. Servicing fees on leases amounted to $10 thousand in 2014, $68 thousand in 2013 and $239 thousand in 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 10 — DERIVATIVES

The following table presents the Company's derivative assets and liabilities at December 31, 2014 and 2013:

	December 31,				
	2014			2013	
	(In thousands)				
Derivative assets:					
Options tied to S&P 500 Index	$	5,555		$	16,430
Interest rate swaps designated as cash flow hedges		-			850
Interest rate swaps not designated as hedges		2,399			2,861
Interest rate caps		152			319
Other		1			42
	$	**8,107**		**$**	**20,502**
Derivative liabilities:					
Interest rate swaps designated as cash flow hedges		8,585			11,757
Interest rate swaps not designated as hedges		2,399			2,861
Interest rate caps		152			319
Other		85			-
	$	**11,221**		**$**	**14,937**

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 our 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.

The following table shows a summary of these swaps and their terms at December 31, 2014:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
Interest Rate Swaps	$ 25,000	2.4365%	1-Month LIBOR	05/05/11	05/04/12	05/04/16
	25,000	2.6200%	1-Month LIBOR	05/05/11	07/24/12	07/24/16
	25,000	2.6350%	1-Month LIBOR	05/05/11	07/30/12	07/30/16
	50,000	2.6590%	1-Month LIBOR	05/05/11	08/10/12	08/10/16
	100,000	2.6750%	1-Month LIBOR	05/05/11	08/16/12	08/16/16
	39,317	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$ 264,317					

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At December 31, 2014 and 2013, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $2.4 million and $2.9 million, respectively, and were included as part of derivative assets in the consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At December 31, 2014 and 2013 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 and $2.9 million, respectively, and were included as part of derivative liabilities in the 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 December 31, 2014:

Type		Notional Amount	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
		(In thousands)				
Interest Rate Swaps - Derivatives Offered to Clients	$	3,957	5.1300%	1-Month LIBOR	07/03/06	07/03/16
		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,457**				
Interest Rate Swaps - Mirror Image Derivatives	$	3,957	5.1300%	1-Month LIBOR	07/03/06	07/03/16
		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,457**				

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 December 31, 2014 and 2013, the purchased options used to manage exposure to the S&P 500 Index on stock indexed deposits represented an asset of $5.6 million (notional amount of $10.7 million) and $16.4 million (notional amount of $28.0 million), respectively,

and the options sold to customers embedded in the certificates of deposit and recorded as deposits in the consolidated statements of financial condition, represented a liability of $5.5 million (notional amount of $10.5 million) and $15.7 million (notional amount of $26.9 million), respectively.

Year Ended December 31,	Derivative asset (S&P purchased options) (In thousands)		Derivative liability (S&P embedded options) (In thousands)	
2015	$	7,330	$	7,327
2016		3,375		3,176
	$	**10,705**	**$**	**10,503**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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. The outstanding total notional amount of interest rate caps was $110.0 million and $94.0 million at December 31, 2014 and 2013 respectively. At December 31, 2014 and 2013, the interest rate caps sold to clients represented a liability of $152 thousand and $319 thousand, respectively, and were included as part of derivative liabilities in the consolidated statements of financial condition. At December 31, 2014 and 2013, the interest rate caps purchased as mirror-images represented an asset of $152 thousand and $319 thousand, respectively, and were included as part of derivative assets in the consolidated statements of financial condition.

NOTE 11 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at December 31, 2014 and 2013 consists of the following:

	December 31,				
	2014			**2013**	
	(In thousands)				
Non-covered loans	$	17,005		$	13,378
Investments		4,340			5,356
	$	**21,345**		**$**	**18,734**

Other assets at December 31, 2014 and December 31, 2013 consist of the following:

	December 31,				
	2014			**2013**	
	(In thousands)				
Prepaid expenses	$	16,018		$	15,439
Core deposit and customer relationship intangibles		9,743			11,912
Other repossessed assets		21,800			12,583
Mortgage tax credits		6,277			8,706

Investment in Statutory Trust		1,083		1,083
Accounts receivable and other assets		53,804		48,717
	$	**108,725**	$	**98,440**

Prepaid expenses amounting to $16.0 million and $15.4 million at December 31, 2014 and 2013, respectively, include prepaid municipal, property and income taxes aggregating to $9.6 million and $8.6 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 December 31, 2014 and 2013, this core deposit intangible amounted to $6.5 million and $7.8 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 December 31, 2014 and 2013, this customer relationship intangible amounted to $3.3 million and $4.1 million, respectively.

Other repossessed assets totaled $21.8 million and $12.6 million at December 31, 2014 and 2013, respectively, include repossessed automobiles amounting to $20.7 million and $12.3 million, respectively, which are recorded at their net realizable value.

At December 31, 2014 and 2013, tax credits for the Company totaled $6.3 million and $8.7 million, respectively. These tax credits do not have an expiration date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12— DEPOSITS AND RELATED INTEREST

Total deposits as of December 31, 2014 and 2013 consist of the following:

	December 31,				
	2014			2013	
	(In thousands)				
Non-interest bearing demand deposits	$	745,142		$	744,327
Interest-bearing savings and demand deposits		2,544,665			2,489,971
Individual retirement accounts		303,049			347,262
Retail certificates of deposit		452,150			568,367
Institutional certificates of deposit		260,090			405,224
Total core deposits		**4,305,096**			**4,555,151**
Brokered deposits		619,310			828,114
Total deposits	$	**4,924,406**		$	**5,383,265**

Brokered deposits include $526.2 million in certificates of deposits and $93.1 million in money market accounts at December 31, 2014, and $729.8 million in certificates of deposits and $98.3 million in money market accounts at December 31, 2013.

The weighted average interest rate of the Company's deposits was 0.66% and 0.73% at December 31, 2014 and 2013 respectively, inclusive of non-interest bearing deposits of $745.1 million and $744.3 million, respectively. Interest expense for the years ended December 31, 2014 and 2013 was as follows:

	Year Ended December 31,						
	2014			2013		2012	
	(In thousands)						
Demand and savings deposits	$	17,724		$	22,498		11,232
Certificates of deposit		16,230			18,479		18,417
	$	**33,954**		**$**	**40,977**		**29,649**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At December 31, 2014 and 2013, demand and interest-bearing deposits and certificates of deposit included deposits of Puerto Rico Cash & Money Market Fund, Inc., which amounted to $96.8 million and $93.1 million, respectively, with a weighted average rate of 0.78% for 2014 and 0.77% for 2013 and were collateralized with investment securities with a fair value of $76.3 million and $67.5 million, respectively.

At December 31, 2014 and 2013, time deposits in denominations of $100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $608.1 million and $845.8 million, including public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of $6.9 million and $26.7 million, respectively, at a weighted average rate of 0.50% and 0.32% at December 31, 2014 and 2013.

At December 31, 2014 and 2013, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $318.5 million and $328.6 million, respectively. These public funds were collateralized with commercial loans amounting to $414.5 million at December 31, 2014, and with investment securities with a fair value of $97.8 million and commercial loans amounting to $549.0 million at December 31, 2013.

Excluding equity indexed options in the amount of $4.2 million, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interest of $1.7 million and unamortized deposit discount in the amount of $787.5 thousand, the scheduled maturities of certificates of deposit at December 31, 2014 are as follows:

	December 31, 2014	
	(In thousands)	
Within one year:		
Three (3) months or less	$	382,673
Over 3 months through 1 year		395,057
		777,730
Over 1 through 2 years		458,882
Over 2 through 3 years		213,570
Over 3 through 4 years		49,401
Over 4 through 5 years		35,176
	$	**1,534,759**

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 $845 thousand and $1.8 million as of December 31, 2014 and 2013, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 13 — BORROWINGS

Securities Sold under Agreements to Repurchase

At December 31, 2014, 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 December 31, 2014 and 2013, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $2.3 million and $2.6 million, respectively, were as follows:

	December 31,										
	2014					2013					
				Fair Value of						Fair Value of	
	Borrowing			Underlying			Borrowing			Underlying	
	Balance			Collateral			Balance			Collateral	
	(In thousands)										
JP Morgan Chase Bank NA		307,816			328,198			255,000			273,250
Credit Suisse Securities (USA) LLC		670,000			760,327			755,000			864,232
Deutsche Bank		-			-			255,000			272,053
Total	$	**977,816**		$	**1,088,525**		$	**1,265,000**		$	**1,409,535**

The following table shows a summary of the Company's repurchase agreements and their terms, excluding accrued interest in the amount of $2.3 million, at December 31, 2014:

Year of Maturity		Borrowing Balance		Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)				
2015			255,000	0.840%	12/10/2012	6/13/2015

2015		24,100	0.390%	12/18/2014	1/7/2015
2015		28,716	0.390%	12/19/2014	1/5/2015
2016		170,000	1.500%	12/6/2012	12/8/2016
2017		500,000	4.780%	3/2/2007	3/2/2017
	$	**977,816**	**2.945%**		

The repurchase agreements referred to above with maturity dates up to the date of this report were renewed as one-month short-term advances, except for the repurchase agreement in the amount of $24.1 million that was cancelled at maturity on January 7, 2015.

The Company's repurchase agreement in the amount of $500 million with an original term of ten years, maturing on March 2, 2017, was modified in December 2013 to (i) eliminate the optional early termination clause that allowed the counterparty to terminate it before maturity, (ii) increase the interest rate paid by the Company from 4.67% to 4.78%; and (iii) substitute the counterparty.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the repurchase liability associated with the repurchase agreement transactions (excluding accrued interest) by maturity. Also, it includes the carrying value and approximate market value of collateral (excluding accrued interest) at December 31, 2014 and 2013. The information excludes repurchase agreement transactions which were collateralized with securities or cash, or securities purchased under agreements to resell.

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

	December 31, 2013						
			Market Value of Underlying Collateral				
	Repurchase Liability	Weighted Average Rate	FNMA and FHLMC Certificates	GNMA Certificates	CMOs issued by US Government Sponsored Agencies	Obligations of US Government Sponsored Agencies	Total
	(Dollars in thousands)						
Within 30 days	$ 255,000	0.50%	$ 216,201	$ -	$ 48,923	$ 6,929	$ 272,053
Over 90 days	1,010,000	2.89%	1,018,632	3,000	45,100	3,720	1,070,452
Total	**$ 1,265,000**	**2.41%**	**$ 1,234,833**	**$ 3,000**	**$ 94,023**	**$ 10,649**	**$ 1,342,505**

The following summarizes significant data on securities sold under agreements to repurchase as of December 31, 2014 and 2013, excluding accrued interest:

	December 31,			
	2014			2013
	(In thousands)			
Average daily aggregate balance outstanding	$	1,041,378	$	1,353,011
Maximum outstanding balance at any month-end	$	1,149,167	$	1,552,269
Weighted average interest rate during the year		2.85%		2.16%
Weighted average interest rate at year end		2.95%		2.41%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Advances from the Federal Home Loan Bank of New York

Advances are received from the Federal Home Loan Bank of New York (the "FHLB-NY") under an agreement whereby the Company is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At December 31, 2014 and 2013, these advances were secured by mortgage and commercial loans amounting to $1.2 billion and $1.3 billion, respectively. Also, at December 31, 2014 and 2013, the Company had an additional borrowing capacity with the FHLB-NY of $606.6 million and $674.2 million, respectively. At December 31, 2014 and 2013, the weighted average remaining maturity of FHLB's advances was 8.8 months and 11.3 months, respectively. The original terms of these advances range between one month and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of December 31, 2014.

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $332 thousand, at December 31, 2014:

Year of Maturity		Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)			
2015	$	25,000	0.35%	12/4/2014	1/5/2015
		50,000	0.36%	12/10/2014	1/12/2015
		100,000	0.37%	12/16/2014	1/16/2015
		25,000	0.39%	12/24/2014	1/26/2015
		25,000	0.35%	12/30/2014	1/30/2015
		39,317	0.36%	12/1/2014	1/2/2015
		264,317			
2017		4,500	1.24%	4/3/2012	4/3/2017
2018		30,000	2.19%	1/16/2013	1/16/2018
		25,000	2.18%	1/16/2013	1/16/2018
		55,000			
2020		10,181	2.59%	7/19/2013	7/20/2020
	$	**333,998**	**0.74%**		

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

Subordinated Capital Notes

Subordinated capital notes amounted to $101.6 million and $100.0 million at December 31, 2014 and 2013.

In August 2003, the Statutory Trust II, a special purpose entity of the Company, was formed for the purpose of issuing trust redeemable preferred securities. In September 2003, $35.0 million of trust redeemable preferred securities were issued by the Statutory Trust II as part of a pooled underwriting transaction.

The proceeds from this issuance were used by the Statutory Trust II to purchase a like amount of a floating rate junior subordinated deferrable interest debenture issued by the Company. The subordinated deferrable interest debenture has a par value of $36.1 million, bears interest based on 3-month LIBOR plus 295 basis points (3.19% at December 31, 2014; 3.19% at December 31, 2013), is payable quarterly, and matures on September 17, 2033. It may be called at par after five years and quarterly thereafter (next call date March 2015). The trust redeemable preferred securities have the same maturity and call provisions as the subordinated deferrable interest debenture. The subordinated deferrable interest debenture issued by the Company is accounted for as a liability denominated as a subordinated capital note on the consolidated statements of financial condition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The subordinated capital note is treated as Tier 1 capital for regulatory purposes. Under Federal Reserve Board rules, restricted core capital elements, which are qualifying trust preferred securities, qualifying cumulative perpetual preferred stock (and related surplus) and certain minority interests in consolidated subsidiaries, are limited in the aggregate to no more than 25% of a bank holding company's core capital elements (including restricted core capital elements), net of goodwill less any associated deferred tax liability. However, under the Dodd-Frank Act and the new capital rules issued by the federal banking regulatory agencies in July 2013, bank holding companies are prohibited from including in their Tier 1 capital hybrid debt and equity securities, including trust preferred securities, issued on or after May 19, 2010. Any such instruments issued before May 19, 2010 by a bank holding company, such as the Company, with total consolidated assets of less than $15 billion as of December 31, 2009, may continue to be included as Tier 1 capital. Therefore, the Company is permitted to continue to include its existing trust preferred securities as Tier 1 capital.

Following are the outstanding subordinated capital notes assumed as part of the BBVAPR Acquisition on December 18, 2012:

Subordinated capital notes issued in September 2006 amounting to $37.0 million at a fixed rate of 5.76% through September 29, 2011, and three-month LIBOR plus 1.56% thereafter (1.81% at December 31, 2014; 1.80% at December 31, 2013), due September 29, 2016. Interest on these subordinated notes is payable quarterly during the floating-rate period. The Bank has the option to redeem these subordinated capital notes in whole or in part from time to time before maturity at 100% of the principal amount plus any accrued but unpaid interest to the date of redemption, beginning September 29, 2011, and at each payment date thereafter.

Subordinated capital notes issued in September 2006 amounting to $30.0 million at a variable rate of three-month LIBOR plus 1.56% thereafter (1.81% at December 31, 2014; 1.80% at December 31, 2013), due September 29, 2016. Interest on these subordinated notes is payable quarterly. The Bank has the option to redeem these subordinated capital notes in whole or in part from time to time before maturity at 100% of the principal amount plus any accrued but unpaid interest to the date of redemption, beginning September 29, 2011, and at each payment date thereafter.

These notes qualify as Tier 2 capital at a discounted rate, which totals $13.4 million and $26.8 million at December 31, 2014 and 2013, respectively. Generally speaking, subordinated notes are included as Tier 2 capital if they have an original weighted average maturity of at least 5 years and comply with certain other requirements. As the notes approach maturity, they begin to take on characteristics of a short term obligation. For this reason, the outstanding amount eligible for inclusion in Tier 2 capital is reduced, or discounted, as the instruments approach maturity: one fifth of the outstanding amount is excluded each year during the instruments last five years before maturity. When the remaining maturity is less than one year, the instrument is excluded from Tier 2 capital.

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

_	Redemption fund	
	(In thousands)	
Redemption fund - December 31, 2014	$	55,275
2015		6,700
2016		5,025
	$	**67,000**

Other borrowings

Other borrowings, presented in the consolidated statement of financial condition amounted to $4.0 million and $3.7 million at December 31, 2014 and 2013, respectively, which mainly consists of unsecured fixed-rate borrowings and term notes tied to the appreciation of the S&P index. For both periods, the unsecured fixed rate borrowings amounted to $1.7 million at a fixed rate of 3.0%. The term notes tied to the S&P index amounted to $1.0 million at both December 31, 2014 and 2013 with an index appreciation of $1.3 million and $957 thousand, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

The following table presents the potential effect of rights of set-off associated with the Company's recognized financial assets and liabilities at December 31, 2014 and 2013:

	December 31, 2014					
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	$ 8,107	$ -	$ 8,107	$ 2,006	$ -	$ 6,101

	December 31, 2013					
				Gross Amounts Not Offset in the Statement of Financial Condition		
		Gross Amounts	Net amount of			

	Gross Amount of Recognized Assets	Offset in the Statement of Financial Condition	Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	$ 20,502	$ -	$ 20,502	$ 2,450	$ 6,780	$ 11,272
Securities purchased under agreements to resell	60,000	-	60,000	64,587	-	(4,587)
Total	**$ 80,502**	**$ -**	**$ 80,502**	**$ 67,037**	**$ 6,780**	**$ 6,685**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014												
							Gross Amounts Not Offset in the Statement of Financial Condition					
	Gross Amount of Recognized Liabilities		Gross Amounts Offset in the Statement of Financial Condition		Net Amount of Liabilities Presented in Statement of Financial Condition		Financial Instruments		Cash Collateral Provided		Net Amount	
	(In thousands)											
Derivatives	$	16,698	$	-	$	16,698	$	-	$	2,980	$	13,718
Securities sold under agreements to repurchase		977,816		-		977,816		1,088,525		-		(110,709)
Total	**$**	**994,514**	**$**	**-**	**$**	**994,514**	**$**	**1,088,525**	**$**	**2,980**	**$**	**(96,991)**

December 31, 2013												
							Gross Amounts Not Offset in the Statement of Financial Condition					
	Gross Amount of Recognized Liabilities		Gross Amounts Offset in the Statement of Financial Condition		Net Amount of Liabilities Presented in Statement of Financial Condition		Financial Instruments		Cash Collateral Provided		Net Amount	
	(In thousands)											
Derivatives	$	30,672	$	-	$	30,672	$	-	$	2,980	$	27,692

Securities sold under agreements to repurchase			1,265,000			-			1,265,000			1,277,919			67,029			(79,948)
Total		**$**	**1,295,672**		**$**	**-**		**$**	**1,295,672**		**$**	**1,277,919**		**$**	**70,009**		**$**	**(52,256)**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 — EMPLOYEE BENEFIT PLAN

The Company has a profit sharing plan containing a cash or deferred arrangement qualified under Sections 1081.01(a) and 1081.01(d) of the 2011 Code, and Sections 401(a) and 401(k) of the United States Internal Revenue Code of 1986, as amended (the "U.S. Code"). This plan is subject to the provisions of Title I of the Employee Retirement Income Security Act of 1976, as amended ("ERISA"). This plan covers all full-time employees of the Company who are age twenty-one or older. Under this plan, participants may contribute each year up to $17,500. During 2013, the Company changed the matching contribution to 50 cents for each dollar contributed by an employee, up to 4% of such employee's base salary. The new matching contribution is invested in accordance with the employee's decision between the available investment alternatives provided by the plan. This plan is entitled to acquire and hold qualified employer securities as part of its investment of the trust assets pursuant to ERISA Section 407. The Company contributed $811,513 and $657,504 in cash during 2014 and 2013, respectively. In addition, the Company contributed 7,318 shares in 2013, and 29,317 shares in 2012 of its common stock at a cost at the time of contribution of approximately $110,000 and $61,000, respectively. The Company did not contribute any shares during 2014.. The Company's contribution becomes 100% vested once the employee completes three years of service. Effective April 1, 2013, the Plan was amended to include a new subsection which states that all Employees who were employed by BBVAPR Bank on December 17, 2012 and who became employees of the Company on December 18, 2012 as a result of the BBVAPR Acquisition by OFG Bancorp that was completed on the same date, shall be credited with all periods of service with BBVAPR Bank for all appropriate purposes under the Plan and can participate in the Plan.

Also, the Company offers to its senior management a non-qualified deferred compensation plan, where executives can defer taxable income. Both the employer and the employee have flexibility because non-qualified plans are not subject to ERISA contribution limits nor are they subject to discrimination tests in terms of who must be included in the plan. Under this plan, the employee's current taxable income is reduced by the amount being deferred. Funds deposited in a deferred compensation plan can accumulate without current income tax to the individual. Income taxes are due when the funds are withdrawn.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 — RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. As of December 31, 2014 and 2013, these loan balances amounted to $27.0 million and $19.0 million, respectively. The activity and balance of these loans for the years ended December 31, 2014, 2013 and 2012 were as follows:

	Year Ended December 31,							
	2014			2013				2012
	(In thousands)							
Balance at the beginning of year	$	18,963		$	6,055			3,772
New loans		21,797			18,499			2,435
Repayments and sales		(13,725)			(4,798)			(95)
Credits of persons no longer considered related parties		(24)			(793)			(57)
Balance at the end of year	**$**	**27,011**		**$**	**18,963**		**$**	**6,055**

NOTE 17 — INCOME TAXES

The Company is subject to the dispositions of the 2011 Internal Revenue Code of the New Puerto Rico, as amended (the Code). Among others, the Code imposes a maximum corporate tax rate of 39%. One of the Code's amendments is Act. 77-2014 known as "Ley de Ajustes al Sistema Contributivo" (Act of Adjustments to the Tax System). The main purpose of the Act is to increase government collections in order to alleviate the structural deficit. The most relevant provisions of the Act, as applicable to the Company, and effective for transactions held after June 30, 2014 are as follows: (1) the capital tax rate was increased from 15% to 20% and (2) for an asset to be considered long term capital asset, the holding period must be over a year, which before was defined with a holding period of over six months.

Other provisions applicable to tax years commencing after December 31, 2013 is the additional tax on gross income ("patente nacional") is defined as a separate tax, rather than a component of the Alternative Minimum Tax (AMT) for non-financial institutions and, therefore is not longer accounted for under the provisions of ASC 740. For financial institutions, the additional tax on gross income remained mostly unaltered at a tax rate of 1% of its gross income of a taxable year, of which fifty percent (50%) may be claimed as a credit against the financial institution's applicable income tax of that year.

Currently, the House of Representatives' Bill 2329 known as "Ley de Transformación al Sistema Contributivo del Estado Libre Asociado de Puerto Rico" (Act of Transformation of the Tax System of the Commonwealth of Puerto Rico) is under consideration by the Legislature and will introduce a new Internal Revenue Tax Code. Among the proposed changes are: 1) the reduction of the maximum corporate income tax rate from 39% to 30%, 2) repeals the additional tax on gross income and 3) repeals preferential tax rates of capital gains and dividend income. Another significant change that the Bill introduces is the substitution of the Sales and Use Tax "Impuesto de Ventas y Uso" of 7%, with a broad base Value Added Tax of 16% with fewer exemptions.

Under Puerto Rico law, all companies are treated as separate taxable entities and are not entitled to file consolidated returns. The Company and its subsidiaries are subject to Puerto Rico regular income tax or AMT on income earned from all sources. The AMT is payable if it exceeds regular income tax. The excess of AMT over regular income tax paid in any one year may be used to offset regular income tax in future years, subject to certain limitations. As of December 31, 2014, the tax years that remain subject to examination by the Puerto Rico Treasury Department are 2011 and 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The components of income tax expense (benefit) for the years ended December 31, 2014, 2013 and 2012 are as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Current income tax expense	$ 13,097	$ 2,357	$ 1,788
Deferred income tax expense (benefit)	24,155	(11,066)	1,513
Total income tax expense (benefit)	**$ 37,252**	**$ (8,709)**	**$ 3,301**

The Company maintained an effective tax rate lower than the maximum marginal statutory rate of 39.00%, 39.00%, and 30.00% as of December 31, 2014, 2013 and 2012, respectively, mainly due to exempt income from investment securities and loans. For 2014, 2013 and 2012 the Bank’s investment securities portfolio and loans portfolio generated tax-exempt interest income of $40.5 million, $11.7 million, and $6.2 million, respectively. For 2014, OIB generated $16.5 million in exempt income. For 2013 and 2012, OIB generated $12.1 million and $15.3 million in income taxable at a 5% income tax rate.

Pursuant to the Declaration of Fiscal Emergency and Plan for Economic Stabilization and Restoration of the Puerto Rico Credit Act of March 9, 2009, for the 2009 and 2010 taxable years every taxable corporation engaged in trade or business in Puerto Rico, including banks and insurance companies, was subject to an additional 5% surcharge on corporate income tax, increasing the maximum tax rate from 39% to 40.95%. Also, income earned by international banking entities, which was previously fully exempt, was subject to a 5% income tax for the 2012. These taxes were imposed on a temporary basis as a measure to generate additional revenue to address the fiscal crisis of the government of Puerto Rico.

The Company’s income tax expense differs from amounts computed by applying the applicable statutory rate to income before income taxes as follows:

	Year Ended December 31,					
	2014		2013		2012	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)					
Tax at statutory rates	$ 47,749	39.00%	$ 34,997	39.00%	$ 8,357	30.00%
Tax effect of exempt income, net	(10,002)	-26.85%	(4,652)	-4.90%	(3,461)	-12.42%

Effect of tax rate on capital loss carryforwards		-		0.00%			840		0.94%			(4,361)		-15.66%
Disallowed net operating loss carryover		8,289		22.25%			-		0.00%			-		0.00%
Change in valuation allowance		(958)		-2.57%			1,896		2.11%			(554)		-1.99%
Income tax contingencies provision (credit)		(1,093)		-2.94%			(1,559)		-1.57%			114		0.41%
Effect in deferred taxes due to increase in tax rates														
from 30.00% to 39.00%		-		0.00%			(38,068)		-43.04%			-		0.00%
Loan tax basis change effect		(7,642)		-20.51%			-		0.00%			-		0.00%
Effect of change in tax of IBE		-		0.00%			148		0.17%			2,383		8.55%
Other items, net		909		2.00%			(2,311)		-2.58%			823		2.96%
Income tax expense (benefit)	**$**	**37,252**		**10.82%**		**$**	**(8,709)**		**-9.70%**		**$**	**3,301**		**11.85%**

The Company classifies unrecognized tax benefits in income taxes payable. These gross unrecognized tax benefits would affect the effective tax rate if realized. The balance of unrecognized tax benefits at December 31, 2014 was $2.6 million (December 31, 2013 - $4.0 million). The Company had accrued $470 thousand at December 31, 2014 (December 31, 2013 - $1.3 million) for the payment of interest and penalties relating to unrecognized tax benefits. Also, during this year the Company recorded a reversal of an income tax contingency of $1.0 million as a result of reviewing the positions of certain unrecognized tax benefits at the Bank. At December 31, 2014 there is also $694 thousand (December 31, 2013 - $752 thousand) in accrued payment of interest and penalties relating to unrecognized tax benefits from this acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents a reconciliation of unrecognized tax benefits:

	Year Ended December 31,							
	2014			2013			2012	
	(In thousands)							
Balance at beginning of year	$	4,042		$	5,452		$	1,389
Additions for tax positions of prior years		187			287			114
Additions for tax positions related to BBVAPR Acquisition		-			-			3,949
Reduction for tax positions as a result of settlements		(1,388)			-			-
Reduction for tax positions as a result of lapse of statute of limitations		(281)			(1,697)			-
Balance at end of year	**$**	**2,560**		**$**	**4,042**		**$**	**5,452**

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statute of limitations, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity, and the addition or elimination of uncertain tax positions.

Income tax expense was $37.3 million for the year ended December 31, 2014, compared to $8.7 million tax benefit for the year ended December 31, 2013. Effective July 1, 2014, capital gains tax rate was increased from 15% to 20% as explained above

The tax effect expected of the income earned by OIB is included in the "tax effect of exempt income, net" caption on the table above and amounted to $4.7 million and $4.7 million for the years ended December 31, 2014 and 2013, respectively.

The determination of deferred tax expense or benefit is based on changes in the carrying amounts of assets and liabilities that generate temporary differences. The carrying value of the Company's net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change in the future, the Company may be required to record valuation allowances against its deferred tax assets resulting in additional income tax expense in the consolidated statements of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31,			
	2014			2013
	(In thousands)			
Deferred tax asset:				
Allowance for loan and lease losses and other reserves	$	90,090	$	87,248
Loans and other real estate valuation adjustment		9,295		3,955
Net capital and operating loss carry forwards		28,973		35,829
Alternative minimum tax		16,208		425
Deposit and borrowings valuation adjustment		390		2,251
Unrealized net loss included in other comprehensive income		3,273		4,229
S&P option contracts		1,882		7,329
Acquired portfolio		46,146		55,876
Other assets allowances		1,424		1,727
Acquired software related to BBVAPR Acquisition		-		3,011
Other deferred tax assets		6,262		9,270
Total gross deferred tax asset		203,943		211,150
Deferred tax liability:				
FDIC shared-loss indemnification asset		(21,809)		(20,783)
FDIC-assisted acquisition		(40,740)		(15,021)
Customer deposit and customer relationship intangibles		(3,800)		(4,646)
Loans and building valuation adjustment		(11,656)		(17,425)
Unrealized net gain on available-for-sale securities		(3,799)		(1,454)
Servicing asset		(5,457)		(5,374)
Other deferred tax liabilities		(2,703)		(4,570)
Total gross deferred tax liabilities		(89,964)	$	(69,273)
Less: valuation allowance		(5,271)		(4,313)
Net deferred tax asset	$	**108,708**	$	**137,564**

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

The Company and its subsidiaries have operating and capital loss carry-forwards for income tax purposes which are available to offset future taxable income and capital gains. Operating loss carry-forwards are available until December 2023 and capital loss carry-forwards are available until December 2018. The majority of these operating and capital loss carry-forwards are at the Bank amounting to approximately $41.8 million as of December 31, 2014.

The Company follows a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 18 - REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and Puerto Rico banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Pursuant to the Dodd-Frank Act, federal banking regulators have adopted new capital rules that became effective January 1, 2014 for advanced approaches banking organizations and will become effective January 1, 2015 for all other covered organizations (subject to certain phase-in periods through January 1, 2019) and that will replace their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules. Quantitative measures established by regulation to ensure capital adequacy currently require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average total assets (as defined in the regulations). As of December 31, 2014 and 2013, the Company and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2014 and 2013, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage capital ratios as set forth in the tables presented below.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2014 and December 31, 2013 are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Company Ratios						
As of December 31, 2014						
Total capital to risk-weighted assets	$ 851,437	**17.57%**	$ 387,772	**8.00%**	$ 484,715	**10.00%**
Tier 1 capital to risk-weighted assets	$ 776,525	**16.02%**	$ 193,886	**4.00%**	$ 290,829	**6.00%**
	$ 776,525	**10.61%**	$ 292,738	**4.00%**	$ 365,922	**5.00%**

Tier 1 capital to average total assets													
As of December 31, 2013													
Total capital to risk-weighted assets	$	827,459		**16.16%**		$	409,514		**8.00%**		$	511,893		**10.00%**
Tier 1 capital to risk-weighted assets	$	736,106		**14.38%**		$	204,757		**4.00%**		$	307,136		**6.00%**
Tier 1 capital to average total assets	$	736,106		**9.06%**		$	324,910		**4.00%**		$	406,138		**5.00%**

						Minimum Capital Requirement					**Minimum to be Well Capitalized**			
	Actual													
	Amount			**Ratio**		**Amount**			**Ratio**		**Amount**			**Ratio**
	(Dollars in thousands)													
Bank Ratios														
As of December 31, 2014														
Total capital to risk-weighted assets	$	820,884		**16.99%**		$	386,444		**8.00%**		$	483,055		**10.00%**
Tier 1 capital to risk-weighted assets	$	746,177		**15.45%**		$	193,222		**4.00%**		$	289,833		**6.00%**
Tier 1 capital to average total assets	$	746,177		**10.26%**		$	290,879		**4.00%**		$	363,599		**5.00%**
As of December 31, 2013														
Total capital to risk-weighted assets	$	779,414		**15.30%**		$	407,637		**8.00%**		$	509,547		**10.00%**
Tier 1 capital to risk-weighted assets	$	688,349		**13.51%**		$	203,819		**4.00%**		$	305,728		**6.00%**
Tier 1 capital to average total assets	$	688,349		**8.54%**		$	322,395		**4.00%**		$	402,993		**5.00%**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 19 – EQUITY-BASED COMPENSATION PLAN

The Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, and dividend equivalents, as well as equity-based performance awards. The Omnibus Plan replaced and superseded the Stock Option Plans. All outstanding stock options under the Stock Option Plans continue in full force and effect, subject to their original terms.

The activity in outstanding options for the years ended December 31, 2014, 2013 and 2012 is set forth below:

	Year Ended December 31,													
	2014					2013					2012			
	Number Of Options		Weighted Average Exercise Price			Number Of Options		Weighted Average Exercise Price			Number Of Options		Weighted Average Exercise Price	
Beginning of period	908,118		$	14.46		922,593		$	14.50		786,704		$	15.02
Options granted	193,100			16.10		196,000			14.52		204,543			11.83
Options exercised	(54,397)			11.86		(34,396)			12.65		(32,954)			11.98
Options forfeited	(158,250)			19.29		(176,079)			15.11		(35,700)			11.93
End of period	**888,571**		**$**	**14.12**		**908,118**		**$**	**14.46**		**922,593**		**$**	**14.50**

The following table summarizes the range of exercise prices and the weighted average remaining contractual life of the options outstanding at December 31, 2014:

		Outstanding						Exercisable			
		Number of Options		Weighted Average Exercise Price		Weighted Average Contract Life Remaining (Years)		Number of Options		Weighted Average	

Range of Exercise Prices						Exercise Price
$5.63 to $8.45	9,960	8.28	**4.3**	9,960		8.28
8.46 to 11.26	1,000	10.29	**2.6**	1,000		10.29
11.27 to 14.08	478,361	11.94	**5.4**	291,227		12.02
14.09 to 16.90	347,200	15.34	**7.7**	40,000		15.11
19.72 to 22.53	1,500	21.86	**3.2**	1,500		21.86
22.54 to 25.35						