OFG BANCORP
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

43,867,909 common shares ($1.00 par value per share) outstanding as of October 31, 2015

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FORWARD-LOOKING STATEMENTS

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

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

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

- possible legislative, tax or regulatory changes.

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

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

ITEM 1. *FINANCIAL STATEMENTS*

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014

	S
ASSETS	
Cash and cash equivalents:	
Cash and due from banks	$
Money market investments	
Total cash and cash equivalents	
Restricted cash	
Investments:	
Trading securities, at fair value, with amortized cost of $1,324 (December 31, 2014 - $2,419)	
Investment securities available-for-sale, at fair value, with amortized cost of $982,754 (December 31, 2014 - $1,187,679)	
Investment securities held-to-maturity, at amortized cost, with fair value of $595,148 (December 31, 2014 - $164,154)	
Federal Home Loan Bank (FHLB) stock, at cost	
Other investments	
Total investments	
Loans:	
Mortgage loans held-for-sale, at lower of cost or fair value	
Loans held for investment, net of allowance for loan and lease losses of $196,142 (December 31, 2014 - $133,762)	
Total loans	
Other assets:	
FDIC indemnification asset	
Foreclosed real estate	
Accrued interest receivable	
Deferred tax asset, net	
Premises and equipment, net	
Customers' liability on acceptances	
Servicing assets	
Derivative assets	
Goodwill	
Other assets	
Total assets	$
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Demand deposits	$
Savings accounts	
Time deposits	
Total deposits	
Borrowings:	
Securities sold under agreements to repurchase	
Advances from FHLB	
Subordinated capital notes	
Other borrowings	
Total borrowings	

Other liabilities:

Derivative liabilities

Acceptances executed and outstanding

Accrued expenses and other liabilities

Total liabilities

Commitments and contingencies (See Note 20)

Stockholders' equity:

Preferred stock; 10,000,000 shares authorized;

1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D issued and outstanding, (December 31, 2014 - 1,340,000; 1,380,000; and 960,000) $25 liquidation value

84,000 shares of Series C issued and outstanding (December 31, 2014 - 84,000); $1,000 liquidation value

Common stock, $1 par value; 100,000,000 shares authorized; 52,625,869 shares issued: 43,867,909 shares outstanding (December 31, 2014 - 52,625,869; 44,613,615)

Additional paid-in capital

Legal surplus

Retained earnings

Treasury stock, at cost, 8,757,960 shares (December 31, 2014 - 8,012,254 shares)

Accumulated other comprehensive income, net of tax of $284 (December 31, 2014 - $447)

Total stockholders' equity

Total liabilities and stockholders' equity $

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

	Quarter Ended September 30,		Nine- Ende
	2015	2014	201
	(In thousands, except per share data)		(In exce
Interest income:			
Loans	$ 97,264	$ 108,548	$ 285
Mortgage-backed securities	9,137	10,842	25
Investment securities and other	846	911	2
Total interest income	**107,247**	**120,301**	**313**
Interest expense:			
Deposits	6,651	7,661	20
Securities sold under agreements to repurchase	7,605	7,453	22
Advances from FHLB and other borrowings	2,283	2,314	6
Subordinated capital notes	885	1,002	2
Total interest expense	**17,424**	**18,430**	**51**
Net interest income	**89,823**	**101,871**	**261**
Provision for loan and lease losses, net	51,579	17,257	109
Net interest income after provision for loan and lease losses	**38,244**	**84,614**	**152**
Non-interest income:			
Banking service revenue	10,826	9,753	31
Wealth management revenue	6,885	7,113	21
Mortgage banking activities	992	2,097	4
Total banking and financial service revenues	**18,703**	**18,963**	**57**
Total other-than-temporary impairment losses on investment securities	(584)	-	(
Portion of loss recognized in other comprehensive income, before taxes	338	-	
Net impairment losses recognized in earnings	(246)	-	(
FDIC shared-loss expense, net:			
FDIC indemnification asset expense	(1,215)	(16,059)	(35,
Change in true-up payment obligation	(864)	(875)	(2,
	(2,079)	(16,934)	(38,
Reimbursement from FDIC shared-loss coverage in sale of loans and foreclosed real estate	20,000	-	20
Net gain (loss) on:			
Sale of securities	-	-	2
Derivatives	(208)	7	(
Other non-interest (loss) income	(193)	455	(2,
Total non-interest income, net	**35,977**	**2,491**	**38**
Non-interest expense:			
Compensation and employee benefits	21,015	18,592	60
Professional and service fees	4,000	3,807	12
Occupancy and equipment	8,556	8,770	26

Insurance	2,263	2,099	6
Electronic banking charges	5,496	4,637	16
Information technology expenses	1,364	1,289	4
Advertising, business promotion, and strategic initiatives	1,577	1,825	4
Foreclosure, repossession and other real estate expenses	16,601	7,842	32
Loan servicing and clearing expenses	1,976	1,870	6
Taxes, other than payroll and income taxes	2,649	3,494	6
Communication	774	820	2
Printing, postage, stationary and supplies	624	620	1
Director and investor relations	246	250	
Other	1,949	3,660	7
Total non-interest expense	**69,090**	**59,575**	**189**
Income before income taxes	**5,131**	**27,530**	
Income tax expense	562	7,998	2
Net income (loss)	**4,569**	**19,532**	**(1,**
Less: dividends on preferred stock	(3,465)	(3,465)	(10,
Net income (loss) available to common shareholders	**$ 1,104**	**$ 16,067**	**$ (11,**
Earnings (loss) per common share:			
Basic	**$ 0.03**	**$ 0.36**	**$ (0**
Diluted	**$ 0.03**	**$ 0.34**	**$ (0**
Average common shares outstanding and equivalents	**51,146**	**52,362**	**51**
Cash dividends per share of common stock	**$ 0.10**	**$ 0.08**	**$**

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Net income (loss)	**$ 4,569**	**$ 19,532**	**$ (1,528)**	**$ 64,588**
Other comprehensive income (loss) before tax:				
Unrealized gain (loss) on securities available-for-sale	3,958	(9,410)	(1,582)	15,094
Realized gain on investment securities included in net income	-	-	(2,572)	(4,366)
Other-than-temporary impairment on investment securities included in net income	246	-	246	-
Unrealized gain on cash flow hedges	119	1,798	2,190	2,189
Other comprehensive income (loss) before taxes	**4,323**	**(7,612)**	**(1,718)**	**12,917**
Income tax effect	(468)	(732)	163	(2,697)
Other comprehensive income (loss) after taxes	**3,855**	**(8,344)**	**(1,555)**	**10,220**
Comprehensive income (loss)	**$ 8,424**	**$ 11,188**	**$ (3,083)**	**$ 74,808**

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

	Nine-Month Period Ended September 30,	
	2015	2014
	(In thousands)	
Preferred stock:		
Balance at beginning of period	$ 176,000	$ 176,000
Balance at end of period	**176,000**	**176,000**
Common stock:		
Balance at beginning of period	52,626	52,707
Exercised stock options	-	54
Balance at end of period	**52,626**	**52,761**
Additional paid-in capital:		
Balance at beginning of period	539,311	538,071
Stock-based compensation expense	1,213	1,248
Exercised stock options	-	589
Lapsed restricted stock units	(436)	(386)
Balance at end of period	**540,088**	**539,522**
Legal surplus:		
Balance at beginning of period	70,467	61,957
Transfer (to) from retained earnings	(44)	6,480
Balance at end of period	**70,423**	**68,437**
Retained earnings:		
Balance at beginning of period	181,152	133,629
Net (loss) income	(1,528)	64,588
Cash dividends declared on common stock	(13,298)	(10,822)
Cash dividends declared on preferred stock	(10,396)	(10,396)
Transfer from (to) legal surplus	44	(6,480)
Balance at end of period	**155,974**	**170,519**
Treasury stock:		
Balance at beginning of period	(97,070)	(80,642)
Stock repurchased	(8,950)	(10,394)
Lapsed restricted stock units	641	384
Balance at end of period	**(105,379)**	**(90,652)**
Accumulated other comprehensive income, net of tax:		
Balance at beginning of period	19,711	3,191
Other comprehensive (loss) income, net of tax	(1,555)	10,220
Balance at end of period	**18,156**	**13,411**
Total stockholders' equity	**$ 907,888**	**$ 929,998**

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

	Nine-Month Period Ended September 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	$ **(1,528)**	$ **64,588**
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of deferred loan origination fees, net of costs	2,515	2,065
Amortization of fair value premiums, net of discounts, on acquired loans	2,972	9,914
Amortization of investment securities premiums, net of accretion of discounts	9,312	1,048
Amortization of core deposit and customer relationship intangibles	1,429	1,627
Amortization of fair value premiums on acquired deposits	569	4,349
FDIC shared-loss expense, net	38,408	53,776
Other-than-temporary impairments on securities	246	-
Reimbursement from the FDIC shared-loss coverage in sale of loans	(20,000)	-
Depreciation and amortization of premises and equipment	8,538	7,415
Deferred income tax (benefit) expense, net	(1,329)	20,418
Provision for covered and non-covered loan and lease losses, net	109,311	43,763
Stock-based compensation	1,213	1,248
(Gain) loss on:		
Sale of securities	(2,572)	(4,366)
Sale of mortgage loans held-for-sale	(2,595)	(3,891)
Derivatives	(26)	584
Foreclosed real estate, including write-offs	30,608	9,185
Sale of other repossessed assets	4,585	4,506
Sale of premises and equipment	193	(11)
Originations of loans held-for-sale	(165,333)	(130,547)
Proceeds from sale of loans held-for-sale	76,953	72,211
Net (increase) decrease in:		
Trading securities	1,011	182
Accrued interest receivable	2,720	(931)
Servicing assets	544	(185)
Other assets	(18,263)	8,538
Net increase (decrease) in:		
Accrued interest on deposits and borrowings	(745)	(1,811)
Accrued expenses and other liabilities	(11,923)	(3,099)
Net cash provided by operating activities	**66,813**	**160,576**
Cash flows from investing activities:		
Purchases of:		
Investment securities available-for-sale	(3,747)	(219,027)
Investment securities held-to-maturity	(458,229)	(115,396)
FHLB stock	-	(84,375)

Maturities and redemptions of:		
Investment securities available-for-sale	187,052	429,939
Investment securities held-to-maturity	24,753	1,045
FHLB stock	365	87,636
Proceeds from sales of:		
Investment securities available-for-sale	103,831	189,249
Foreclosed real estate and other repossessed assets	63,959	33,915
Proceeds from sale of loans held-for-investment	30,669	9,378
Premises and equipment	(76)	25
Mortgage servicing rights	5,927	-
Origination and purchase of loans, excluding loans held-for-sale	(611,815)	(545,776)
Principal repayment of loans, including covered loans	722,579	561,479
Reimbursements from the FDIC on shared-loss agreements	46,356	31,537
Additions to premises and equipment	(3,402)	(6,626)
Net change in securities purchased under agreements to resell	-	60,000
Net change in restricted cash	4,058	49,292
Net cash provided by investing activities	**112,280**	**482,295**

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014 – (CONTINUED)

	Nine-Month Period Ended September 30,			
		2015		2014
	(In thousands)			
Cash flows from financing activities:				
Net increase (decrease) in:				
Deposits		(211,637)		(306,917)
Securities sold under agreements to repurchase		20,717		(255,000)
FHLB advances, federal funds purchased, and other borrowings		(3,676)		(1,142)
Subordinated capital notes		787		1,180
Exercise of stock options and restricted units lapsed, net		204		641
Purchase of treasury stock		(8,950)		(10,394)
Dividends paid on preferred stock		(10,396)		(10,396)
Dividends paid on common stock		(13,373)		(10,873)
Net cash used in financing activities	**$**	**(226,324)**	**$**	**(592,901)**
Net change in cash and cash equivalents		**(47,231)**		**49,970**
Cash and cash equivalents at beginning of period		573,427		621,269
Cash and cash equivalents at end of period	**$**	**526,196**	**$**	**671,239**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:				
Interest paid	$	51,471	$	63,082
Income taxes paid	$	10,598	$	1,839
Mortgage loans securitized into mortgage-backed securities	$	87,609	$	71,466
Transfer from loans to foreclosed real estate and other repossessed assets	$	56,510	$	67,296
Securities purchased but not yet received	$	-	$	30,057
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	1,453	$	5,268
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	156	$	25,801

See notes to unaudited consolidated financial statements.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

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

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

Recent Accounting Developments

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability rather than as an asset. The standard does not affect the recognition and measurement of debt issuance costs; therefore, the amortization of such costs shall continue to be reported as interest expense. ASU 2015-03 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permissible for financial statements that have not been previously issued. The new guidance is to be applied on a retrospective basis to all prior periods. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

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

	September 30, 2015	December 31, 2014
	(In thousands)	
Cash pledged as collateral to other financial institutions to secure:		
Derivatives	$ 2,980	$ 2,980
Obligations under agreement of loans sold with recourse	1,369	5,427
	$ 4,349	**$ 8,407**

At September 30, 2015 and December 31, 2014, the Bank's international banking entities, Oriental International Bank Inc. ("OIB") and Oriental Overseas, a division of the Bank, each held unencumbered certificates of deposit in the amount of $300 thousand as the legal reserve required for international banking entities under Puerto Rico law. Each certificate of deposit cannot be withdrawn by OIB or Oriental Overseas without prior written approval of the Office of the Commissioner of Financial Institutions ("OCFI").

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At September 30, 2015 and December 31, 2014, the Company had delivered $3.0 million of cash as collateral for such derivatives activities.

As part of the BBVA Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At September 30, 2015 and December 31, 2014, the Company delivered as collateral cash amounting to $1.4 million and $5.4 million, respectively.

The Bank is required by Puerto Rico law to maintain average weekly reserve balances to cover government demand deposits. The amount of those minimum average reserve balances for the week that covered September 30, 2015 was $148.9 million (December 31, 2014 - $141.5 million). At September 30, 2015 and December 31, 2014, the Bank complied with the requirement. Cash and due from bank as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

NOTE 3 – INVESTMENT SECURITIES

Money Market Investments

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At September 30, 2015 and December 31, 2014, money market instruments included as part of cash and cash equivalents amounted to $4.7 million in both periods.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 777,412	$ 30,486	$ 97	$ 807,801	2.98%
GNMA certificates	30,854	1,075	-	31,929	3.31%
CMOs issued by US government-sponsored agencies	147,336	172	1,684	145,824	1.84%
Total mortgage-backed securities	**955,602**	**31,733**	**1,781**	**985,554**	**2.81%**
Investment securities					
Obligations of US government-sponsored agencies	5,572	31	-	5,603	1.36%
Obligations of Puerto Rico government and political subdivisions	18,987	-	5,194	13,793	5.53%
Other debt securities	2,593	162	-	2,755	2.95%
Total investment securities	**27,152**	**193**	**5,194**	**22,151**	**4.43%**
Total securities available for sale	**$ 982,754**	**$ 31,926**	**$ 6,975**	**$ 1,007,705**	**2.86%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 569,599	2,146	1,650	570,095	2.26%
Investment securities					
US Treasury securities	25,040	13	-	25,053	0.49%
Total securities held to maturity	**594,639**	**2,159**	**1,650**	**595,148**	**2.19%**
Total	**$ 1,577,393**	**$ 34,085**	**$ 8,625**	**$ 1,602,853**	**2.61%**

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 972,836	$ 37,876	$ 1,203	$ 1,009,509	3.12%
GNMA certificates	4,473	288	8	4,753	4.94%

CMOs issued by US government-sponsored agencies	179,146	136	3,153	176,129	1.81%
Total mortgage-backed securities	**1,156,455**	**38,300**	**4,364**	**1,190,391**	**2.92%**
Investment securities					
Obligations of US government-sponsored agencies	7,148	33	-	7,181	1.34%
Obligations of Puerto Rico government and public instrumentalities	20,939	-	5,267	15,672	5.41%
Other debt securities	3,137	157	-	3,294	2.95%
Total investment securities	**31,224**	**190**	**5,267**	**26,147**	**4.23%**
Total securities available-for-sale	**$ 1,187,679**	**$ 38,490**	**$ 9,631**	**$ 1,216,538**	**2.96%**
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	162,752	1,402	-	164,154	2.48%
Total	**$ 1,350,431**	**$ 39,892**	**$ 9,631**	**$ 1,380,692**	**2.90%**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The amortized cost and fair value of the Company's investment securities at September 30, 2015, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2015			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)		(In thousands)	
Mortgage-backed securities				
Due after 5 to 10 years				
FNMA and FHLMC certificates	$ 16,410	$ 16,772	$ -	$ -
Total due after 5 to 10 years	**16,410**	**16,772**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	761,002	791,029	569,599	570,095
GNMA certificates	30,854	31,929	-	-
CMOs issued by US government-sponsored agencies	147,336	145,824	-	-
Total due after 10 years	**939,192**	**968,782**	**569,599**	**570,095**
Total mortgage-backed securities	**955,602**	**985,554**	**569,599**	**570,095**
Investment securities				
Due from 1 to 5 years				
US Treasury securities	-	-	25,040	25,053
Obligations of Puerto Rico government and political subdivisions	8,766	7,341	-	-
Total due from 1 to 5 years	**8,766**	**7,341**	**25,040**	**25,053**
Due after 5 to 10 years				
Obligations of US government and sponsored agencies	5,572	5,603	-	-
Total due after 5 to 10 years	**5,572**	**5,603**	**-**	**-**
Due after 10 years				
Obligations of Puerto Rico government and political subdivisions	10,221	6,452	-	-
Other debt securities	2,593	2,755	-	-
Total due after 10 years	**12,814**	**9,207**	**-**	**-**
Total investment securities	**27,152**	**22,151**	**25,040**	**25,053**
Total securities available-for-sale	**$ 982,754**	**$ 1,007,705**	**$ 594,639**	**$ 595,148**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the nine-month period ended September 30, 2015 and 2014, the Company sold $63.5 million and $74.1 million, respectively, of available-for-sale Government National Mortgage Association ("GNMA") certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such periods. During the quarter ended September 30, 2015, the Company retained securitized GNMA pools totaling $27.8 million, amortized cost, at a yield of 3.06% from its own originations. Previously, the Company was selling all securitized GNMA pools.

For the nine-month periods periods ended September 30, 2015 and 2014, the Company recorded a net gain on sale of securities of $2.6 million and $4.4 million, respectively. The table below presents the gross realized gains by category for such periods:

	Nine-Month Period Ended September 30,2015			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
		(In thousands)		
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 40,307	$ 37,736	$ 2,571	$ -
GNMA certificates	63,524	63,523	1	-
Total	**$ 103,831**	**$ 101,259**	**$ 2,572**	**$ -**

	Nine-Month Period Ended September 30,2014			
Description	**Sale Price**	**Book Value at Sale**	**Gross Gains**	**Gross Losses**
		(In thousands)		
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 115,158	$ 110,792	$ 4,366	$ -
GNMA certificates	74,091	74,091	-	-
Total mortgage-backed securities	**$ 189,249**	**$ 184,883**	**$ 4,366**	**$ -**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at September 30, 2015 and December 31, 2014:

	September 30, 2015 12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 109,190	$ 1,684	$ 107,506
Obligations of Puerto Rico government and political subdivisions	18,987	5,194	13,793
	$ 128,177	**$ 6,878**	**$ 121,299**

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
FNMA and FHLMC certificates	$ 49,679	$ 97	$ 49,582
Securities held-to-maturity			
FNMA and FHLMC Certificates	342,215	1,650	340,565
	$ 391,894	**$ 1,747**	**$ 390,147**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	$ 109,190	$ 1,684	$ 107,506
FNMA and FHLMC certificates	49,679	97	49,582
Obligations of Puerto Rico government and political subdivisions	18,987	5,194	13,793
	177,856	**6,975**	**170,881**
Securities held-to-maturity			
FNMA and FHLMC Certificates	**342,215**	**1,650**	**340,565**
	$ 520,071	**$ 8,625**	**$ 511,446**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014		
	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
Obligations of Puerto Rico government and political subdivisions	$ 20,939	$ 5,267	$ 15,672
CMOs issued by US government-sponsored agencies	143,928	3,086	140,842
FNMA and FHLMC certificates	113,376	1,172	112,204
GNMA certificates	77	8	69
	$ 278,320	**$ 9,533**	**$ 268,787**

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	15,172	67	15,105
FNMA and FHLMC certificates	63,736	31	63,705
	$ 78,908	**$ 98**	**$ 78,810**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US government-sponsored agencies	159,100	3,153	155,947
FNMA and FHLMC certificates	177,112	1,203	175,909
Obligations of Puerto Rico government and political subdivisions	20,939	5,267	15,672
GNMA certificates	77	8	69
	$ 357,228	**$ 9,631**	**$ 347,597**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Most of the investments ($501.1 million, amortized cost, or 96%) with an unrealized loss position at September 30, 2015 consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The remaining investments ($19.0 million, amortized cost, or 4%) with an unrealized loss position at September 30, 2015 consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. Moreover, the negative rating decisions taken by the credit rating agencies have affected the market value and liquidity of these securities.

As of September 30, 2015, the Company applied a discounted cash flow analysis to the Puerto Rico government bonds to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of these investments was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investments, and included the following components:

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

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

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

For certain obligations totaling $17.7 million, amortized cost, or 93% of the obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities, the discounted cash flow analysis for the investments showed a cumulative default probability at maturity in the range of 6.4% to 47%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 53% and 93.6%). Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in these Puerto Rico government bonds and is therefore not required to recognize a credit loss as of September 30, 2015.

Also, the Bank's conclusion is based on the assessment of the specific source of repayment of each outstanding bond, and the bonds continue to perform. No principal is due on the bonds until July 1^{st}, 2017, except for PRHTA that started the principal repayments on July 1^{st} 2014 and was paid as scheduled. All scheduled interest payments are being collected from different issuers.

For one obligation amounting to $1.2 million, amortized cost, or 7% of the Puerto Rico government debt securities, the discounted cash flow analysis showed a cumulative default of 47% using a recovery rate of 65%. Taking into consideration that the bond is guaranteed by the full faith and credit of the Commonwealth of Puerto Rico and the recent downgrades of the general obligation debts after the government announced it needs to restructure its debt, the Company concluded that it is more likely than not that this bond will default during its remaining term until maturity in 2028. Based on the above, during the quarter ended September 30, 2015 an other-than-temporary impairment was recorded in earnings for the amount of $246 thousand, which represents the estimated loss resulting from the discounted cash flow analysis. The non-credit related portion of the unrealized losses amounting to $338 thousand was recognized in other comprehensive income, net of related taxes.

Prospectively, for debt securities for which other-than-temporary impairments was recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted as interest income. If upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes will be accounted for as a prospective adjustment to the accretable yield. Subsequent increases and decreases (if not other-than-temporary impairment) in the fair value of available-for-sale securities will be included in other comprehensive income.

Further negative evidence impacting the liquidity and sources of repayment of the obligations of Puerto Rico and its political subdivisions, could result in a further charge to earnings to recognize estimated credit losses determined to be other-than-temporary.

At September 30, 2015, the Company has cash flow capacity, sufficient liquidity and a strong capital position to maintain the bonds and does not need to sell them in a loss position and it is not likely that the Company will have to sell the investment securities prior to recovery of their amortized cost basis.

The following table presents a rollforward of credit-related impairment losses recognized in earnings for the quarter and nine-month periods ended September 30, 2015 and 2014 on available-for-sale securities that the Company does not have the intent to sell or will not more-likely-than-not be required to sell:

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$ -	$ -	$ -	$ -
Additions from credit losses recognized on available-for-sale securities that had no previous impairment losses	246	-	246	-
Balance at end of period	$ **246**	$ **-**	$ **246**	$ **-**

NOTE 4 - LOANS

The Company’s loan portfolio is composed of two segments, loans initially accounted for under the amortized cost method (referred as "originated and other" loans) and loans acquired (referred as "acquired" loans). Acquired loans are further segregated between acquired BBVAPR loans and acquired Eurobank loans. Acquired Eurobank loans were purchased subject to loss-sharing agreements with the FDIC. The FDIC loss sharing agreement, related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. Notwithstanding the expiration of loss share coverage of non-single family loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a potential sale of a pool of loss share assets covered under the non-single family loss share agreement. Pursuant to such agreement, the FDIC agreed to pay up to $20 million in loss share coverage with respect to the aggregate loss resulting from any portfolio sale within 120 days of the agreement. This sale was completed on September 28, 2015 and a $20 million receivable from the FDIC was included in other assets in the unaudited statement of financial condition related to this reimbursement. The coverage for the single family residential loans will expire on June 30, 2020. At September 30, 2015, the remaining covered loans amounting to $ 60.1 million, net carrying amount, are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties". At December 31, 2014, covered loans amounted to $298.9 million, net carrying amount. Covered loans are no longer a material amount. Therefore, the Company changed its current and prior year loan disclosures during the quarter ended September 30, 2015.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The composition of the Company's loan portfolio at September 30, 2015 and December 31, 2014 was as follows:

	September 30, 2015	Decem 31, 201
	(In thousands)	
Originated and other loans and leases held for investment:		
Mortgage	$ 762,636	$ 791
Commercial	1,389,353	1,289
Consumer	227,756	186
Auto and leasing	647,544	575
	3,027,289	**2,843**
Allowance for loan and lease losses on originated and other loans and leases	(80,351)	(51
	2,946,938	**2,792**
Deferred loan costs, net	4,571	4
Total originated and other loans loans held for investment, net	**2,951,509**	**2,796**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	7,736	12
Consumer	39,774	45
Auto	124,120	184
	171,630	**242**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-20	(5,473)	(4
	166,157	**238**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	617,268	656
Commercial	395,637	452
Construction	-	106
Consumer	15,072	29
Auto	173,979	247
	1,201,956	**1,491**
Allowance for loan and lease losses on acquired BBVAPR loans accounted for under ASC 310-30	(19,986)	(13
	1,181,970	**1,478**
Total acquired BBVAPR loans, net	**1,348,127**	**1,716**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	92,757	102
Commercial	144,704	256
Consumer	2,708	4
Total acquired Eurobank loans	**240,169**	**363**
Allowance for loan and lease losses on Eurobank loans	(90,332)	(64

Total acquired Eurobank loans, net	**149,837**	**298**
Total acquired loans, net	**1,497,964**	**2,015**
Total held for investment, net	**4,449,473**	**4,812**
Mortgage loans held for sale	19,203	14
Total loans, net	**$ 4,468,676**	**$ 4,826**

On September 28, 2015, the Company sold a portion of covered non-performing commercial loans amounting to $197.1 million unpaid principal balance or UPB ($100.0 million carrying amount). The sales price was 18.44% of UPB, or $36.3 million. The FDIC agreed to cover $20.0 million of losses as part of its loss-share agreement with the Company. As a result, a $20.0 million reimbursement was recorded in the statement of operations. The Company also recorded a $32.9 million provision for loan and lease losses for acquired Eurobank loans, which was partially offset by $4.6 million in cost recoveries. Also, as part of this transaction, the Company sold certain non-performing commercial loans and real estate owned from the BBVAPR acquisition amounting to $38.1 million unpaid principal balance ($9.9 million carrying amount). The sales price was $5.2 million. As a result, a $5.2 million provision for loan and lease losses was recorded for BBVAPR acquired loans, which was partially offset by $2.4 million in cost recoveries. In addition, certain additional real estate owned with a carrying amount of $11.0 million was sold for $1.7 million. At September 30, 2015, the Company had a $13.0 million receivable related to this sale and a $20.0 million receivable from the FDIC reimbursement.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 September 30, 2015 and December 31, 2014 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	September 30, 2015							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
	(In thousands)							
Mortgage								
Traditional (by origination year):								
Up to the year 2002	$ 81	$ 2,270	$ 3,900	$ 6,251	$ -	$ 53,330	$ 59,581	$ 73
Years 2003 and 2004	364	4,723	5,826	10,913	-	90,950	101,863	-
Year 2005	-	2,525	3,686	6,211	-	49,389	55,600	-
Year 2006	97	2,853	8,133	11,083	137	69,207	80,427	-
Years 2007, 2008 and 2009	539	2,320	15,442	18,301	-	76,017	94,318	666
Years 2010, 2011, 2012, 2013	599	1,249	10,337	12,185	-	142,346	154,531	74
Years 2014 and 2015	-	96	185	281	-	76,111	76,392	-
	1,680	16,036	47,509	65,225	137	557,350	622,712	813
Non-traditional	-	1,918	3,468	5,386	14	26,849	32,249	-
Loss mitigation program	11,696	5,981	16,001	33,678	4,786	61,703	100,167	3,757
	13,376	23,935	66,978	104,289	4,937	645,902	755,128	4,570
Home equity secured personal loans	64	-	-	64	-	451	515	-
GNMA's buy-back option program	-	-	6,993	6,993	-	-	6,993	-
	13,440	**23,935**	**73,971**	**111,346**	**4,937**	**646,353**	**762,636**	**4,570**

Commercial								
Commercial secured by real estate:								
Corporate	-	-	-	-	-	224,110	224,110	-
Institutional	-	-	-	-	-	34,342	34,342	-
Middle market	-	-	6,212	6,212	7,889	193,154	207,255	-
Retail	516	350	7,222	8,088	1,139	202,534	211,761	-
Floor plan	-	-	-	-	-	2,925	2,925	-
Real estate	-	-	-	-	-	16,766	16,766	-
	516	350	13,434	14,300	9,028	673,831	697,159	-
Other commercial and industrial:								
Corporate	-	-	-	-	-	71,714	71,714	-
Institutional	-	-	-	-	193,904	189,882	383,786	-
Middle market	20	-	223	243	2,046	105,554	107,843	-
Retail	276	255	1,204	1,735	944	89,989	92,668	-
Floor plan	178	83	475	736	-	35,447	36,183	-
	474	338	1,902	2,714	196,894	492,586	692,194	-
	990	**688**	**15,336**	**17,014**	**205,922**	**1,166,417**	**1,389,353**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2015							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**Total Loans**	**Loans 90+ Days Past Due and Still Accruing**
	(In thousands)							
Consumer								
Credit cards	436	182	344	962	-	20,186	21,148	-
Overdrafts	15	-	-	15	-	260	275	-
Personal lines of credit	31	27	39	97	21	2,066	2,184	-
Personal loans	1,798	822	862	3,482	641	183,703	187,826	-
Cash collateral personal loans	171	103	2	276	-	16,047	16,323	-
	2,451	1,134	1,247	4,832	662	222,262	227,756	-
Auto and leasing	52,412	19,215	8,986	80,613	282	566,649	647,544	-
Total	**$ 69,293**	**$ 44,972**	**$ 99,540**	**$ 213,805**	**$ 211,803**	**$ 2,601,681**	**$ 3,027,289**	**$ 4,570**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014							
	30-59 Days Past Due	**60-89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current in Non-Accrual**	**Current Accruing**	**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	455	87,506	109,669	-
Year 2005	3,824	2,205	4,454	10,483	131	49,858	60,472	-
Year 2006	5,706	3,298	8,667	17,671	548	67,331	85,550	89
Years 2007, 2008 and 2009	5,283	1,809	7,646	14,738	761	77,990	93,489	-
Years 2010, 2011, 2012, 2013	3,394	2,992	6,900	13,286	-	149,030	162,316	365
Year 2014	290	-	-	290	-	41,818	42,108	-
	33,109	18,196	38,551	89,856	1,895	527,597	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	6,358	57,666	93,443	2,766
	42,785	25,886	55,888	124,559	8,253	616,179	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**	**8,253**	**616,696**	**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	8,494	154,515	164,050	-
Retail	330	561	7,275	8,166	1,445	166,017	175,628	-
Floor plan	-	-	-	-	-	1,650	1,650	-
Real estate	-	-	-	-	-	12,628	12,628	-
	330	1,206	7,671	9,207	9,939	504,497	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	1,047	86,785	90,171	-
Floor plan	-	-	-	-	-	40,903	40,903	-
	866	412	1,679	2,957	1,047	762,085	766,089	-

	1,196	**1,618**	**9,350**	**12,164**	**10,986**	**1,266,582**	**1,289,732**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	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	9	1,962	2,200	-
Personal loans	1,822	743	678	3,243	337	144,359	147,939	-
Cash collateral personal loans	275	39	9	323	-	16,920	17,243	-
	2,579	**946**	**1,164**	**4,689**	**346**	**181,725**	**186,760**	**-**
Auto and leasing	**47,658**	**16,916**	**7,420**	**71,994**	**145**	**503,443**	**575,582**	**-**
Total	**$94,218**	**$45,366**	**$116,065**	**$255,649**	**$19,730**	**$2,568,446**	**$2,843,825**	**$3,354**

During the quarter ended September 30, 2015, the Company changed its early delinquency reporting on mortgage loans from one scheduled payment due to two scheduled payments due in order to comply with regulatory reporting instructions and be comparable with local peers, except for troubled debt restructured loans which remain using one scheduled payment due.

At September 30, 2015 and December 31, 2014, the Company had $338.3 million and $450.2 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. All loans granted to Puerto Rico government were current at September 30, 2015 and December 31, 2014. We, as part of a bank syndicate, have granted various extensions to the Puerto Rico Electric Power Authority ("PREPA") and on November 5, 2015 entered into a Restructuring Support Agreement with a view towards restructuring the debt on terms that provide for full repayment of the debt to the Bank. After the first extension in the third quarter of 2014, 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 PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual and recorded a $24 million provision during the first quarter of 2015, based on management's concerns regarding PREPA's willingness to repay the debt. At September 30, 2015, the allowance for loan and lease losses to PREPA was $23.4 million. Since it was placed in non-accrual, interest payments have been applied to principal.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Loans

Acquired loans were initially measured at fair value and subsequently accounted for under either Accounting Standards Codification Topic ("ASC") 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality) or ASC 310-20 (Non-refundable fees and Other Costs). We have acquired loans in two acquisitions, BBVAPR and Eurobank.

Acquired BBVAPR 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, excluding the acquired Eurobank loan 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. Acquired BBVAPR loans 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 BBVAPR loans accounted for under ASC 310-20 as of September 30, 2015 and December 31, 2014, by class of loans:

	September 30, 2015							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)							

Commercial								
Commercial secured by real estate								
Retail	$ -	$ -	$ 279	$ 279	$ 47	$ -	$ 326	$ -
Floor plan	-	-	478	478	-	2,470	2,948	-
	-	-	757	757	47	2,470	3,274	-
Other commercial and industrial								
Retail	228	24	61	313	-	3,475	3,788	-
Floor plan	-	10	7	17	1	656	674	-
	228	34	68	330	1	4,131	4,462	-
	228	**34**	**825**	**1,087**	**48**	**6,601**	**7,736**	**-**
Consumer								
Credit cards	825	422	769	2,016	-	34,510	36,526	-
Personal loans	89	14	41	144	-	3,104	3,248	-
	914	**436**	**810**	**2,160**	**-**	**37,614**	**39,774**	**-**
Auto	**9,010**	**2,921**	**1,040**	**12,971**	**49**	**111,100**	**124,120**	**-**
Total	**$ 10,152**	**$ 3,391**	**$ 2,675**	**$ 16,218**	**$ 97**	**$ 155,315**	**$ 171,630**	**$ -**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current in Non-Accrual	Current Accruing	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	2	3,705	4,121	-
Floor plan	202	134	223	559	10	3,503	4,072	-
	357	201	415	973	12	7,208	8,193	-
	357	**263**	**1,111**	**1,731**	**12**	**10,932**	**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**	**76**	**168,988**	**184,782**	**-**
Total	**$ 12,887**	**$ 4,417**	**$ 3,849**	**$ 21,153**	**$ 88**	**$ 221,560**	**$ 242,801**	**$ -**

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

Acquired BBVAPR loans, 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 acquired BBVAPR loans with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at September 30, 2015 and December 31, 2014 is as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Contractual required payments receivable	$2,022,672	$2,394,378
Less: Non-accretable discount	$442,103	$456,627
Cash expected to be collected	1,580,569	1,937,751
Less: Accretable yield	378,613	445,946
Carrying amount, gross	1,201,956	1,491,805
Less: allowance for loan and lease losses	19,986	13,481
Carrying amount, net	**$1,181,970**	**$1,478,324**

At September 30, 2015 and December 31, 2014, the Company had $80.2 million and $168.8 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its acquired BBVAPR loans accounted for under ASC 310-30. This entire amount was current at September 30, 2015 and December 31, 2014.

The following tables describe the accretable yield and non-accretable discount activity of acquired BBVAPR loans accounted for under ASC 310-30 for the quarters and nine-month periods ended September 30, 2015 and 2014:

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2015					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 275,880	$ 71,563	$ 24,613	$ 31,531	$ 8,461	$ 412,048
Accretion	(8,614)	(12,693)	(2,719)	(5,463)	(1,207)	(30,696)
Change in expected cash flows	-	6,134	1,396	(1)	(1)	7,528
Transfer (to) from non-accretable discount	75	(6,450)	(4,075)	148	35	(10,267)
Balance at end of period	**$ 267,341**	**$ 58,554**	**$ 19,215**	**$ 26,215**	**$ 7,288**	**$ 378,613**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 389,107	$ 10,770	$ 6,994	$ 23,690	$ 19,356	$ 449,917
Change in actual and expected losses	(2,184)	(12,090)	(2,937)	(555)	(315)	(18,081)
Transfer from (to) accretable yield	(75)	6,450	4,075	(148)	(35)	10,267
Balance at end of period	**$ 386,848**	**$ 5,130**	**$ 8,132**	**$ 22,987**	**$ 19,006**	**$ 442,103**

	Nine-Month Period Ended September 30, 2015					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 298,364	$ 61,196	$ 25,829	$ 53,998	$ 6,559	$ 445,946
Accretion	(26,414)	(33,049)	(8,672)	(18,614)	(3,420)	(90,169)
Change in expected cash flows	-	6,134	1,396	(1)	(1)	7,528
Transfer (to) from non-accretable discount	(4,609)	24,273	662	(9,168)	4,150	15,308
Balance at end of period	**$ 267,341**	**$ 58,554**	**$ 19,215**	**$ 26,215**	**$ 7,288**	**$ 378,613**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 389,839	$ 23,069	$ 3,486	$ 16,215	$ 24,018	$ 456,627
Change in actual and expected losses	(7,600)	6,334	5,308	(2,396)	(862)	784
Transfer from (to) accretable yield	4,609	(24,273)	(662)	9,168	(4,150)	(15,308)
Balance at end of period	**$ 386,848**	**$ 5,130**	**$ 8,132**	**$ 22,987**	**$ 19,006**	**$ 442,103**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2014					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 269,105	$ 70,491	$ 30,672	$ 64,620	$ 9,718	$ 444,606
Accretion	(9,627)	(12,575)	(5,929)	(8,825)	(1,384)	(38,340)
Transfer (to) from non-accretable discount	-	1,137	(3,550)	237	40	(2,136)
Balance at end of period	**$ 259,478**	**$ 59,053**	**$ 21,193**	**$ 56,032**	**$ 8,374**	**$ 404,130**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 455,789	$ 41,050	$ 5,388	$ 27,279	$ 25,218	$ 554,724
Change in actual and expected losses	(15,802)	(4,215)	(8,937)	(2,800)	(1,119)	(32,873)
Transfer from (to) accretable yield	-	(1,137)	3,550	(237)	(40)	2,136
Balance at end of period	**$ 439,987**	**$ 35,698**	**$ 1**	**$ 24,242**	**$ 24,059**	**$ 523,987**

	Nine-Month Period September 30, 2014					
	Mortgage	Commercial	Construction	Auto	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 287,841	96,139	42,993	77,845	12,735	517,553
Accretion	(28,359)	(37,509)	(16,388)	(31,243)	(4,824)	(118,323)
Transfer (to) from non-accretable discount	(4)	423	(5,412)	9,430	463	4,900
Balance at end of period	**$ 259,478**	**59,053**	**21,193**	**56,032**	**8,374**	**404,130**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 463,166	42,515	5,851	39,645	28,410	579,587
Change in actual and expected losses	(23,183)	(6,394)	(11,262)	(5,973)	(3,888)	(50,700)
Transfer from (to) accretable yield	4	(423)	5,412	(9,430)	(463)	(4,900)
Balance at end of period	**$ 439,987**	**35,698**	**1**	**24,242**	**24,059**	**523,987**

Acquired Eurobank Loans

The carrying amount of acquired Eurobank loans at September 30, 2015 and December 31, 2014 is as follows:

	September 30 2015	December 31 2014
	(In thousands)	

Contractual required payments receivable	$	357,702	$	535,425
Less: Non-accretable discount		21,675		62,410
Cash expected to be collected		336,027		473,015
Less: Accretable yield		95,858		109,859
Carrying amount, gross		240,169		363,156
Less: Allowance for covered loan and lease losses		90,332		64,245
Carrying amount, net	**$**	**149,837**	**$**	**298,911**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables describe the accretable yield and non-accretable discount activity of acquired Eurobank loans for the quarters and nine-month periods periods ended September 30, 2015 and 2014:

	Quarter Ended September 30, 2015					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 55,806	$ 27,473	$ 18,349	$ 1,103	$ 1,910	$ 104,641
Accretion	(3,543)	(10,100)	(1,446)	(711)	(214)	(16,014)
Change in expected cash flows	4,320	43,775	(10,749)	270	118	37,734
Transfer from (to) non-accretable discount	(2,188)	(30,400)	175	307	1,603	(30,503)
Balance at end of period	**$ 54,395**	**$ 30,748**	**$ 6,329**	**$ 969**	**$ 3,417**	**$ 95,858**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 11,402	$ -	$ -	$ -	$ 9,730	$ 21,132
Change in actual and expected losses	(8)	(30,400)	175	307	(34)	(29,960)
Transfer from (to) accretable yield	2,188	30,400	(175)	(307)	(1,603)	30,503
Balance at end of period	**$ 13,582**	**$ -**	**$ -**	**$ -**	**$ 8,093**	**$ 21,675**

	Nine-Month Period Ended September 30, 2015					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 47,636	$ 37,919	$ 20,753	$ 2,479	$ 1,072	$ 109,859
Accretion	(10,337)	(28,002)	(2,470)	(3,040)	(427)	(44,276)
Change in expected cash flows	4,320	43,775	(10,749)	270	118	37,734
Transfer from (to) non-accretable discount	12,776	(22,944)	(1,205)	1,260	2,654	(7,459)
Balance at end of period	**$ 54,395**	**$ 30,748**	**$ 6,329**	**$ 969**	**$ 3,417**	**$ 95,858**

Non-Accretable Discount Activity:						
Balance at beginning of period	$ 27,348	$ 24,464	$ -	$ -	$ 10,598	$ 62,410
Change in actual and expected losses	(990)	(47,408)	(1,205)	1,260	149	(48,194)
Transfer from (to) accretable yield	(12,776)	22,944	1,205	(1,260)	(2,654)	7,459
Balance at end of period	**$ 13,582**	**$ -**	**$ -**	**$ -**	**$ 8,093**	**$ 21,675**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2014					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 50,586	$ 70,227	$ -	$ 5,100	$ 2,148	$ 128,061
Accretion	(3,882)	(13,044)	(1,056)	(2,500)	(404)	(20,886)
Transfer from (to) non-accretable discount	-	698	1,056	305	750	2,809
Balance at end of period	**$ 46,704**	**$ 57,881**	**$ -**	**$ 2,905**	**$ 2,494**	**$ 109,984**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 29,859	$ 46,596	$ -	$ -	$ 8,769	$ 85,224
Change in actual and expected losses	(888)	(5,648)	1,056	305	700	(4,475)
Transfer (to) from accretable yield	-	(698)	(1,056)	(305)	(750)	(2,809)
Balance at end of period	**$ 28,971**	**$ 40,250**	**$ -**	**$ -**	**$ 8,719**	**$ 77,940**

	Nine-Month Period Ended September 30, 2014					
	Loans Secured by 1-4 Family Residential Properties	Commercial and Other Construction	Construction & Development Secured by 1-4 Family Residential Properties	Leasing	Consumer	Total
	(In thousands)					
Accretable Yield Activity:						
Balance at beginning of period	$ 53,250	$ 95,093	$ 1,690	$ 10,238	$ 2,688	$ 162,959
Accretion	(12,079)	(45,037)	(3,206)	(7,888)	(944)	(69,154)
Transfer from (to) non-accretable discount	5,533	7,825	1,516	555	750	16,179
Balance at end of period	**$ 46,704**	**$ 57,881**	**$ -**	**$ 2,905**	**$ 2,494**	**$ 109,984**
Non-Accretable Discount Activity:						
Balance at beginning of period	$ 39,182	$ 81,092	$ -	$ -	$ 9,203	$ 129,477
Change in actual and expected losses	(4,678)	(33,017)	1,516	555	266	(35,358)
Transfer (to) from accretable yield	(5,533)	(7,825)	(1,516)	(555)	(750)	(16,179)
Balance at end of period	**$ 28,971**	**$ 40,250**	**$ -**	**$ -**	**$ 8,719**	**$ 77,940**

At September 30, 2015, $92.8 million in gross loans continue subject to the loss-sharing agreements with the FDIC and are disclosed under the name "loans secured by 1-4 family residential properties." At September 30, 2015, the net carrying amount of these loans was $60.1 million.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

The following table presents the recorded investment in loans in non-accrual status by class of loans as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(In thousands)	
Originated and other loans and leases held for investment		
Mortgage		
Traditional (by origination year):		
Up to the year 2002	$ 3,827	$ 4,427
Years 2003 and 2004	6,275	7,042
Year 2005	3,686	4,585
Year 2006	8,270	9,274
Years 2007, 2008 and 2009	14,949	8,579
Years 2010, 2011, 2012, 2013	10,264	7,365
Years 2014 and 2015	185	-
	47,456	41,272
Non-traditional	3,482	3,224
Loss mitigation program	19,227	20,934
	70,165	**65,430**
Commercial		
Commercial secured by real estate		
Middle market	14,101	9,534
Retail	8,958	9,000
	23,059	18,534
Other commercial and industrial		
Institutional	193,904	-
Middle market	2,270	618
Retail	2,364	2,527
Floor plan	475	-
	199,013	3,145
	222,072	**21,679**
Consumer		
Credit cards	344	375
Personal lines of credit	60	110
Personal loans	1,598	1,092
Cash collateral personal loans	2	13
	2,004	**1,590**
Auto and leasing	**10,076**	**8,668**
Total non-accrual originated loans	**$ 304,317**	**$ 97,367**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

		September 30, 2015		December 31, 2014
		(In thousands)		
Acquired BBVAPR loans accounted for under ASC 310-20				
Commercial				
Commercial secured by real estate				
Retail	$	326	$	351
Floor plan		477		407
		803		758
Other commercial and industrial				
Retail		61		195
Floor plan		9		234
		70		429
		873		**1,187**
Consumer				
Credit cards		769		1,399
Personal loans		41		77
		810		**1,476**
Auto		**1,244**		**1,512**
Total non-accrual acquired BBVAPR loans accounted for under ASC 310-20		**2,927**		**4,175**
Total non-accrual loans	**$**	**307,244**	**$**	**101,542**

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

Delinquent residential mortgage loans insured or guaranteed under applicable FHA and VA programs are classified as non-performing loans when they become 90 days or more past due, but are not placed in non-accrual status until they become 18 months or more past due, since they are insured loans. Therefore, these loans are included as non-performing loans but excluded from non-accrual loans.

During the quarter ended March 31, 2015, the revolving line of credit to PREPA was classified as non-accrual. At September 30, 2015, this line of credit had an unpaid principal balance of $193.9 million. For the second and third quarter of 2015, interest payments received were applied to principal. As of September 30, 2015, the specific reserve was $23.4 million.

At September 30, 2015 and December 31, 2014, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $91.2 million and $274.4 million, respectively, as they are performing under their new terms. At December 31, 2014, the balance included the revolving line of credit to PREPA.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

The Company evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans was $233.6 million and $236.9 million at September 30, 2015 and December 31, 2014, respectively. Impaired commercial loans at September 30, 2015 and December 31, 2014 included the PREPA line of credit with an unpaid principal balance of $193.9 million and $200.0 million, respectively. 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 $26.8 million and $841 thousand at September 30, 2015 and December 31, 2014, respectively. The valuation allowance for impaired commercial loans at September 30, 2015 includes $23.4 million of specific allowance for PREPA recorded during the quarter ended March 31, 2015.The total investment in impaired mortgage loans was $90.5 million and $94.2 million at September 30, 2015 and December 31, 2014, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to $8.2 million and $9.0 million at September 30, 2015 and December 31, 2014, respectively.

Originated and Other Loans and Leases Held for Investment

The Company's recorded investment in commercial and mortgage loans, excluding acquired Eurobank 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 September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with specific allowance:				
Commercial	$ 213,930	$ 206,227	$ 26,809	13%
Residential troubled-debt restructuring	97,203	90,530	8,249	9%
Impaired loans with no specific allowance:				
Commercial	30,464	26,887	N/A	N/A
Total investment in impaired loans	**$ 341,597**	**$ 323,644**	**$ 35,058**	**11%**

	December 31, 2014			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired BBVAPR Loans

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

The Company's recorded investment in acquired BBVAPR commercial loans accounted for under ASC 310-20 that were individually evaluated for impairment and the related allowance for loan and lease losses at September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015			
	Unpaid Principal	Recorded Investment	Related Allowance	Coverage
	(In thousands)			
Impaired loans with no specific allowance				
Commercial	$ 494	$ 485	N/A	N/A
Total investment in impaired loans	**$ 494**	**$ 485**	**$ -**	**-**

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

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

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

	September 30, 2015			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools:				
Mortgage	$ 617,268	$ 22,762	$ 557	2%
Commercial	307,271	185,274	11,780	6%
Construction	88,365	88,202	4,787	5%

Auto		173,979		173,979		2,862	2%
Total investment in impaired loan pools	**$**	**1,186,883**	**$**	**470,217**	**$**	**19,986**	4%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31 , 2014			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired 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 loan pools	**$ 415,826**	**$ 369,258**	**$ 13,481**	4%

The tables above only present information with respect to acquired BBVAPR loans and pools accounted for under ASC 310-30 if there is a recorded impairment to such loans or loan pools and a specific allowance for loan losses. As of September 30, 2015, the Company eliminated the specific allowance of $5 thousand maintained on impaired acquired BBVAPR consumer loan pool accounted under ASC 310-30 because there was an increase in the net present value of cash flows expected to be collected from such pool when compared with the recorded investment. Likewise, the increase in mortgage and auto loan pools from December 31, 2014 to September 30, 2015 was caused by the establishment of a specific reserve with respect to impaired mortgage and auto loan pools that were required based on the net present value of the cash flows expected to be collected.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Eurobank Loans

The Company's recorded investment in acquired Eurobank loan pools that have recorded impairments and their related allowance for loan and lease losses as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools:				
Loans secured by 1-4 family residential properties	$ 108,537	$ 105,734	$ 32,685	31%
Construction and development secured by 1-4 family residential properties	11,506	3,185	2,707	85%
Commercial and other construction	137,163	128,543	54,697	43%
Consumer	6,935	2,708	243	9%
Total investment in impaired loan pools	**$ 264,141**	**$ 240,170**	**$ 90,332**	38%

	December 31, 2014			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired loan pools with specific allowance				
Loans secured by 1-4 family residential properties	$ 134,579	$ 106,116	$ 15,522	15%
Construction and development secured by 1-4 family residential properties	57,123	19,562	10,724	55%
Commercial and other construction	93,894	74,069	37,610	51%
Consumer	7,992	4,506	389	9%
Total investment in impaired loan pools	**$ 293,588**	**$ 204,253**	**$ 64,245**	31%

The decrease in construction loan pools from December 31, 2014 to September 30, 2015 was mostly caused by the sale of covered commercial loans during the quarter ended September 30, 2015. The increase in loans secured by 1-4 family residential properties, commercial and other construction loan pools from December 31, 2014 to September 30, 2015 was caused by the establishment of a specific reserve with respect to impaired commercial and other construction loan pools that were required based on the net present value of the cash flows expected to be collected.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the interest recognized on commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30, for the quarters and nine-month periods ended September 30, 2015 and 2014:

	Quarter Ended September 30,			
	2015		2014	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Originated and other loans held for investment:				
Impaired loans with specific allowance				
Commercial	$ 37	$ 207,610	$ 28	$ 5,103
Residential troubled-debt restructuring	788	90,278	666	91,293
Impaired loans with no specific allowance				
Commercial	365	31,159	1,728	89,029
	1,190	**329,047**	**2,422**	**185,425**
Acquired loans accounted for under ASC 310-20:				
Impaired loans with no specific allowance				
Commercial	-	1,077	-	-
Total interest income from impaired loans	**$ 1,190**	**$ 330,124**	**$ 2,422**	**$ 185,425**

	Nine-Month Period Ended September 30,			
	2015		2014	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Originated and other loans held for investment:				
Impaired loans with specific allowance				
Commercial	$ 73	$ 166,633	$ 83	$ 6,187
Residential troubled-debt restructuring	2,381	90,903	1,876	89,597
Impaired loans with no specific allowance				
Commercial	727	74,247	5,185	44,203
	$ 3,181	**$ 331,783**	**$ 7,144**	**$ 139,987**
Acquired loans accounted for under ASC 310-20:				
Impaired loans with no specific allowance				
Commercial	-	1,641	-	-
Total interest income from impaired loans	**$ 3,181**	**$ 333,424**	**$ 7,144**	**$ 139,987**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

The following tables present the troubled-debt restructurings during the quarters and nine-month periods ended September 30, 2015 and 2014:

	Quarter Ended September 30, 2015						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	30	$ 3,846	6.34%	338	$ 3,992	4.45%	180
Commercial	3	1,001	6.50%	12	8,511	3.19%	12
Consumer	27	170	12.41%	70	400	12.32%	52

	Nine-Month Period Ended September 30, 2015						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	127	$ 15,455	5.07%	346	$ 15,586	4.21%	306
Commercial	7	5,534	6.77%	67	13,045	4.52%	57
Consumer	59	567	13.87%	71	840	13.33%	60
Auto	1	64	12.95%	72	65	12.95%	72

	Quarter Ended September 30, 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-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	26	$ 3,016	5.62%	347	$ 2,965	4.22%	393
Commercial	20	200,007	7.25%	3	200,007	7.25%	10
Consumer	6	58	10.00%	61	68	9.66%	55

	Nine-Month Period Ended September 30, 2014						
	Number of	Pre-Modification Outstanding	Pre-Modification Weighted	Pre-Modification Weighted	Post-Modification Outstanding	Post-Modification Weighted	Post-Modification Weighted

	contracts	Recorded Investment	Average Rate	Average Term (in Months)	Recorded Investment	Average Rate	Average Term (in Months)
				(Dollars in thousands)			
Mortgage	113	$ 14,562	5.99%	349	$ 14,162	4.21%	389
Commercial	21	200,080	7.25%	3	200,080	7.25%	10
Consumer	13	123	11.77%	55	139	11.48%	62

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents troubled-debt restructurings for which there was a payment default during the twelve-month periods ended September 30, 2015 and 2014:

	Twelve-Month Period Ended September 30,					
	2015			2014		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
	(Dollars in thousands)					
Mortgage	49	$	5,396	15	$	1,739
Consumer	8	$	177	2	$	5
Auto	1	$	64	-	$	-

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of September 30, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of gross originated and other loans and BBVAPR acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

	September 30, 2015					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 224,110	$ 206,678	$ 15,227	$ -	$ -	$ 2,205
Institutional	34,342	26,101	8,023	-	-	218
Middle market	207,255	182,617	9,368	-	-	15,270
Retail	211,761	191,523	4,633	4,821	-	10,784
Floor plan	2,925	2,925	-	-	-	-
Real estate	16,766	16,766	-	-	-	-
	697,159	626,610	37,251	4,821	-	28,477
Other commercial and industrial:						
Corporate	71,714	66,054	-	-	-	5,660
Institutional	383,786	189,882	-	-	-	193,904
Middle market	107,843	102,757	2,395	-	-	2,691
Retail	92,668	87,839	673	2,110	-	2,046
Floor plan	36,183	33,453	2,169	225	-	336
	692,194	479,985	5,237	2,335	-	204,637
Total	1,389,353	1,106,595	42,488	7,156	-	233,114
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Retail	326	-	-	326	-	-
Floor plan	2,948	1,641	829	-	-	478
	3,274	1,641	829	326	-	478
Other commercial and industrial:						
Retail	3,788	3,777	-	11	-	-
Floor plan	674	666	-	1	-	7
	4,462	4,443	-	12	-	7
Total	7,736	6,084	829	338	-	485
Total	**$ 1,397,089**	**$ 1,112,679**	**$ 43,317**	**$ 7,494**	**$ -**	**$ 233,599**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014 Risk Ratings					
	Balance Outstanding	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Individually Measured for Impairment**
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 133,076	$ 109,282	$ 15,615	$ -	$ -	$ 8,179
Institutional	36,611	27,089	9,284	-	-	238
Middle market	164,050	148,360	2,817	-	-	12,873
Retail	175,628	159,209	3,690	2,637	-	10,092
Floor plan	1,650	692	958	-	-	-
Real estate	12,628	12,628	-	-	-	-
	523,643	457,260	32,364	2,637	-	31,382
Other commercial and industrial:						
Corporate	63,746	63,746	-	-	-	-
Institutional	478,935	278,953	-	-	-	199,982
Middle market	92,334	87,126	2,815	-	-	2,393
Retail	90,171	85,941	259	2,575	-	1,396
Floor plan	40,903	38,413	1,247	126	-	1,117
	766,089	554,179	4,321	2,701	-	204,888
Total	1,289,732	1,011,439	36,685	5,338	-	236,270
Commercial - acquired loans						
(under ASC 310-20)						
Commercial secured by real estate:						
Retail	351	-	-	351	-	-
Floor plan	4,131	3,724	-	-	-	407
	4,482	3,724	-	351	-	407
Other commercial and industrial:						
Retail	4,121	4,080	8	33	-	-
Floor plan	4,072	3,807	-	-	-	265
	8,193	7,887	8	33	-	265
Total	12,675	11,611	8	384	-	672
Total	**$ 1,302,407**	**$ 1,023,050**	**$ 36,693**	**$ 5,722**	**$ -**	**$ 236,942**

All loans individually measured for impairment are classified as substandard at September 30, 2015 and December 31, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2015 and December 31, 2014, the Company had outstanding credit facilities of approximately $418.5 million and $619.0 million, respectively, granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities. A substantial portion of the Company's credit exposure to Puerto Rico's government consists of collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Approximately $203 million of these loans are general obligations debt of municipalities secured by *ad valorem* taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations debt.

In addition, 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 State Insurance Fund Corporation. The Commonwealth's instrumentalities or public corporations have varying degrees of independence from the central government. Some instrumentalities or public corporations that provide essential or important government services, such as the University of Puerto Rico, the Puerto Rico Medical Services Administration and the Puerto Rico Metropolitan Bus Authority, are supported by the Commonwealth through budget appropriations, while others, such as PREPA, are owed substantial amounts for utility services rendered to the Commonwealth.

At September 30, 2015, we had approximately $215.6 million of credit facilities to central government and public corporations of the Commonwealth, including:

- PREPA with an outstanding balance of $193.9 million; and
- The Puerto Rico Housing Finance Authority with an outstanding balance of $20.9 million to be repaid from abandoned or unclaimed funds at financial institutions that revert to the government under a Puerto Rico escheat law.

The outstanding balance of credit facilities to public corporations decreased during the second quarter as a result of a repayment in full of a $75 million loan by the Puerto Rico Aqueduct and Sewer Authority and in the third quarter as a result of a repayment in full of a $78 million loan by the State Insurance Fund Corporation.

Oriental Bank is part of a four bank syndicate providing a $550 million revolving line of credit to finance the purchase of fuel for PREPA's day-to-day power generation activities. Our participation in the line of credit has an unpaid principal balance of $193.9 million as of September 30, 2015. As part of the bank syndicate, the Bank entered into a forbearance agreement with PREPA, which was extended several times until the execution of a Restructuring Support Agreement on November 5, 2015 with PREPA and certain other creditors. The Restructuring Support Agreement provides for the restructuring of the fuel line of credit subject to the accomplishment of several milestones, including some milestones that depend on the actions of third parties to the agreement, such as the negotiation of agreements with other creditors and legislative action. The Company has classified the credit facility to PREPA as substandard and on non-accrual status. 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 PREPA had sufficient cash flows for the repayment of the line of credit. Despite the Company's analysis showing PREPA's capacity to repay the line of credit, the Company placed its participation in non-accrual and recorded a $24 million provision during the first quarter of 2015. Since April 1, 2015, interest payments have been applied to principal. At September 30, 2015, the specific allowance for PREPA amounted to $23.4 million.

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. Although the Puerto Rico government is actively seeking the right to bankruptcy relief for some of its public instrumentalities, including PREPA, both through an amendment to the federal bankruptcy code and the enactment of a local debt restructuring law, such efforts have thus far been unsuccessful.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of September 30, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of gross originated and other loans and acquired BBVAPR loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

	September 30, 2015 Delinquency							
	Balance Outstanding	**0-29 days**	**30-59 days**	**60-89 days**	**90-119 days**	**120-364 days**	**365+ days**	**Individually Measured for Impairment**
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 59,581	$ 52,550	$ 82	$ 2,267	$ 999	$ 1,083	$ 1,818	$ 782
Years 2003 and 2004	101,863	89,211	364	4,723	1,763	1,064	2,999	1,739
Year 2005	55,600	48,517	-	2,525	287	1,192	2,208	871
Year 2006	80,427	65,839	97	2,854	1,070	1,708	5,354	3,505
Years 2007, 2008 and 2009	94,318	72,491	281	2,151	1,447	3,926	9,984	4,038
Years 2010, 2011, 2012 2013	154,531	139,927	538	1,248	139	4,007	4,338	4,334
Years 2014 and 2015	76,392	76,111	-	96	-	185	-	-
	622,712	544,646	1,362	15,864	5,705	13,165	26,701	15,269
Non-traditional	32,249	26,863	-	1,918	375	1,362	1,731	-
Loss mitigation program	100,167	16,289	2,479	1,530	1,194	1,723	1,691	75,261
	755,128	587,798	3,841	19,312	7,274	16,250	30,123	90,530
Home equity secured personal loans	515	451	64	-	-	-	-	-
GNMA's buy-back option program	6,993	-	-	-	973	3,840	2,180	-
	762,636	**588,249**	**3,905**	**19,312**	**8,247**	**20,090**	**32,303**	**90,530**
Consumer								
Credit cards	21,148	20,186	436	182	123	221	-	-
Overdrafts	275	260	15	-	-	-	-	-

Unsecured personal lines of credit	2,184	2,087	31	27	39	-	-	-
Unsecured personal loans	187,826	184,441	1,737	786	835	27	-	-
Cash collateral personal loans	16,323	16,047	171	103	-	2	-	-
	227,756	**223,021**	**2,390**	**1,098**	**997**	**250**	**-**	**-**
Auto and Leasing	**647,544**	**566,993**	**52,350**	**19,215**	**6,668**	**2,318**	**-**	**-**
	1,637,936	**1,378,263**	**58,645**	**39,625**	**15,912**	**22,658**	**32,303**	**90,530**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	36,526	34,511	825	422	351	417	-	-
Personal loans	3,248	3,102	89	14	11	32	-	-
	39,774	**37,613**	**914**	**436**	**362**	**449**	**-**	**-**
Auto	**124,120**	**111,149**	**9,010**	**2,921**	**752**	**288**	**-**	**-**
	163,894	**148,762**	**9,924**	**3,357**	**1,114**	**737**	**-**	**-**
Total	**$ 1,801,830**	**$ 1,527,025**	**$ 68,569**	**$ 42,982**	**$ 17,026**	**$ 23,395**	**$ 32,303**	**$ 90,530**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014							
		Delinquency						
	Balance Outstanding	**0-29 days**	**30-59 days**	**60-89 days**	**90-119 days**	**120-364 days**	**365+ days**	**Individually Measured for Impairment**
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 65,744	$ 53,432	$ 3,963	$ 3,083	$ 1,044	$ 1,360	$ 1,975	$ 887
Years 2003 and 2004	109,669	86,941	10,391	4,362	1,657	3,215	1,330	1,773
Year 2005	60,472	49,275	3,824	2,205	389	1,673	1,893	1,213
Year 2006	85,550	65,113	5,263	2,967	1,242	2,801	4,624	3,540
Years 2007, 2008 and 2009	93,489	76,246	4,230	1,809	337	3,986	2,813	4,068
Years 2010, 2011, 2012 2013	162,316	148,832	2,698	2,490	938	1,397	1,296	4,665
Year 2014	42,108	41,818	290	-	-	-	-	-
	619,348	521,657	30,659	16,916	5,607	14,432	13,931	16,146
Non-traditional	36,200	30,916	1,477	584	478	600	2,096	49
Loss mitigation program	93,443	10,882	995	1,123	802	405	1,246	77,990
	748,991	563,455	33,131	18,623	6,887	15,437	17,273	94,185
Home equity secured personal loans	517	517	-	-	-	-	-	-
GNMA's buy-back option program	42,243	-	-	-	6,416	20,729	15,098	-
	791,751	**563,972**	**33,131**	**18,623**	**13,303**	**36,166**	**32,371**	**94,185**
Consumer								
Credit cards	19,071	18,198	360	139	171	203	-	-
Overdrafts	307	287	20	-	-	-	-	-
Unsecured personal lines of credit	2,200	1,970	102	25	38	62	3	-
Unsecured personal loans	147,939	144,696	1,822	743	623	55	-	-
Cash collateral personal loans	17,243	16,920	275	39	9	-	-	-
	186,760	**182,071**	**2,579**	**946**	**841**	**320**	**3**	**-**
Auto and Leasing	**575,582**	**503,588**	**47,658**	**16,916**	**5,196**	**2,224**	**-**	**-**

	1,554,093	**1,249,631**	**83,368**	**36,485**	**19,340**	**38,710**	**32,374**	**94,185**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	41,848	38,419	1,376	654	589	810	-	-
Personal loans	3,496	3,221	151	47	39	38	-	-
	45,344	**41,640**	**1,527**	**701**	**628**	**848**	**-**	**-**
Auto	**184,782**	**169,064**	**11,003**	**3,453**	**767**	**495**	**-**	**-**
	230,126	**210,704**	**12,530**	**4,154**	**1,395**	**1,343**	**-**	**-**
Total	**$ 1,784,219**	**$ 1,460,335**	**$ 95,898**	**$ 40,639**	**$ 20,735**	**$ 40,053**	**$ 32,374**	**$ 94,185**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the Company's allowance for loan and lease losses at September 30, 2015 and December 31, 2014 was as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Allowance for loans and lease losses on non-acquired loans:		
Originated and other loans and leases held for investment:		
Mortgage	$ 17,292	$ 19,679
Commercial	35,524	8,432
Consumer	10,816	9,072
Auto and leasing	16,674	14,255
Unallocated	45	1
Total allowance for originated and other loans and lease losses	**80,351**	**51,439**
Acquired loans:		
Acquired BBVAPR loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)		
Commercial	22	65
Consumer	3,057	1,211
Auto	2,394	3,321
	5,473	**4,597**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)		
Mortgage	473	-
Commercial	16,567	13,476
Consumer	84	5
Auto	2,862	-
	19,986	**13,481**
Total allowance for acquired BBVAPR loans and lease losses	**105,810**	**69,517**
Acquired Eurobank loans:		
Loans secured by 1-4 family residential properties	32,685	15,522
Commercial and other construction	57,280	48,334
Consumer	367	389
Total allowance for acquired Eurobank loan and lease losses	**90,332**	**64,245**
Total allowance for loan and lease losses	**$ 196,142**	**$ 133,762**

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.

As part of the Company’s continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended June 30, 2015 an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer and commercial loan portfolios. The analysis was based on the trends observed and their relation with the economic cycle as of the period ended June 30, 2015. As a result, for the commercial portfolio, the look-back period was changed to 36 months from the previously determined 12 months. For auto and leasing and consumer, a look back period of 24 months was maintained. In addition, during the quarter ended June 30, 2015, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration the

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others. These changes in the allowance for loan and lease losses' look-back period and the result of the assessment in 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. No changes were made during the quarter ended September 30, 2015.

Allowance for Originated and Other Loan and Lease Losses Held for Investment

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

	Quarter Ended September 30, 2015					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	T
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 18,076	$ 34,779	$ 10,464	$ 15,064	$ 606	$
Charge-offs	(1,058)	(828)	(2,471)	(8,510)	-	(1
Recoveries	270	63	186	3,251	-	
Provision (recapture) for originated and other loans and lease losses	4	1,510	2,637	6,869	(561)	
Balance at end of period	**$ 17,292**	**$ 35,524**	**$ 10,816**	**$ 16,674**	**$ 45**	**$**

	Nine-Month Period Ended September 30, 20					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	To
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 19,679	$ 8,432	$ 9,072	$ 14,255	$ 1	$ 5
Charge-offs	(3,829)	(2,317)	(6,456)	(24,307)	-	(36
Recoveries	338	372	729	10,060	-	1
Provision (recapture) for originated and other loans and lease losses	1,104	29,037	7,471	16,666	44	5
Balance at end of period	**$ 17,292**	**$ 35,524**	**$ 10,816**	**$ 16,674**	**$ 45**	**$ 8**

	September 30, 2015					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	T

	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 8,249	$ 26,809	$ -	$ -	$ -	$
Collectively evaluated for impairment	9,043	8,715	10,816	16,674	45	
Total ending allowance balance	**$ 17,292**	**$ 35,524**	**$ 10,816**	**$ 16,674**	**$ 45**	**$**
Loans:						
Individually evaluated for impairment	$ 90,530	$ 233,114	$ -	$ -	$ -	$ 3
Collectively evaluated for impairment	672,106	1,156,239	227,756	647,544	-	2,7
Total ending loan balance	**$ 762,636**	**$ 1,389,353**	**$ 227,756**	**$ 647,544**	**$ -**	**$ 3,0**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2014					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Tot
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 19,062	$ 12,423	$ 7,887	$ 11,127	$ 139	$ 50
Charge-offs	(1,563)	(1,081)	(1,585)	(7,393)	-	(11,
Recoveries	138	56	66	2,434	-	2
Provision (recapture) for originated and other loan and lease losses	1,235	(2,286)	2,341	7,236	43	8
Balance at end of period	**$ 18,872**	**$ 9,112**	**$ 8,709**	**$ 13,404**	**$ 182**	**$ 50**

	Nine-Month Period Ended September 30, 20					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	
	(In thousands)					
Allowance for loan and lease losses for originated and other loans:						
Balance at beginning of period	$ 19,937	$ 14,897	$ 6,006	$ 7,866	$ 375	$
Charge-offs	(3,764)	(2,043)	(3,820)	(17,994)	-	(
Recoveries	374	269	457	6,094	-	
Provision (recapture) for originated and other loan and lease losses	2,325	(4,011)	6,066	17,438	(193)	
Balance at end of period	**$ 18,872**	**$ 9,112**	**$ 8,709**	**$ 13,404**	**$ 182**	**$**

	December 31, 2014					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	To
	(In thousands)					
Allowance for loan and lease losses on originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 8,968	$ 841	$ -	$ -	$ -	$
Collectively evaluated for impairment	10,711	7,591	9,072	14,255	1	4
Total ending allowance balance	**$ 19,679**	**$ 8,432**	**$ 9,072**	**$ 14,255**	**$ 1**	**$ 5**
Loans:						
Individually evaluated for impairment	$ 94,185	$ 236,270	$ -	$ -	$ -	$ 33
Collectively evaluated for impairment	697,566	1,053,462	186,760	575,582	-	2,51
Total ending loan balance	**$ 791,751**	**$ 1,289,732**	**$ 186,760**	**$ 575,582**	**$ -**	**$ 2,84**

During the quarter ended March 31, 2015 the Company placed its $200 million participation in a line of credit to PREPA on non-accrual status and recorded a $24.0 million provision for loan and lease losses. Since April 1, 2015, interest payments received have been applied to principal. As of September 30, 2015, the specific reserve was maintained at $23.4 million.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Allowance for BBVAPR Acquired Loan Losses

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 BBVAPR acquired loan portfolio, excluding loans accounted for under ASC 310-30, for the periods indicated:

	Quarter Ended September 30, 2015				
	Commercial	Consumer	Auto	Unallocated	Total
	(In thousands)				
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:					
Balance at beginning of period	$ 54	$ 2,616	$ 2,859	$ -	$ 5,529
Charge-offs	(22)	(1,103)	(1,150)	-	(2,275)
Recoveries	7	59	502	-	568
Provision (recapture) for acquired BBVAPR loan and lease losses accounted for under ASC 310-20	(17)	1,485	183	-	1,651
Balance at end of period	**$ 22**	**$ 3,057**	**$ 2,394**	**$ -**	**$ 5,473**

	Nine-Month Period Ended September 30, 2015				
	Commercial	Consumer	Auto	Unallocated	Total
	(In thousands)				
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:					
Balance at beginning of period	$ 65	$ 1,211	$ 3,321	$ -	$ 4,597
Charge-offs	(38)	(3,789)	(3,454)	-	(7,281)
Recoveries	24	622	1,574	-	2,220
Provision (recapture) for acquired BBVAPR	(29)	5,013	953	-	5,937

loan and lease losses accounted for under ASC 310-20										
Balance at end of period	**$**	**22**	**$**	**3,057**	**$**	**2,394**	**$**	**-**	**$**	**5,473**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2015				
	Commercial	**Consumer**	**Auto**	**Unallocated**	**Total**
			(In thousands)		
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:					
Ending allowance balance attributable to loans:					
Collectively evaluated for impairment	$ 22	$ 3,057	$ 2,394	$ -	$ 5,473
Total ending allowance balance	**$ 22**	**$ 3,057**	**$ 2,394**	**$ -**	**$ 5,473**
Loans:					
Individually evaluated for impairment	$ 485	$ -	$ -	$ -	$ 485
Collectively evaluated for impairment	7,251	39,774	124,120	-	171,145
Total ending loan balance	**$ 7,736**	**$ 39,774**	**$ 124,120**	**$ -**	**$ 171,630**

	Quarter Ended September 30, 2014				
	Commercial	**Consumer**	**Auto**	**Unallocated**	**Total**
			(In thousands)		
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:					
Balance at beginning of period	**$ 464**	**$ 338**	**$ 2,642**	**$ -**	**$ 3,444**
Charge-offs	(228)	(1,432)	(1,748)	-	(3,408)
Recoveries	35	139	519	-	693
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20	(1)	1,986	1,746	-	3,731
Balance at end of period	**$ 270**	**$ 1,031**	**$ 3,159**	**$ -**	**$ 4,460**

	Nine-Month Period Ended September 30, 2014				
	Commercial	**Consumer**	**Auto**	**Unallocated**	**Total**
			(In thousands)		
Allowance for loan and lease losses for acquired BBVAPR loans					

accounted for under ASC 310-20:										
Balance at beginning of period	**$**	**926**	**$**	**-**	**$**	**1,428**	**$**	**-**	**$**	**2,354**
Charge-offs		(512)		(5,442)		(4,414)		-		(10,368)
Recoveries		65		363		1,504		-		1,932
Provision (recapture) for acquired loan and lease losses accounted for under ASC 310-20		(209)		6,110		4,641		-		10,542
Balance at end of period	**$**	**270**	**$**	**1,031**	**$**	**3,159**	**$**	**-**	**$**	**4,460**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014				
	Commercial	Consumer	Auto (In thousands)	Unallocated	Total
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-20:					
Ending allowance balance attributable to loans:					
Collectively evaluated for impairment	$ 65	$ 1,211	$ 3,321	$ -	$ 4,597
Total ending allowance balance	**$ 65**	**$ 1,211**	**$ 3,321**	**$ -**	**$ 4,597**
Loans:					
Individually evaluated for impairment	$ 672	$ -	$ -	$ -	$ 672
Collectively evaluated for impairment	12,003	45,344	184,782	-	242,129
Total ending loan balance	**$ 12,675**	**$ 45,344**	**$ 184,782**	**$ -**	**$ 242,801**

<u>*Loans Accounted for under ASC 310-30 (including those accounted for under ASC 310-30 by analogy)*</u>

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

	Quarter Ended September 30, 2015				
	Mortgage	Commercial	Consumer (In thousands)	Auto	Total
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:					
Balance at beginning of period	$ 473	$ 14,940	$ 84	$ 2,862	$ 18,359
Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	-	5,979	-	-	5,979
Loan pools fully charged-off	-	(4,352)	-	-	(4,352)
Balance at end of period	**$ 473**	**$ 16,567**	**$ 84**	**$ 2,862**	**$ 19,986**

	Nine-Month Period Ended September 30, 2015				
	Mortgage	Commercial	Consumer (In thousands)	Auto	Total
Allowance for loan and lease losses for acquired BBVAPR loans					

accounted for under ASC 310-30:										
Balance at beginning of period	$	-	$	13,476	$	5	$	-	$	13,481
Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30		473		7,443		79		2,862		10,857
Loan pools fully charged-off		-		(4,352)		-		-		(4,352)
Balance at end of period	**$**	**473**	**$**	**16,567**	**$**	**84**	**$**	**2,862**	**$**	**19,986**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended Septe 2014			
	Mortgage	**Commercial**	**Consumer**	**Au**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:				
Balance at beginning of period	$-	$6,216	$62	$-
Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	-	3,899	(57)	-
Balance at end of period	**$-**	**$10,115**	**$5**	**$-**

	Nine-Month Period E September 30, 2014			
	Mortgage	**Commercial**	**Consumer**	**Au**
	(In thousands)			
Allowance for loan and lease losses for acquired BBVAPR loans accounted for under ASC 310-30:				
Balance at beginning of period	$-	$1,713	$418	$7
Provision (recapture) for acquired BBVAPR loans and lease losses accounted for under ASC 310-30	-	8,402	(413)	(
Balance at end of period	**$-**	**$10,115**	**$5**	**$-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Allowance for Acquired Eurobank Loan Losses

The changes in the allowance for loan and lease losses on acquired Eurobank loans for the quarters and nine-month periods ended September 30, 2015 and 2014 were as follows:

	Quarter Ended September 30, 2015				
	Loans Secured by 1-4 Family Residential Properties	Commercial	Consumer	Leasing	Total
	(In thousands)				
Allowance for loan and lease losses for acquired Eurobank loans:					
Balance at beginning of period	$ 17,593	$ 53,470	$ 389	$ -	$ 71,452
Provision for acquired Eurobank loans and lease losses, net	15,813	17,398	279	-	33,490
Loan pools fully charged-off	(721)	(13,588)	(301)	-	(14,610)
Balance at end of period	**$ 32,685**	**$ 57,280**	**$ 367**	**$ -**	**$ 90,332**

	Nine-Month Period Ended September 30, 2015				
	Loans Secured by 1-4 Family Residential Properties	Commercial	Consumer	Leasing	Total
	(In thousands)				
Allowance for loan and lease losses for acquired Eurobank loans:					
Balance at beginning of period	$ 15,522	$ 48,334	$ 389	$ -	$ 64,245
Provision for acquired Eurobank loans and lease losses, net	17,779	$ 20,136	279	-	38,194
Loan pools fully charged-off	(721)	(13,588)	(301)	-	(14,610)
FDIC shared-loss portion of provision for loan and lease losses, net	105	2,398	-	-	2,503
Balance at end of period	**$ 32,685**	**$ 57,280**	**$ 367**	**$ -**	**$ 90,332**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2014				
	Mortgage	Commercial	Consumer	Leasing	Total
	(In thousands)				
Allowance for loan and lease losses for acquired Eurobank loans:					
Balance at beginning of period	$ 14,924	$43,976	$ 615	$-	$59,515
Provision for (recapture of) acquired Eurobank loans and lease losses, net	(165)	1,461	(181)	-	1,115
FDIC shared-loss portion of provision for loan and lease losses, net	493	1,149	(45)	-	1,597
Balance at end of period	**$ 15,252**	**$46,586**	**$ 389**	**$-**	**$62,227**

	Nine-Month Period Ended September 30, 2014				
	Mortgage	Commercial	Consumer	Leasing	Total
	(In thousands)				
Allowance for loan and lease losses for Eurobank loans:					
Balance at beginning of period	$ 12,495	$39,619	$ 615	$-	$52,729
Provision for Eurobank loans and lease losses, net	2,144	2,376	(181)	-	4,339
FDIC shared-loss portion of provision for Eurobank loans and lease losses, net	613	4,591	(45)	-	5,159
Balance at end of period	**$ 15,252**	**$46,586**	**$ 389**	**$-**	**$62,227**

The FDIC shared-loss portion of provision for (recapture of) acquired Eurobank 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. The FDIC loss sharing obligations, related to commercial and other-non single family acquired Eurobank loans expired on June 30, 2015. The coverage for the single family residential loans will expire on June 30, 2020. The remaining covered loans are included as part of acquired Eurobank loans under the name "loans secured by 1-4 family residential properties." At September 30, 2015, allowance for loan losses on loans covered by the FDIC shared-loss agreement amounted $32.7 million and the provision for loan losses for the quarter and nine-month period ended September 30, 2015 was $15.8 million and $18.1 million, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the quarters and nine-month periods ended September 30, 2015 and 2014:

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
FDIC indemnification asset:				
Balance at beginning of period	$ 22,704	$ 143,660	$ 97,378	$ 189,240
Shared-loss agreements reimbursements from the FDIC	-	(12,837)	(17,171)	(31,537)
Shared-loss agreements reimbursements expected from the FDIC	-	-	(20,917)	-
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net	-	1,597	2,503	5,159
FDIC indemnification asset expense	(1,215)	(16,059)	(35,948)	(51,180)
Incurred expenses to be reimbursed under shared-loss agreements	1,406	4,258	(2,950)	8,937
Balance at end of period	**$ 22,895**	**$ 120,619**	**$ 22,895**	**$ 120,619**
True-up payment obligation:				
Balance at beginning of period	$ 23,577	$ 20,231	$ 21,981	$ 18,510
Change in true-up payment obligation	864	875	2,460	2,596
Balance at end of period	**$ 24,441**	**$ 21,106**	**$ 24,441**	**$ 21,106**

The FDIC shared- loss expense bears an inverse relationship with a change in the yield of covered loan pools in accordance with ASC 310-30. ASC 310-30 dictates that such pools should be subject to increases in their yield when the present value of the expected cash flows is higher than the pool's carrying balance. When the increases in cash flow expectations are driven by reductions in the expected credit losses, the Bank recognizes that such losses are no longer expected to be collected from the FDIC. Accordingly, the Bank reduces the FDIC indemnification asset by amortizing the reduction in expected collections throughout the remaining life of the underlying pools. This amortization is recognized in the FDIC shared-loss expense.

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.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The FDIC loss share coverage for the commercial loans and other non-single family loans was in effect until June 30, 2015. The coverage for the single family residential loans will expire on June 30, 2020. Accordingly, the Company amortized the remaining portion of the FDIC indemnification asset attributable to non-single family loans at the close of the second quarter of 2015. At September 30, 2015, the Company had a $25 million receivable from the FDIC, included in other assets in the unaudited statements of financial condition, corresponding to the loss-share certifications for commercial and other non-single family loans for the second quarter of 2015. At September 30, 2015, the FDIC indemnification asset reflects only the balance for single family residential mortgage loans. Notwithstanding the expiration of loss share coverage of non-single family loans, on July 2, 2015, the Company entered into an agreement with the FDIC pursuant to which the FDIC concurred with a potential sale of a pool of loss share assets covered under the non-single family loss share agreement. Pursuant to such agreement, the FDIC agreed to pay up to $20 million in loss share coverage with respect to the aggregate loss resulting from any portfolio sale within 120 days of the agreement. This sale was completed on September 28, 2015 and a $20 million receivable from the FDIC was included in other assets in the unaudited statements of financial condition related to this reimbursement.

The FDIC indemnification asset expense of $1.2 million and $35.9 million for the quarter and nine-month period ended September 30, 2015, respectively, decreased when compared to $16.1 million and $51.2 million for the same periods in 2014. The decrease during the quarter and nine-month period was principally driven by the expiration of the FDIC loss share coverage for commercial loans and other non-single family loans. During the nine-month periods ended September 30, 2015 and 2014, the amortization expense totaled $2.3 million and $594 thousand, respectively, primarily as a result of stepped up cost recoveries on certain construction, commercial, and leasing pools.

Also in connection with the FDIC assisted acquisition, the Bank agreed to make a true-up payment, also known as a 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 premium (discount) of ($227.5 million) (or ($56.9 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 $24.4 million and $22.0 million, net of discount, as of September 30, 2015 and December 31, 2014, respectively. The estimated liability is included within accrued expenses and other liabilities in the unaudited consolidated statements of financial condition.

The true-up payment obligation, also known as clawback liability, may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value. During the quarters and nine-month periods ended September 30, 2015 and 2014 the fair value of the true-up payment obligation increased by $864 thousand and

$2.5 million and $875 thousand and $2.6 million, respectively. These changes in fair value are included as change in true-up payment obligation within FDIC shared-loss expense, net, in the unaudited consolidated statements of operations.

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at September 30, 2015 and December 31, 2014:

		September 30, 2015		December 31, 2014
		(In thousands)		
Carrying amount (fair value)	$	24,441	$	21,981
Undiscounted amount	$	33,385	$	40,266

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7 - SERVICING ASSETS

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

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

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

At September 30, 2015, the servicing asset amounted to $6.5 million ($14.0 million — December 31, 2014) related to mortgage servicing rights.

During the second quarter of 2015, the Company completed the sale of certain servicing assets for approximately $7.0 million. The Company recognized a loss of $2.7 million related to this transaction, which is included as other non-interest (loss) income in the unaudited consolidated statements of operations.

The following table presents the changes in servicing rights measured using the fair value method for the quarters and nine-month periods ended September 30, 2015 and 2014:

	Quarter Ended September 30,	Nine-Month Period Ended September 30,

		2015		2014		2015		2014
		(In thousands)				(In thousands)		
Fair value at beginning of year	$	5,791	$	13,970	$	13,992	$	13,801
Sale of mortgage servicing rights		-		-		(6,985)		-
Servicing from mortgage securitizations or asset transfers		748		554		2,808		1,608
Changes due to payments on loans		(242)		(427)		(974)		(799)
Changes in fair value related to price of MSR's held for sale		-		-		(2,716)		-
Changes in fair value due to changes in valuation model inputs or assumptions		166		(111)		338		(624)
Fair value at end of year	$	**6,463**	$	**13,986**	$	**6,463**	$	**13,986**

The following table presents key economic assumption ranges used in measuring the mortgage-related servicing asset fair value for nine-month periods ended September 30, 2015 and 2014:

	Nine-Month Period Ended September 30,	
	2015	2014
Constant prepayment rate	5.49% - 10.58%	5.60% - 10.08%
Discount rate	10.00% - 12.00%	10.00% - 12.00%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

		September 30, 2015 (In thousands)
Mortgage-related servicing asset		
Carrying value of mortgage servicing asset	$	6,463
Constant prepayment rate		
Decrease in fair value due to 10% adverse change	$	(183)
Decrease in fair value due to 20% adverse change	$	(356)
Discount rate		
Decrease in fair value due to 10% adverse change	$	(256)
Decrease in fair value due to 20% adverse change	$	(493)

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

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

Servicing fee income is based on a contractual percentage of the outstanding principal balance and is recorded as income when earned. Servicing fees on mortgage loans for the quarter and nine-month period ended September 30, 2015 totaled $374 thousand and $705 thousand, respectively. Servicing fees on mortgage loans for the quarter and nine-month period ended September 30, 2014 totaled $190 thousand and $341 thousand, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8 — DERIVATIVES

The following table presents the Company's derivative assets and liabilities at September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014	
	(In thousands)			
Derivative assets:				
Options tied to S&P 500 Index	$	1,115	$	5,555
Interest rate swaps not designated as hedges		2,139		2,399
Interest rate caps		36		152
Other		-		1
	$	**3,290**	**$**	**8,107**
Derivative liabilities:				
Interest rate swaps designated as cash flow hedges		6,395		8,585
Interest rate swaps not designated as hedges		2,139		2,399
Interest rate caps		36		152
Other		52		85
	$	**8,622**	**$**	**11,221**

Interest Rate Swaps

The Company enters into interest rate swap contracts to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in a predetermined variable index rate. The interest rate swaps effectively fix the Company's interest payments on an amount of forecasted interest expense attributable to the variable index rate corresponding to the swap notional stated rate. These swaps are designated as cash flow hedges for the forecasted wholesale borrowing transactions, are properly documented as such, and therefore, qualify for cash flow hedge accounting. Any gain or loss associated with the effective portion of the cash flow hedges is recognized in other comprehensive income (loss) and is subsequently reclassified into operations 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 (loss) related to these interest rate swaps to operations in the next twelve months.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these swaps and their terms at September 30, 2015:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
Interest Rate Swaps	$ 25,000	2.4400%	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	2.6400%	1-Month LIBOR	05/05/11	07/30/12	07/30/16
	50,000	2.6600%	1-Month LIBOR	05/05/11	08/10/12	08/10/16
	100,000	2.6800%	1-Month LIBOR	05/05/11	08/16/12	08/16/16
	38,322	2.4200%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$ 263,322					

An accumulated unrealized loss of $6.4 million and $8.6 million was recognized in accumulated other comprehensive income (loss) related to the valuation of these swaps at September 30, 2015 and December 31, 2014, respectively, and the related liability is being reflected in the accompanying unaudited consolidated statements of financial condition.

For September 30, 2015 and December 31, 2014, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $2.1 million and $2.4 million, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At September 30, 2015 and December 31, 2014, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $2.1 million and $2.4 million, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition.

The following table shows a summary of these interest rate swaps not designated as hedging instruments and their terms at September 30, 2015:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
Interest Rate Swaps - Derivatives Offered to Clients	$ 3,819	5.1300%	1-Month LIBOR	07/03/06	07/03/16
	12,500	5.5100%	1-Month LIBOR	04/11/09	04/11/19
	$ 16,319				
Interest Rate Swaps - Mirror Image Derivatives	$ 3,819	5.1300%	1-Month LIBOR	07/03/06	07/03/16

12,500	5.5100%	1-Month LIBOR	04/11/09	04/11/19
$ 16,319				

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. The Company uses option agreements with major broker-dealers to manage its exposure to changes in this index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the index in exchange for a fixed premium. The changes in fair value of the option agreements used to manage the exposure in the stock market in the certificates of deposit are recorded in earnings. At September 30, 2015 and December 31, 2014, the purchased options used to manage exposure to the S&P 500 Index on stock indexed deposits represented an asset of $1.1 million (notional amount of $3.4 million) and $5.6 million (notional amount of $10.7 million), respectively, and the options sold to customers embedded in the certificates of deposit and recorded as deposits in the unaudited consolidated statements of financial condition, represented a liability of $1.0 million (notional amount of $3.2 million) and $5.5 million (notional amount of $10.5 million), respectively.

Interest Rate Caps

The Company has entered into interest rate cap transactions with various clients with floating-rate debt who wish to protect their financial results against increases in interest rates. In these cases, the Company simultaneously enters into mirror-image interest rate cap transactions with financial counterparties. None of these cap transactions qualify for hedge accounting, and therefore, they are marked to market through earnings. For both September 30, 2015 and December 31, 2014, the outstanding total notional amount of interest rate caps was $109.9 million. At September 30, 2015 and December 31, 2014, the interest rate caps sold to clients represented a liability of $36 thousand and $152 thousand, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition. At September 30, 2015 and December 31, 2014, the interest rate caps purchased as mirror-images represented an asset of $36 thousand and $152 thousand, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial condition.

NOTE 9 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at September 30, 2015 and December 31, 2014 consists of the following:

		September 30, 2015		December 31, 2014
		(In thousands)		
Loans, excluding loans accounted for under ASC 310-30	$	13,953	$	17,005
Investments		4,672		4,340

	$	**18,625**	**$**	**21,345**

Other assets at September 30, 2015 and December 31, 2014 consist of the following:

		September 30, 2015		December 31, 2014
		(In thousands)		
FDIC receivable	$	44,849	$	14,974
Prepaid expenses		14,151		16,018
Receivable from sale of non-performing loans and foreclosed real estate		12,989		-
Other repossessed assets		8,948		21,800
Core deposit and customer relationship intangibles		8,314		9,743
Mortgage tax credits		6,277		6,277
Investment in Statutory Trust		1,083		1,083
Accounts receivable and other assets		44,433		38,830
	$	**141,044**	**$**	**108,725**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2015, the FDIC receivable included a $24.9 million receivable corresponding to the FDIC loss-share certification from the second quarter of 2015 for non-single family residential loans, as the loss share period on these loans was in effect until June 30, 2015. In addition, the FDIC receivable included $20.0 million corresponding to FDIC shared-loss portion of losses in the sale of certain covered non-performing commercial loans during the quarter ended September 30, 2015 as part of an agreement made with the FDIC in July 2015. At December 31, 2014, the FDIC receivable included a $15.0 million receivable corresponding to the FDIC loss-share certification from the third quarter of 2014 that was received in January 2015.

At September 30, 2015, the Company had a $13.0 million receivable related to the bulk sale of non-performing covered and non-covered commercial loans and foreclosed real estate during the quarter ended September 30, 2015.

Prepaid expenses amounting to $14.2 million and $16.0 million at September 30, 2015 and December 31, 2014, respectively, include prepaid municipal, property and income taxes aggregating to $9.3 million and $9.6 million, respectively.

In connection with the FDIC-assisted acquisition and the BBVAPR Acquisition, the Company recorded a core deposit intangible representing the value of checking and savings deposits acquired. At September 30, 2015 and December 31, 2014, this core deposit intangible amounted to $5.6 million and $6.5 million, respectively. In addition, the Company recorded a customer relationship intangible amounting to $5.0 million representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition as of December 31, 2012. At September 30, 2015 and December 31, 2014, this customer relationship intangible amounted to $2.7 million and $3.3 million, respectively.

Other repossessed assets totaled $8.9 million and $21.8 million at September 30, 2015 and December 31, 2014, respectively, include repossessed automobiles amounting to $8.3 million and $20.7 million, respectively, which are recorded at their net realizable value.

At both September 30, 2015 and December 31, 2014, tax credits for the Company totaled $6.3 million. These tax credits do not have an expiration date.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 10— DEPOSITS AND RELATED INTEREST

Total deposits, including related accrued interest payable, as of September 30, 2015 and December 31, 2014 consist of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Non-interest bearing demand deposits	$ 792,110	$ 745,570
Interest-bearing savings and demand deposits	2,330,018	2,544,664
Individual retirement accounts	272,276	302,622
Retail certificates of deposit	456,320	452,150
Institutional certificates of deposit	213,224	260,090
Total core deposits	**4,063,948**	**4,305,096**
Brokered deposits	653,126	619,310
Total deposits	$ **4,717,074**	$ **4,924,406**

Brokered deposits include $577.6 million in certificates of deposits and $75.5 million in money market accounts at September 30, 2015, and $526.2 million in certificates of deposits and $93.1 million in money market accounts at December 31, 2014.

The weighted average interest rate of the Company’s deposits was 0.56% at September 30, 2015 and 0.66% at December 31, 2014. Interest expense for the quarters and nine-month periods ended September 30, 2015 and 2014 was as follows:

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Demand and savings deposits	$ 2,987	$ 4,003	$ 9,469	$ 13,834
Certificates of deposit	3,664	3,658	10,890	11,970
	$ 6,651	**$ 7,661**	**$ 20,359**	**$ 25,804**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2015 and December 31, 2014, demand and interest-bearing deposits and certificates of deposit included deposits of Puerto Rico Cash & Money Market Fund, Inc., which amounted to $102.8 million and $96.8 million, respectively, with a weighted average rate of 0.77% and 0.78%, and were collateralized with investment securities with a fair value of $83.2 million and $76.3 million, respectively.

At September 30, 2015 and December 31, 2014, time deposits in denominations of $100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $574.4 million and $608.1 million, respectively. Such amounts include public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of $9.8 million at a weighted average rate of 0.52% at September 30, 2015, and $6.9 million at a weighted average rate of 0.50% at December 31, 2014.

At September 30, 2015 and December 31, 2014, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $175.0 million and $318.5 million, respectively. These public funds were collateralized with commercial loans amounting to $411.4 million and $414.5 million at September 30, 2015 and December 31, 2014, respectively.

Excluding equity indexed options in the amount of $1.0 million, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interest of $1.1 million and unamortized deposit discount in the amount of $381 thousand, the scheduled maturities of certificates of deposit at September 30, 2015 are as follows:

		September 30, 2015 **(In thousands)**
Within one year:		
Three (3) months or less	$	207,581
Over 3 months through 1 year		738,878
		946,459
Over 1 through 2 years		396,619
Over 2 through 3 years		113,719
Over 3 through 4 years		13,027
Over 4 through 5 years		47,020
	$	**1,516,844**

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 $682 thousand and $845 thousand as of September 30, 2015 and December 31, 2014, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 11 — BORROWINGS AND RELATED INTEREST

Securities Sold under Agreements to Repurchase

At September 30, 2015, securities underlying agreements to repurchase were delivered to, and are being held by, the counterparties with whom the repurchase agreements were transacted. The counterparties have agreed to resell to the Company the same or similar securities at the maturity of these agreements.

At September 30, 2015 and December 31, 2014, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $2.1 million and $2.3 million, respectively, were as follows:

	September 30, 2015		December 31, 2014	
	Borrowing Balance	Fair Value of Underlying Collateral	Borrowing Balance	Fair Value of Underlying Collateral
	(In thousands)			
JP Morgan Chase Bank NA	328,532	354,353	307,816	328,198
Credit Suisse Securities (USA) LLC	670,000	745,025	670,000	760,327
Total	**$ 998,532**	**$ 1,099,378**	**$ 977,816**	**$ 1,088,525**

The following table shows a summary of the Company's repurchase agreements and their terms, excluding accrued interest in the amount of $2.1 million, at September 30, 2015:

Year of Maturity	Borrowing Balance (In thousands)	Weighted-Average Coupon	Settlement Date	Maturity Date
2015	$ 57,400	0.500%	8/20/2015	10/1/2015
	31,132	0.470%	9/22/2015	10/22/2015
2016	170,000	1.500%	12/6/2012	12/8/2016
	240,000	0.950%	12/10/2012	9/30/2016

2017		500,000	4.780%	3/2/2007	3/2/2017
	$	**998,532**	**2.921%**		

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the repurchase liability associated with the repurchase agreement transactions (excluding accrued interest) by maturity. Also, it includes the carrying value and approximate market value of collateral (excluding accrued interest) at September 30, 2015 and December 31, 2014. The information excludes repurchase agreement transactions which were collateralized with cash.

	September 30, 2015				
			Market Value of Underlying Collateral		
	Repurchase Liability	Weighted Average Rate	FNMA and FHLMC Certificates	GNMA Certificates	Total
			(Dollars in thousands)		
Less than 90 days	88,532	0.49%	95,023	-	95,023
Over 90 days	910,000	3.16%	1,001,926	2,429	1,004,355
Total	**$ 998,532**	**2.92%**	**$ 1,096,949**	**$ 2,429**	**$ 1,099,378**

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

Advances from the Federal Home Loan Bank of New York

Advances are received from the Federal Home Loan Bank of New York (the "FHLB-NY") under an agreement whereby the Company is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At September 30, 2015 and December 31, 2014, these advances were secured by mortgage and commercial loans amounting to $1.1 billion and $1.2 billion, respectively. Also, at September 30, 2015 and December 31, 2014, the Company had an additional borrowing capacity with the FHLB-NY of $600.4 million and $606.6 million, respectively. At September 30, 2015 and December 31, 2014, the weighted average remaining maturity of FHLB's advances was 6.9 months and 8.8 months, respectively. The original terms of these advances range between one day and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of September 30, 2015.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $343 thousand, at September 30, 2015:

Year of Maturity		Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)			
2015	$	25,000	0.47%	9/4/2015	10/5/2015
		50,000	0.48%	9/10/2015	10/13/2015
		100,000	0.53%	9/16/2015	10/16/2015
		25,000	0.44%	9/24/2015	10/26/2015
		25,000	0.40%	9/30/2015	10/30/2015
		38,322	0.41%	9/1/2015	10/1/2015
		263,322			
2017		4,326	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		9,945	2.59%	7/19/2013	7/20/2020
	$	**332,593**	**0.83%**		

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 $102.4 million at September 30, 2015 and $101.6 million at December 31, 2014.

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

		Redemption fund (In thousands)
Redemption fund - September 30, 2015	$	60,300
2015		1,675
2016		5,025
	$	**67,000**

Other borrowings

Other borrowings, presented in the unaudited consolidated statements of financial condition amounted to $1.7 million and $4.0 million at September 30, 2015 and December 31, 2014, respectively, which mainly consists of unsecured fixed-rate borrowings.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

The following table presents the potential effect of rights of set-off associated with the Company's recognized financial assets and liabilities at September 30, 2015 and December 31, 2014:

	September 30, 2015					
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	**$ 3,290**	**$ -**	**$ 3,290**	**$ 2,016**	**$ -**	**$ 1,274**

	December 31, 2014				
				Gross Amounts Not Offset in the Statement of Financial Condition	
	Gross Amount	Gross Amounts Offset in the Statement of	Net amount of Assets Presented in Statement		Cash

	of Recognized Assets	Financial Condition	of Financial Condition	Financial Instruments	Collateral Received	Net Amount
			(In thousands)			
Derivatives	**$ 8,107**	**$ -**	**$ 8,107**	**$ 2,006**	**$ -**	**$ 6,101**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2015					
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 9,663	$ -	$ 9,663	$ -	$ 2,980	$ 6,683
Securities sold under agreements to repurchase	998,532	-	998,532	1,099,378	-	(100,846)
Total	**$ 1,008,195**	**$ -**	**$ 1,008,195**	**$ 1,099,378**	**$ 2,980**	**$ (94,163)**

	December 31, 2014					
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 16,698	$ -	$ 16,698	$ -	$ 2,980	$ 13,718
Securities sold under agreements to repurchase	977,816	-	977,816	1,088,525	-	(110,709)
Total	**$ 994,514**	**$ -**	**$ 994,514**	**$ 1,088,525**	**$ 2,980**	**$ (96,991)**

NOTE 13 — RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. The activity and balance of these loans for the quarters and the nine-month periods ended September 30, 2015 and 2014 was as follows:

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Balance at the beginning of period	$ 33,318	$ 24,151	$ 27,011	$ 18,963
New loans and disbursements	5,866	319	13,489	14,166
Repayments	(7,450)	1,174	(8,766)	(7,485)
Balance at the end of period	**$ 31,734**	**$ 25,644**	**$ 31,734**	**$ 25,644**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 — INCOME TAXES

On May 29, 2015 the Governor signed Act No. 72 of 2015. The main purpose of this 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, for taxable years beginning after December 31, 2014, are as follows: (1) establishes a new definition of "large taxpayers," which require them to file its tax return following a special procedure established by the Secretary of the Treasury, (2) net operating losses carried forward may be deducted up to 70% of the alternative minimum net income for purposes of computing the alternative minimum tax, and (3) net operating losses carried forward may be deducted up to 80% of the net income for purposes of computing the regular corporate income tax.

At September 30, 2015 and December 31, 2014, the Company's net deferred tax asset amounted to $143.9 million and $108.7 million, respectively. In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax asset are deductible, management believes it is more likely than not that the Company will realize the deferred tax asset, net of the existing valuation allowances recorded at September 30, 2015 and December 31, 2014. The amount of the deferred tax asset that is considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

At September 30, 2015 and December 31, 2014, Oriental International Bank Inc. ("OIB"), the Bank's international banking entity subsidiary, had $153 thousand and $186 thousand, respectively, in income tax effect of unrecognized gain on available-for-sale securities included in other comprehensive income. Following the change in OIB's applicable tax rate from 5% to 0% as a result of a Puerto Rico law adopted in 2011, this remaining tax balance will flow through income as these securities are repaid or sold in future periods. For both quarters ended September 30, 2015 and 2014, $11 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income (loss) into income tax provision. During the period ended September 30, 2015 and 2014, $33 thousand and $158 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income (loss) into income tax provision.

The Company classifies unrecognized tax benefits in income taxes payable. These gross unrecognized tax benefits would affect the effective tax rate if realized. The balance of unrecognized tax benefits at September 30, 2015 and December 31, 2014 was $2.1 million and $2.6 million, respectively. The Company had accrued $122 thousand at September 30, 2015 and $470 thousand at December 31, 2014 for the payment of interest and penalties relating to unrecognized tax benefits. During this quarter $200 thousand was released based on negotiations with the IRS.

For the quarter ended September 30, 2015, income tax expense was $562 thousand compared to $8.0 million for the same period in 2014. For the nine-month period ended September 30, 2015, income tax expense was $2.3 million compared to $30.4 million for the same period in 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 — REGULATORY CAPITAL REQUIREMENTS

Regulatory Capital Requirements

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

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

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

4.5% CET1 to risk-weighted assets;

6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;

8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and

4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

As of September 30, 2015 and December 31, 2014, the Company and the Bank met all capital adequacy requirements to which they are subject. As of September 30, 2015 and December 31, 2014, the Bank is “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the tables presented below.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's and the Bank's actual capital amounts and ratios as of September 30, 2015 and December 31, 2014 are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Company Ratios						
As of September 30, 2015						
Total capital to risk-weighted assets	$ 847,167	**16.96%**	$ 399,615	**8.00%**	$ 499,519	**10.00%**
Tier 1 capital to risk-weighted assets	$ 782,560	**15.67%**	$ 299,711	**6.00%**	$ 399,615	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 601,788	**12.05%**	$ 224,783	**4.50%**	$ 324,687	**6.50%**
Tier 1 capital to average total assets	$ 782,560	**10.93%**	$ 286,493	**4.00%**	$ 358,117	**5.00%**
As of December 31, 2014						
Total capital to risk-weighted assets	$ 851,437	**17.57%**	$ 387,772	**8.00%**	$ 484,715	**10.00%**
Tier 1 capital to risk-weighted assets	$ 776,525	**16.02%**	$ 193,886	**4.00%**	$ 290,829	**6.00%**
Tier 1 capital to average total assets	$ 776,525	**10.61%**	$ 292,738	**4.00%**	$ 365,922	**5.00%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Bank Ratios						
As of September 30, 2015						
Total capital to risk-weighted assets	$ 811,297	**16.28%**	$ 398,677	**8.00%**	$ 498,346	**10.00%**
Tier 1 capital to risk-weighted assets	$ 746,921	**14.99%**	$ 299,008	**6.00%**	$ 398,677	**8.00%**
Common equity tier 1 capital to risk-weighted assets	$ 746,921	**14.99%**	$ 224,256	**4.50%**	$ 323,925	**6.50%**
Tier 1 capital to average total assets	$ 746,921	**10.50%**	$ 284,481	**4.00%**	$ 355,601	**5.00%**
As of December 31, 2014						
Total capital to risk-weighted assets	$ 820,884	**16.99%**	$ 386,444	**8.00%**	$ 483,055	**10.00%**
Tier 1 capital to risk-weighted assets	$ 746,177	**15.45%**	$ 193,222	**4.00%**	$ 289,833	**6.00%**
Tier 1 capital to average total assets	$ 746,177	**10.26%**	$ 290,879	**4.00%**	$ 363,599	**5.00%**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 – STOCKHOLDERS' EQUITY

Additional Paid-in Capital

Additional paid-in capital represents contributed capital in excess of par value of common and preferred stock net of the costs of issuance. As of September 30, 2015 and December 31, 2014 accumulated issuance costs charged against additional paid in capital amounted to $10.1 million and $13.6 million for preferred and common stock, respectively.

Legal Surplus

The Puerto Rico Banking Act requires that a minimum of 10% of the Bank's net income or loss for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid in capital on common and preferred stock. At September 30, 2015 and December 31, 2014, the Bank's legal surplus amounted to $70.4 million and $70.5 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

Treasury Stock

Under the Company's current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock, of which approximately $7.7 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. During the nine-month period ended September 30, 2015 the Company purchased 803,985 shares under this program for a total of $8.9 million, at an average price of $11.10 per share. During the nine-month period ended September 30, 2014 the Company purchased 707,500 shares at an average price of $14.66 per share.

The number of shares that may yet be purchased under the $70 million program is estimated at 885,550 and was calculated by dividing the remaining balance of $7.7 million by $8.73 (closing price of the Company common stock at September 30, 2015). The Company did not purchase any shares of its common stock during the nine-month periods ended September 30, 2015 or 2014, other than through its publicly announced stock repurchase program.

The activity in connection with common shares held in treasury by the Company for the nine-month periods ended September 30, 2015 and 2014 is set forth below:

	Nine-Month Period Ended September 30,			
	2015		2014	
	Shares	Dollar Amount	Shares	Dollar Amount
	(In thousands, except shares data)			
Beginning of period	8,012,254	$ 97,070	7,030,101	$ 80,642
Common shares used upon lapse of restricted stock units	(58,279)	(641)	(36,294)	(384)
Common shares repurchased as part of the stock repurchase program	803,985	8,950	707,500	10,394
End of period	**8,757,960**	**$ 105,379**	**7,701,307**	**$ 90,652**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income tax, as of September 30, 2015 and December 31, 2014 consisted of:

	September 30, 2015		December 31, 2014	
	(In thousands)			
Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	$	25,173	$	28,743
Unrealized loss on securities available-for-sale which are other-than-temporarily impaired		(338)		-
Income tax effect of unrealized gain on securities available-for-sale		(2,349)		(2,978)
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired		22,486		25,765
Unrealized loss on cash flow hedges		(6,395)		(8,585)
Income tax effect of unrealized loss on cash flow hedges		2,065		2,531
Net unrealized loss on cash flow hedges		(4,330)		(6,054)
Accumulated other comprehensive income, net of taxes	$	**18,156**	**$**	**19,711**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters and nine-month periods ended September 30, 2015 and 2014:

	Quarter		
	2015		
	Net unrealized gains on securities available-for-sale	**Net unrealized loss on cash flow hedges**	**Accu o compr in (**
Beginning balance	$ 18,832	$ (4,531)	$ 1
Other comprehensive income (loss) before reclassifications	3,175	(1,346)	
Other-than-temporary impairment amount reclassified from accumulated other comprehensive income	584	-	
Amounts reclassified out of accumulated other comprehensive income (loss)	(105)	1,547	
Other comprehensive income	3,654	201	
Ending balance	**$ 22,486**	**$ (4,330)**	**$ 1**

	Nine-Month P		
	2015		
	Net unrealized gains on securities available-for-sale	**Net unrealized loss on cash flow hedges**	**Accu o compr in (**
Beginning balance	$ 25,765	$ (6,054)	$ 1
Other comprehensive income before reclassifications	(4,037)	(2,894)	(6
Other-than-temporary impairment amount reclassified from accumulated other comprehensive income	584	-	
Amounts reclassified out of accumulated other comprehensive income	174	4,618	
Other comprehensive income (loss)	(3,279)	1,724	(
Ending balance	**$ 22,486**	**$ (4,330)**	**$ 1**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents reclassifications out of accumulated other comprehensive income for the quarters and nine-month periods ended September 30, 2015 and 2014:

	Amount reclassified out of accumulated other comprehensive income Quarter Ended September 30, 2015	2014	Affected Line Item in Consolidated Statement of Operations
	(In thousands)		
Cash flow hedges:			
Interest-rate contracts	$ 1,622	$ 1,656	Net interest expense
Tax effect from increase in capital gains tax rate	(75)	-	Income tax expense
Available-for-sale securities:			
Other-than-temporary impairment losses on investment securities	(246)	-	Net impairment losses recognized in earnin
Residual tax effect from OIB's change in applicable tax rate	11	11	Income tax expense
Tax effect from increase in capital gains tax rate	130	-	Income tax expense
	$ 1,442	**$ 1,667**	

	Amount reclassified out of accumulated other comprehensive income Nine-Month Period Ended September 30, 2015	2014	Affected Line Item in Consolidated Statement of Operations
	(In thousands)		
Cash flow hedges:			
Interest-rate contracts	$ 4,842	$ 4,919	Net interest expense
Tax effect from increase in capital gains tax rate	(224)	-	Income tax expense
Available-for-sale securities:			
Other-than-temporary impairment losses on investment securities	(246)	-	Net impairment losses recognized in earnin
Residual tax effect from OIB's change in applicable tax rate	33	158	Income tax expense

Tax effect from increase in capital gains tax rate	387	-	Income tax expense
	$ 4,792	**$ 5,077**	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 18 – EARNINGS (LOSS) PER COMMON SHARE

The calculation of (loss) earnings per common share for the quarters and nine-month periods ended September 30, 2015 and 2014 is as follows:

	Quarter Ended September 30,	
	2015	2014
	(In thousands, e	
Net income (loss)	$ 4,569	$ 19,53
Less: Dividends on preferred stock		
Non-convertible preferred stock (Series A, B, and D)	(1,627)	(1,627
Convertible preferred stock (Series C)	(1,838)	(1,838
Income (loss) available to common shareholders	**$ 1,104**	**$ 16,06**
Effect of assumed conversion of the convertible preferred stock	1,838	1,83
Income (loss) available to common shareholders assuming conversion	$ **2,942**	$ **17,90**
Weighted average common shares and share equivalents:		
Average common shares outstanding	43,929	45,05
Effect of dilutive securities:		
Average potential common shares-options	46	16
Average potential common shares-assuming conversion of convertible preferred stock	7,171	7,14
Total weighted average common shares outstanding and equivalents	**51,146**	**52,36**
Earnings (loss) per common share - basic	**$ 0.03**	**$ 0.3**
Earnings (loss) per common share - diluted	**$ 0.03**	**$ 0.3**

In computing diluted (loss) earnings per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at September 30, 2015, with a conversion rate, subject to certain conditions, of 86.4225 shares of common stock per share, were included as average potential common shares from the date they were issued and outstanding. Moreover, in computing diluted earnings per common share, the dividends declared during the quarters ended September 30, 2015 and 2014 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended September 30, 2015 and 2014, weighted-average stock options with an anti-dilutive effect on (loss) earnings per share not included in the calculation amounted to 973,200 and 397,766, respectively. For the nine-month periods ended September 30, 2015 and 2014, weighted-average stock options with an anti-dilutive effect on (loss) earnings per share not included in the calculation amounted to 648,563 and 325,994, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 19 – GUARANTEES

At September 30, 2015, the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $15.0 million (December 31, 2014 - $33.0 million).

As a result of the BBVAPR Acquisition, the Company assumed a liability for residential mortgage loans sold subject to credit recourse, pursuant to FNMA's residential mortgage loan sales and securitization programs. At September 30, 2015 and December 31, 2014, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $25.0 million and $67.8 million, respectively.

The following table shows the changes in the Company's liability for estimated losses from these credit recourse agreements, included in the unaudited consolidated statements of financial condition during the quarters and nine-month periods ended September 30, 2015 and 2014.

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$ 289	$ 1,310	$ 927	$ 1,955
Net (charge-offs/terminations) recoveries	140	(232)	(498)	(877)
Balance at end of period	**$ 429**	**$ 1,078**	**$ 429**	**$ 1,078**

The estimated losses to be absorbed under the credit recourse arrangements were recorded as a liability when the credit recourse was assumed, and are updated on a quarterly basis. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 120 days delinquent, in which case the Company is obligated to repurchase the loan. The recourse obligation will be fully extinguished before the end of 2017.

If a borrower defaults, pursuant to the credit recourse provided, the Company is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Company would be required to make under the recourse arrangements is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and nine-month period ended September 30, 2015 the Company repurchased approximately $165 thousand and $3.4 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions. During the quarter and nine-month period ended September 30, 2014 the Company repurchased approximately $1.9 million and $5.6 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions. If a borrower defaults, the Company has rights to the underlying collateral securing the mortgage loan. The Company suffers losses on these mortgage loans when the proceeds from a foreclosure sale of the collateral property are less than the outstanding principal balance of the loan, any uncollected interest advanced, and the costs of holding and disposing the related property. At September 30, 2015, the Company's liability for estimated credit losses related to loans sold with credit recourse amounted to $429 thousand (December 31, 2014– $927 thousand).

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

When the Company sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Company's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under such mortgage backed securities programs, quality review procedures are performed by the Company to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Company may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. At September 30, 2015, the Company's representation and warranty arrangements, excluding mortgage loans subject to credit recourse provisions referred to above, approximated $19.5 million in unpaid principal balance (December 31, 2014 – $10.7 million). A substantial amount of these loans are reinstated to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter and nine-month period ended September 30, 2015, the Company recognized $418 thousand and $1.0 million in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $500 thousand and $2.0 million in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties. During the quarter and nine-month period ended September 30, 2014, the Company recognized $115 thousand and $261 thousand, respectively, in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and $979 thousand and $1.9 thousand in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including the Federal Home Loan Mortgage Corporation ("FHLMC"), require the Company to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At September 30, 2015, the Company serviced $625.3 million in mortgage loans for third-parties. The Company generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Company must absorb the cost of the funds it advances during the time the advance is outstanding. The Company must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Company would not receive any future servicing income with respect to that loan. At September 30, 2015, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately $305 thousand (December 31, 2014 - $391 thousand). To the extent the mortgage loans underlying the Company's servicing portfolio experience increased delinquencies, the Company would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 20— COMMITMENTS AND CONTINGENCIES

Loan Commitments

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

The Company's exposure to credit losses in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit, including commitments under credit card arrangements, and commercial letters of credit is represented by the contractual notional amounts of those instruments, which do not necessarily represent the amounts potentially subject to risk. In addition, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are identified. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Credit-related financial instruments at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015		December 31, 2014	
	(In thousands)			
Commitments to extend credit	$	432,006	$	493,248
Commercial letters of credit		1,443		885

Commitments to extend credit represent agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon the extension of credit, is based on management's credit evaluation of the counterparty.

At September 30, 2015 and December 31, 2014, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused commitments does not necessarily represent future cash requirements. These lines of credit had a reserve of $667 thousand at September 30, 2015 and $621 thousand at December 31, 2014.

Commercial letters of credit are issued or confirmed to guarantee payment of customers' payables or receivables in short-term international trade transactions. Generally, drafts will be drawn when the underlying transaction is consummated as intended. However, the short-term nature of this instrument serves to mitigate the risk associated with these contracts.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, at September 30, 2015 and December 31, 2014, is as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Standby letters of credit and financial guarantees	$ 15,007	$ 32,970
Loans sold with recourse	24,996	67,803
Commitments to sell or securitize mortgage loans	61,597	10,207

Standby letters of credit and financial guarantees are written conditional commitments issued by the Company to guarantee the payment and/or performance of a customer to a third party ("beneficiary"). If the customer fails to comply with the agreement, the beneficiary may draw on the standby letter of credit or financial guarantee as a remedy. The amount of credit risk involved in issuing letters of credit in the event of nonperformance is the face amount of the letter of credit or financial guarantee. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

Lease Commitments

The Company has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the quarters ended September 30, 2015 and 2014, amounted to $2.3 million and $2.4 million, respectively. For the nine-month periods ended September 30, 2015 and 2014, rent expense amounted to $7.0 million and $7.3 million, respectively, and is included in the "occupancy and equipment" caption in the unaudited consolidated statements of operations. Future rental commitments under leases in effect at September 30, 2015, exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

<u>**Year Ending December 31,**</u>	**Minimum Rent (In thousands)**
2015	$ 2,832
2016	7,697
2017	7,081
2018	6,066
2019	5,829
Thereafter	16,637
	$ 46,142

Contingencies

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their business. In the ordinary course of business, the Company and its subsidiaries are also subject to governmental and regulatory examinations. Certain subsidiaries of the Company, including the Bank (and its subsidiary OIB), Oriental Financial Services, and Oriental Insurance, are subject to regulation by various U.S., Puerto Rico and other regulators.

The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interests of the Company and its shareholders, and contests allegations of liability or wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.

Subject to the accounting and disclosure framework under the provisions of ASC 450, it is the opinion of the Company's management, based on current knowledge and after taking into account its current legal accruals, that the eventual outcome of all matters would not be likely to have a material adverse effect on the consolidated statements of financial condition of the Company. Nonetheless, given the substantial or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of such matters, an adverse outcome in certain of these matters could, from time to time, have a material adverse effect on the Company's consolidated results of operations or cash flows in particular quarterly or annual periods. The Company has evaluated all litigation and regulatory matters where the likelihood of a potential loss is deemed reasonably possible. The Company has determined that the estimate of the reasonably possible loss is not significant.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value measurement framework under GAAP.

Fair Value Measurement

The fair value measurement framework defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This framework also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Money market investments

The fair value of money market investments is based on the carrying amounts reflected in the unaudited consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

Investment securities

The fair value of investment securities is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. Such securities are classified as level 1 or level 2 depending on the basis for determining fair value. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument, and such securities are classified as level 3. At September 30, 2015 and December 31, 2014, the Company did not have investment securities classified as Level 3.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivative instruments

The fair value of the interest rate swaps is largely a function of the financial market's expectations regarding the future direction of interest rates. Accordingly, current market values are not necessarily indicative of the future impact of derivative instruments on earnings. This will depend, for the most part, on the shape of the yield curve, the level of interest rates, as well as the expectations for rates in the future. The fair value of most of these derivative instruments is based on observable market parameters, which include discounting the instruments' cash flows using the U.S. dollar LIBOR-based discount rates, and also applying yield curves that account for the industry sector and the credit rating of the counterparty and/or the Company.

Certain other derivative instruments with limited market activity are valued using externally developed models that consider unobservable market parameters. Based on their valuation methodology, derivative instruments are classified as Level 2 or Level 3. The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P Index and uses equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value is obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which are uncertain and require a degree of judgment, include primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage.

Servicing assets

Servicing assets do not trade in an active market with readily observable prices. Servicing assets are priced using a discounted cash flow model. The valuation model considers servicing fees, portfolio characteristics, prepayment assumptions, delinquency rates, late charges, other ancillary revenues, cost to service and other economic factors. Due to the unobservable nature of certain valuation inputs, the servicing rights are classified as Level 3.

Impaired Loans.

Impaired loans are carried at the present value of expected future cash flows using the loan's existing rate in a discounted cash flow calculation, or the fair value of the collateral if the loan is collateral-dependent. Expected cash flows are based on internal inputs reflecting expected default rates on contractual cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value described in Accounting Standards Codification ("ASC") 820-10 and would generally result in a higher value than the exit-price approach. For loans measured using the estimated fair value of collateral less costs to sell, fair value is generally determined based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC 310-10-35 less disposition costs. Currently, the associated loans considered impaired are classified as Level 3.

Foreclosed real estate

Foreclosed real estate includes real estate properties securing residential mortgage and commercial loans. The fair value of foreclosed real estate may be determined using an external appraisal, broker price option or an internal valuation. These foreclosed assets are classified as Level 3 given certain internal adjustments that may be made to external appraisals.

Other repossessed assets

Other repossessed assets include repossessed automobile loans and leases. The fair value of the repossessed automobiles may be determined using internal valuation and an external appraisal. These repossessed assets are classified as Level 3 given certain internal adjustments that may be made to external appraisals.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Assets and liabilities measured at fair value on a recurring and non-recurring basis, are summarized below:

	September 30, 2015 Fair Value Measurements (In thousands)			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 1,007,705	$ -	$ 1,007,705
Money market investments	4,736	-	-	4,736
Derivative assets	-	2,175	1,115	3,290
Servicing assets	-	-	6,463	6,463
Derivative liabilities	-	(8,622)	(1,041)	(9,663)
	$ 4,736	**$ 1,001,258**	**$ 6,537**	**$ 1,012,531**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 233,598	$ 233,598
Foreclosed real estate	-	-	64,117	64,117
Other repossessed assets	-	-	8,948	8,948
	$ -	**$ -**	**$ 306,663**	**$ 306,663**

	December 31, 2014 Fair Value Measurements (In thousands)			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 1,216,538	$ -	$ 1,216,538
Money market investments	4,675	-	-	4,675
Derivative assets	-	2,552	5,555	8,107
Servicing assets	-	-	13,992	13,992
Derivative liabilities	-	(11,221)	(5,477)	(16,698)
	$ 4,675	**$ 1,207,869**	**$ 14,070**	**$ 1,226,614**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 236,942	$ 236,942
Foreclosed real estate	-	-	95,661	95,661
Other repossessed assets	-	-	21,800	21,800
	$ -	**$ -**	**$ 354,403**	**$ 354,403**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters and nine-month periods ended September 30, 2015 and 2014:

	Quarter Ended September 30, 2015			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
Balance at beginning of period	$ 2,138	$ 5,791	$ (2,044)	$ 5,885
(Losses) gains included in earnings	(1,023)	-	972	(51)
New instruments acquired	-	748	-	748
Changes due to payments on loans	-	(242)	-	(242)
Amortization	-	-	31	31
Changes in fair value of servicing assets	-	166	-	166
Balance at end of period	**$ 1,115**	**$ 6,463**	**$ (1,041)**	**$ 6,537**

	Nine-Month Period Ended September 30, 2015			
Level 3 Instruments Only	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
Balance at beginning of period	$ 5,555	$ 13,992	$ (5,477)	$ 14,070
(Losses) gains included in earnings	(4,440)	-	4,271	(169)
Sale of mortgage servicing rights held-for-sale	-	(6,985)	-	(6,985)
Changes due to payments on loans	-	(974)	-	(974)
New instruments acquired	-	2,808	-	2,808
Amortization	-	-	165	165
Changes in fair value related to price of MSRs held for sale	-	(2,716)	-	(2,716)
Changes in fair value of servicing assets	-	338	-	338
Balance at end of period	**$ 1,115**	**$ 6,463**	**$ (1,041)**	**$ 6,537**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2014	
Other debt securities	Derivative asset (S&P	Derivative liability (S&P