OFG BANCORP
Form 10-Q
November 07, 2014

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, 2014

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

44,678,475 common shares ($1.00 par value per share) outstanding as of October 31, 2014

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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, 2014 AND DECEMBER 31, 2013

	September 30, 2014	December 31, 2013
	(In thousands)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 663,462	$ 614,302
Money market investments	7,777	6,967
Total cash and cash equivalents	**671,239**	**621,269**
Restricted cash	32,907	82,199
Securities purchased under agreements to resell	-	60,000
Investments:		
Trading securities, at fair value, with amortized cost of $2,419 (December 31, 2013 - $2,448)	1,687	1,869
Investment securities available-for-sale, at fair value, with amortized cost of $1,249,769 (December 31, 2013 - $1,575,043)	1,273,879	1,588,425
Investment securities held-to-maturity, at amortized cost, with fair value of $144,217	144,305	-
Federal Home Loan Bank (FHLB) stock, at cost	21,189	24,450
Other investments	65	65
Total investments	**1,441,125**	**1,614,809**
Loans:		
Mortgage loans held-for-sale, at lower of cost or fair value	16,757	46,529
Non-covered loans, net of allowance for loan and lease losses of $64,859 (December 31, 2013 - $54,298)	4,528,452	4,615,929
Covered loans, net of allowance for loan and lease losses of $62,227 (December 31, 2013 - $52,729)	311,693	356,961
Total loans, net	**4,856,902**	**5,019,419**
Other assets:		
FDIC indemnification asset	120,619	189,240
Foreclosed real estate covered under shared-loss agreements with the FDIC	49,814	33,209
Foreclosed real estate not covered under shared-loss agreements with the FDIC	50,750	56,815
Accrued interest receivable	19,665	18,734

Deferred tax asset, net			121,217		137,564
Premises and equipment, net			82,099		82,903
Customers' liability on acceptances			21,077		23,042
Servicing assets			13,986		13,801
Derivative assets			8,445		20,502
Goodwill			86,069		86,069
Other assets			97,425		98,440
Total assets		$	**7,673,339**	$	**8,158,015**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Demand deposits		$	2,132,073		2,138,005
Savings accounts			1,263,115		1,194,567
Time deposits			1,673,987		2,050,693
Total deposits			**5,069,175**		**5,383,265**
Borrowings:					
Securities sold under agreements to repurchase			1,012,228		1,267,618
Advances from FHLB			334,787		336,143
Subordinated capital notes			101,190		100,010
Other borrowings			3,872		3,663
Total borrowings			**1,452,077**		**1,707,434**
Other liabilities:					
Securities purchased but not yet received			30,057		-
Derivative liabilities			11,414		14,937
Acceptances executed and outstanding			21,077		23,042
Accrued expenses and other liabilities			159,541		144,424
Total liabilities			**6,743,341**		**7,273,102**
Commitments and contingencies (See Note 18)					
Stockholders' equity:					
Preferred stock; 10,000,000 shares authorized;					
1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D					
issued and outstanding, (December 31, 2013 - 1,340,000; 1,380,000; and 960,000) $25 liquidation value			92,000		92,000
84,000 shares of Series C issued and outstanding (December 31, 2013 - 84,000); $1,000 liquidation value			84,000		84,000
Common stock, $1 par value; 100,000,000 shares authorized; 52,761,295 shares issued:					
45,059,988 shares outstanding (December 31, 2013 - 52,707,023; 45,676,922)			52,761		52,707
Additional paid-in capital			539,522		538,071
Legal surplus			68,437		61,957
Retained earnings			170,519		133,629
			(90,652)		(80,642)

Treasury stock, at cost, 7,701,307 shares (December 31, 2013 - 7,030,101 shares)					
Accumulated other comprehensive income, net of tax of $1,867 (December 31, 2013 -$831)		13,411			3,191
Total stockholders' equity		**929,998**			**884,913**
Total liabilities and stockholders' equity	$	**7,673,339**		$	**8,158,015**
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, 2014 AND 2013

	Quarter Ended September 30,					Nine-Month Period Ended September 30,		
	2014		2013			2014		2013
	(In thousands, except per share data)							
Interest income:								
Non-covered loans	$ 87,662		$ 87,655		$	260,969	$	259,567
Covered loans	20,886		21,657			69,153		65,884
Total interest income from loans	**108,548**		**109,312**			**330,122**		**325,451**
Mortgage-backed securities	10,842		9,662			35,243		29,559
Investment securities and other	911		2,127			3,910		6,564
Total interest income	**120,301**		**121,101**			**369,275**		**361,574**
Interest expense:								
Deposits	7,661		11,334			25,804		30,757
Securities sold under agreements to repurchase	7,453		7,211			22,238		21,569
Advances from FHLB and other borrowings	2,314		2,321			6,896		6,275
Subordinated capital notes	1,002		1,144			2,990		3,973
Total interest expense	**18,430**		**22,010**			**57,928**		**62,574**
Net interest income	**101,871**		**99,091**			**311,347**		**299,000**
Provision for non-covered loan and lease losses	16,142		9,900			39,424		55,343
Provision for covered loan and lease losses, net	1,115		3,074			4,339		4,957
Total provision for loan and lease losses	**17,257**		**12,974**			**43,763**		**60,300**
Net interest income after provision for loan and lease losses	**84,614**		**86,117**			**267,584**		**238,700**
Non-interest income:								
Banking service revenue	9,753		12,146			30,305		36,491
Wealth management revenue	7,113		7,394			21,316		23,084
Mortgage banking activities	2,097		2,334			5,346		9,299
Total banking and financial service revenues	**18,963**		**21,874**			**56,967**		**68,874**
FDIC shared-loss expense, net:								
	(16,059)		(15,198)			(51,180)		(46,623)

FDIC indemnification asset expense				
Change in true-up payment obligation	(875)	(767)	(2,596)	(2,178)
	(16,934)	(15,965)	(53,776)	(48,801)
Net gain (loss) on:				
Sale of securities	-	-	4,366	-
Derivatives	7	(811)	(463)	(1,746)
Early extinguishment of debt	-	-	-	1,061
Other non-interest income	455	(1,775)	1,133	575
Total non-interest income, net	**2,491**	**3,323**	**8,227**	**19,963**
Non-interest expense:				
Compensation and employee benefits	18,592	22,590	61,086	69,927
Professional and service fees	3,807	4,409	11,525	16,262
Occupancy and equipment	8,770	8,270	25,684	25,552
Insurance	2,099	1,828	6,506	7,229
Electronic banking charges	4,637	3,694	14,085	11,458
Information technology expenses	1,289	2,729	4,589	7,708
Advertising, business promotion, and strategic initiatives	1,825	1,471	5,274	4,550
Merger and restructuring charges	-	2,252	-	13,060
Foreclosure, repossession and other real estate expenses	7,842	5,703	20,783	12,603
Loan servicing and clearing expenses	1,870	2,133	5,598	5,493
Taxes, other than payroll and income taxes	3,494	4,024	11,005	11,778
Communication	820	782	2,590	2,481
Printing, postage, stationary and supplies	620	824	1,820	2,841
Director and investor relations	250	230	794	843
Other	3,660	2,295	9,488	6,749
Total non-interest expense	**59,575**	**63,234**	**180,827**	**198,534**
Income before income taxes	**27,530**	**26,206**	**94,984**	**60,129**
Income tax expense (benefit)	7,998	6,585	30,396	(18,223)
Net income	**19,532**	**19,621**	**64,588**	**78,352**
Less: dividends on preferred stock	(3,465)	(3,465)	(10,396)	(10,396)
Income available to common shareholders	**$ 16,067**	**$ 16,156**	**$ 54,192**	**$ 67,956**
Earnings per common share:				

Basic	$	**0.36**	$	0.35	$	**1.20**	$	1.49
Diluted	$	**0.34**	$	0.34	$	**1.14**	$	1.39
Average common shares outstanding and equivalents		**52,362**		53,322		**52,440**		53,053
Cash dividends per share of common stock	$	**0.08**	$	0.06	$	**0.24**	$	0.18
See notes to unaudited consolidated financial statements.								

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
_	2014	2013	2014	2013
	(In thousands)			
Net income	**$ 19,532**	**$ 19,621**	**$ 64,588**	**$ 78,352**
Other comprehensive income (loss) before tax:				
Unrealized gain (loss) on securities available-for-sale	(9,410)	(5,779)	15,094	(52,346)
Realized gain on investment securities included in net income	-	-	(4,366)	-
Unrealized gain on cash flow hedges	1,798	233	2,189	4,711
Other comprehensive income (loss) before taxes	**(7,612)**	**(5,546)**	**12,917**	**(47,635)**
Income tax effect	(732)	611	(2,697)	2,587
Other comprehensive income (loss) after taxes	**(8,344)**	**(4,935)**	**10,220**	**(45,048)**
Comprehensive income	**$ 11,188**	**$ 14,686**	**$ 74,808**	**$ 33,304**

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Nine-Month Period Ended September 30,				
	2014			**2013**	
	(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		52,707			52,671
Exercised stock options		54			20
Balance at end of period		**52,761**			**52,691**
Additional paid-in capital:					
Balance at beginning of period		538,071			537,453
Stock-based compensation expense		1,248			1,360
Exercised stock options		589			187
Lapsed restricted stock units		(386)			(728)
Common stock issuance costs		-			(16)
Preferred stock issuance costs		-			(25)
Balance at end of period		**539,522**			**538,231**
Legal surplus:					
Balance at beginning of period		61,957			52,143
Transfer from retained earnings		6,480			7,724
Balance at end of period		**68,437**			**59,867**
Retained earnings:					
Balance at beginning of period		133,629			70,734
Net income		64,588			78,352
Cash dividends declared on common stock		(10,822)			(8,219)
Cash dividends declared on preferred stock		(10,396)			(10,396)
Transfer to legal surplus		(6,480)			(7,724)
Balance at end of period		**170,519**			**122,747**
Treasury stock:					
Balance at beginning of period		(80,642)			(81,275)
Stock repurchased		(10,394)			-
Lapsed restricted stock units		384			556
Stock used to match defined contribution plan		-			77
Balance at end of period		**(90,652)**			**(80,642)**
Accumulated other comprehensive income,					

net of tax:					
Balance at beginning of period		3,191			55,880
Other comprehensive income (loss), net of tax		10,220			(45,048)
Balance at end of period		**13,411**			**10,832**
Total stockholders' equity	**$**	**929,998**		**$**	**879,726**
See notes to unaudited consolidated financial statements.					

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Nine-Month Period Ended September 30,			
	2014		**2013**	
	(In thousands)			
Cash flows from operating activities:				
Net income	$	**64,588**	$	**78,352**
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred loan origination fees, net of costs		2,065		733
Amortization of fair value premiums, net of discounts, on acquired loans		9,914		8,239
Amortization of investment securities premiums, net of accretion of discounts		1,048		17,116
Amortization of core deposit and customer relationship intangibles		1,627		1,932
Amortization of fair value premiums on acquired deposits		4,349		12,032
FDIC shared-loss expense, net		53,776		48,801
Depreciation and amortization of premises and equipment		7,415		7,703
Deferred income tax expense (benefit), net		20,418		(18,816)
Provision for covered and non-covered loan and lease losses, net		43,763		60,300
Stock-based compensation		1,248		1,360
(Gain) loss on:				
Sale of securities		(4,366)		-
Sale of mortgage loans held-for-sale		(3,891)		(2,009)
Derivatives		584		224
Early extinguishment of debt		-		(1,061)
Foreclosed real estate		9,185		5,321
Sale of other repossessed assets		4,506		1,813
Sale of premises and equipment		(11)		-
Originations of loans held-for-sale		(130,547)		(239,804)
Proceeds from sale of loans held-for-sale		72,211		125,245
Net (increase) decrease in:				
Trading securities		182		(1,629)
Accrued interest receivable		(931)		(4,802)

Servicing assets		(185)			(2,856)
Other assets		8,538			15,984
Net increase (decrease) in:					
Accrued interest on deposits and borrowings		(1,811)			(1,658)
Accrued expenses and other liabilities		(3,099)			13,937
Net cash provided by operating activities		**160,576**			**126,457**
Cash flows from investing activities:					
Purchases of:					
Investment securities available-for-sale		(219,027)			(32,874)
Investment securities held-to-maturity		(115,396)			-
FHLB stock		(84,375)			(32,562)
Maturities and redemptions of:					
Investment securities available-for-sale		429,939			477,610
Investment securities held-to-maturity		1,045			-
FHLB stock		87,636			46,503
Proceeds from sales of:					
Investment securities available-for-sale		189,249			120,526
Foreclosed real estate and other repossessed assets		33,915			44,754
Loans held-for-investment		9,378			-
Premises and equipment		25			896
Origination and purchase of loans, excluding loans held-for-sale		(545,776)			(911,443)
Principal repayment of loans, including covered loans		561,479			806,676
Reimbursements from the FDIC on shared-loss agreements		31,537			32,732
Additions to premises and equipment		(6,626)			(6,747)
Net change in securities purchased under agreements to resell		60,000			(5,000)
Net change in restricted cash		49,292			(2,517)
Net cash provided by investing activities		**482,295**			**538,554**

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013 – (Continued)

	Nine-Month Period Ended September 30,				
	2014			**2013**	
	(In thousands)				
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits		(306,917)			(96,552)
Short term borrowings		-			(92,210)
Securities sold under agreements to repurchase		(255,000)			(427,931)
FHLB advances, federal funds purchased, and other borrowings		(1,142)			(199,731)
Subordinated capital notes		1,180			(45,491)
Exercise of stock options and restricted units lapsed, net		641			207
Purchase of treasury stock		(10,394)			-
Termination of derivative instruments		-			1,483
Dividends paid on preferred stock		(10,396)			(10,226)
Dividends paid on common stock		(10,873)			(8,219)
Net cash used in financing activities		**(592,901)**			**(878,670)**
Net change in cash and cash equivalents		**49,970**			**(213,659)**
Cash and cash equivalents at beginning of period		621,269			855,235
Cash and cash equivalents at end of period	**$**	**671,239**		**$**	**641,576**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:					
Interest paid	$	63,082		$	64,272
Income taxes paid	$	1,839		$	378
Mortgage loans securitized into mortgage-backed securities	$	71,466		$	117,687
Securities purchased but not yet received	$	30,057		$	-
Transfer from loans to foreclosed real estate and other repossessed assets	$	67,296		$	65,716
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	5,268		$	42,289
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	25,801		$	-

See notes to unaudited consolidated financial statements.

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

OFG Bancorp (the "Company") is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. The Company operates through various subsidiaries including, a commercial bank, Oriental Bank (or the "Bank"), a securities broker-dealer, Oriental Financial Services Corp. ("Oriental Financial Services"), an insurance agency, Oriental Insurance, Inc. ("Oriental Insurance") and a retirement plan administrator, Caribbean Pension Consultants, Inc. ("CPC"). 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 25, 2013, the Company changed its corporate name from Oriental Financial Group Inc. to OFG Bancorp.

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

In August 2014, FASB issued new guidance requiring creditors to classify certain foreclosed, government-guaranteed, mortgage loans as receivables. The receivable is measured at the amount expected to be recovered under the guarantee, which is not treated as a separate unit of account. For public business entities, this guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014, with earlier adoption permitted if the entity already has adopted Accounting Standards Update ("ASU") 2014-04. An entity should adopt the amendments in this update using either a prospective transition method or a modified retrospective transition method. We are currently evaluating the impact that the adoption of this guidance will have on our financial position and results of operations.

Other than the accounting pronouncements disclosed above, there was no other new accounting pronouncement issued during the third quarter of 2014 that could have a material impact on the Company's financial position, operating results or financials statement disclosures.

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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, 2014		December 31, 2013	
	(In thousands)			
Cash pledged as collateral to other financial institutions to secure:				
Securities sold under agreements to repurchase	$	24,500	$	67,029
Derivatives		2,980		2,980
Obligations under agreement of loans sold with recourse		5,427		12,190
	$	**32,907**	**$**	**82,199**

The Company delivers cash as collateral to meet margin calls for some long term securities sold under agreements to repurchase. At September 30, 2014 and December 31, 2013, the Company had cash pledged as collateral for securities sold under agreements to repurchase amounting to $24.5 million and $67.0 million, respectively.

As part of its derivative activities, the Company has entered into collateral agreements with certain financial counterparties. At both September 30, 2014 and December 31, 2013, the Company had delivered $3.0 million of cash as collateral for such derivatives activities.

As part of the BBVAPR Acquisition, the Company assumed various contracts with the Federal National Mortgage Association ("FNMA") which required collateral to guarantee the repurchase, if necessary, of certain mortgage loans sold with recourse. At September 30, 2014 and December 31, 2013, the Company had $5.4 million and $12.2 million, respectively, of cash pledged as collateral for such recourse obligations.

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, 2014 and December 31, 2013, money market instruments included as part of cash and cash equivalents amounted to $7.8 million and $7.0 million, respectively.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell consist of short-term investments and are carried at the amounts at which the assets will be subsequently resold as specified in the respective agreements. At December 31, 2013, securities purchased under agreements to resell amounted to $60.0 million. At September 30, 2014, there were no securities purchased under agreements to resell.

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

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

	September 30, 2014									
				Gross		Gross				Weighted
	Amortized			Unrealized		Unrealized		Fair		Average
	Cost			Gains		Losses		Value		Yield
	(In thousands)									
Available-for-sale										
Mortgage-backed securities										
FNMA and FHLMC certificates	$	1,023,303	$	36,414	$	3,082	$	1,056,635		3.13%
GNMA certificates		5,241		348		21		5,568		4.92%
CMOs issued by US government-sponsored agencies		189,142		206		4,390		184,958		1.80%
Total mortgage-backed securities		**1,217,686**		**36,968**		**7,493**		**1,247,161**		2.93%
Investment securities										
Obligations of US government-sponsored agencies		7,795		-		34		7,761		1.32%
Obligations of Puerto Rico government and political subdivisions		20,915		-		5,469		15,446		5.41%
Other debt securities		3,373		138		-		3,511		2.91%
Total investment securities		**32,083**		**138**		**5,503**		**26,718**		4.15%
Total securities available for sale	**$**	**1,249,769**	**$**	**37,106**	**$**	**12,996**	**$**	**1,273,879**		2.96%
Held-to-maturity										
Mortgage-backed securities										
FNMA and FHLMC certificates		144,305		82		170		144,217		1.95%
Total	**$**	**1,394,074**	**$**	**37,188**	**$**	**13,166**	**$**	**1,418,096**		2.86%

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The amortized cost and fair value of the Company's investment securities at September 30, 2014, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2014							
	Available-for-sale				Held-to-maturity			
	Amortized Cost		Fair Value		Amortized Cost		Fair Value	
	(In thousands)				(In thousands)			
Mortgage-backed securities								
Due after 5 to 10 years								
FNMA and FHLMC certificates	$	22,896	$	23,243	$	-	$	-
Total due after 5 to 10 years		**22,896**		**23,243**		**-**		**-**
Due after 10 years								
FNMA and FHLMC certificates		1,000,407		1,033,392		144,305		144,217
GNMA certificates		5,241		5,568		-		-
CMOs issued by US government-sponsored agencies		189,142		184,958		-		-
Total due after 10 years		**1,194,790**		**1,223,918**		**144,305**		**144,217**
Total mortgage-backed securities		**1,217,686**		**1,247,161**		**144,305**		**144,217**
Investment securities								
Due from 1 to 5 years								
Obligations of Puerto Rico government and political subdivisions		10,450		8,628		-		-
Total due from 1 to 5 years		**10,450**		**8,628**		**-**		**-**
Due after 5 to 10 years								
Obligations of US government and sponsored agencies		7,795		7,761		-		-
Total due after 5 to 10 years		**7,795**		**7,761**		**-**		**-**
Due after 10 years								
Obligations of Puerto Rico government and political subdivisions		10,465		6,818		-		-

Other debt securities		3,373			3,511			-			-
Total due after 10 years		**13,838**			**10,329**			**-**			**-**
Total investment securities		**32,083**			**26,718**			**-**			**-**
Total securities available-for-sale	**$**	**1,249,769**		**$**	**1,273,879**		**$**	**144,305**		**$**	**144,217**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

In addition, during the nine-month period ended September 30, 2014, the Company sold $110.8 million of available-for-sale FNMA and FHLMC certificates because the Company believed that gains could be realized and that there were good opportunities to invest the proceeds in other investment securities with attractive yields and terms that would allow the Company to continue protecting its net interest margin. The Company recorded a net gain on sale of these securities of $4.4 million. The table below presents the gross realized gains by category for such period. There was no realized gain or loss for the nine-month period ended September 30, 2013.

	Nine-Month Period Ended September 30, 2014			
		Book Value	Gross	Gross
Description	**Sale Price**	**at Sale**	**Gains**	**Losses**
	(In thousands)			
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 115,158	$ 110,792	$ 4,366	$ -
GNMA certificates	74,091	74,091	-	-
Total	**$ 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, 2014 and December 31, 2013:

	September 30, 2014					
	12 months or more					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	149,957	$	4,242	$	145,716
FNMA and FHLMC certificates		183,479		3,049		180,430
Obligations of Puerto Rico government and political subdivisions		20,915		5,469		15,446
GNMA certificates		197		22		176
	$	**354,548**	$	**12,782**	$	**341,768**
	Less than 12 months					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	15,746	$	148	$	15,598
FNMA and FHLMC certificates		26,220		33		26,187
Obligations of US government and sponsored agencies		7,796		34		7,761
Securities held-to-maturity						
FNMA and FHLMC Certificates		95,598		170		95,428
	$	**145,359**	**$**	**385**	**$**	**144,974**
	Total					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	165,703	$	4,390	$	161,314
FNMA and FHLMC certificates		209,699		3,082		206,617
Obligations of Puerto Rico government and political subdivisions		20,915		5,469		15,446
Obligations of US government and sponsored agencies		7,796		34		7,761

GNMA certificates		197			22			176
		404,309			**12,996**			**391,314**
Securities held-to-maturity								
FNMA and FHLMC Certificates		95,598			170			95,428
	$	**499,907**		**$**	**13,166**		**$**	**486,742**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013					
	12 months or more					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico government and political subdivisions	$	20,845	$	5,470	$	15,375
CMOs issued by US government-sponsored agencies		2,559		237		2,322
GNMA certificates		81		11		70
	$	**23,485**	**$**	**5,718**	**$**	**17,767**

	Less than 12 months					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico government and political subdivisions	$	100,190	$	1,375	$	98,815
CMOs issued by US government-sponsored agencies		182,661		6,577		176,084
GNMA certificates		122		13		109
FNMA and FHLMC certificates		220,913		6,669		214,244
Obligations of US government and sponsored agencies		10,691		42		10,649
Other debt securities		20,000		320		19,680
	$	**534,577**	**$**	**14,996**	**$**	**519,581**

	Total					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico government and political subdivisions	$	121,035	$	6,845	$	114,190
CMOs issued by US government-sponsored agencies		185,220		6,814		178,406

GNMA certificates		203			24			179
FNMA and FHLMC certificates		220,913			6,669			214,244
Obligations of US government and sponsored agencies		10,691			42			10,649
Other debt securities		20,000			320			19,680
	$	**558,062**		**$**	**20,714**		**$**	**537,348**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Most of the investment ($479.0 million or 96%) with an unrealized loss position at September 30, 2014 consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The remaining investments ($20.9 million or 4%) with an unrealized loss position at September 30, 2014 consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The recent 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, uncertainty in regards to the impact of the recently enacted Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") and the related subsequent negative rating decisions taken by the credit rating agencies has affected the market value of these securities.

As of September 30, 2014, 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 monthly default probability and recovery rate assumptions based on the credit rating of each investment. Constant monthly default rates are assumed throughout the life of the bonds which are based on the respective security's credit rating as of the date of the analysis.

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

The discounted cash flow analysis for the investments showed at maturity in the range of 2.509% to 15.340%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 84.660% and 97.491%). Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in the Puerto Rico government bonds and is therefore not required to recognize a credit loss as of September 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

The composition of the Company's loan portfolio at September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014		December 31, 2013	
	(In thousands)			
Non-covered loans:				
Originated and other loans and leases held for investment:				
Mortgage	$	791,106	$	766,265
Commercial		1,217,235		1,127,657
Consumer		175,882		127,744
Auto and leasing		542,892		379,874
		2,727,115		**2,401,540**
Acquired loans:				
Accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)				
Commercial		26,984		77,681
Consumer		47,284		56,174
Auto		210,808		301,584
		285,076		**435,439**
Accounted for under ASC 310-30 (Loans acquired with deteriorated credit quality, including those by analogy)				
Mortgage		670,188		717,904
Commercial		485,444		545,117
Construction		108,694		126,427

Consumer		36,470		63,620
Auto		276,749		379,145
		1,577,545		**1,832,213**
		4,589,736		**4,669,192**
Deferred loan cost , net		3,575		1,035
Loans receivable		**4,593,311**		**4,670,227**
Allowance for loan and lease losses on non-covered loans		(64,859)		(54,298)
Loans receivable, net		**4,528,452**		**4,615,929**
Mortgage loans held-for-sale		16,757		46,529
Total non-covered loans, net		**4,545,209**		**4,662,458**
Covered loans:				
Loans secured by 1-4 family residential properties		121,658		121,748
Construction and development secured by 1-4 family residential properties		18,947		17,304
Commercial and other construction		228,410		264,249
Consumer		4,905		6,119
Leasing		-		270
Total covered loans		**373,920**		**409,690**
Allowance for loan and lease losses on covered loans		(62,227)		(52,729)
Total covered loans, net		**311,693**		**356,961**
Total loans, net	$	**4,856,902**	$	**5,019,419**

During the nine-month period ended September 30, 2014, the Company reclassified $25.8 million in mortgage loans held-for-sale to held-for-investment.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-covered Loans

Originated and Other Loans and Leases Held for Investment

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

The following tables present the aging of the recorded investment in gross originated and other loans held for investment as of September 30, 2014 and December 31, 2013 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	September 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 5,996	$ 3,283	$ 3,424	$ 12,703	$ 55,635	$ 68,338	$ 141
Years 2003 and 2004	6,679	1,730	3,471	11,880	50,464	62,344	-
Year 2005	7,368	3,295	8,258	18,921	69,510	88,431	89
Year 2006	10,274	5,678	6,041	21,993	91,218	113,211	114
Years 2007, 2008 and 2009	3,285	3,095	7,647	14,027	83,036	97,063	59

Years 2010, 2011, 2012, 2013 and 2014	4,938	1,368	5,706	12,012	181,550	193,562	509
	38,540	18,449	34,547	91,536	531,413	622,949	912
Non-traditional	1,084	783	3,022	4,889	32,886	37,775	-
Loss mitigation program	10,022	7,358	14,625	32,005	57,578	89,583	5,773
	49,646	26,590	52,194	128,430	621,877	750,307	6,685
Home equity secured personal loans	-	-	126	126	607	733	-
GNMA's buy-back option program	-	-	40,066	40,066	-	40,066	-
	49,646	**26,590**	**92,386**	**168,622**	**622,484**	**791,106**	**6,685**
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	113,976	113,976	-
Institutional	-	-	-	-	37,177	37,177	-
Middle market	-	1,071	638	1,709	142,830	144,539	-
Retail	1,164	129	7,258	8,551	153,091	161,642	-
Floor plan	-	-	-	-	1,666	1,666	-
Real estate	-	-	-	-	11,878	11,878	-
	1,164	1,200	7,896	10,260	460,618	470,878	-
Other commercial and industrial:							
Corporate	-	-	-	-	60,402	60,402	-
Institutional	-	-	-	-	482,277	482,277	-
Middle market	-	-	628	628	82,577	83,205	-
Retail	267	144	809	1,220	79,592	80,812	-
Floor plan	-	-	-	-	39,661	39,661	-
	267	144	1,437	1,848	744,509	746,357	-
	1,431	**1,344**	**9,333**	**12,108**	**1,205,127**	**1,217,235**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	238	189	408	835	17,022	17,857	-
Overdrafts	20	2	1	23	317	340	-
Personal lines of credit	67	132	29	228	1,823	2,051	-
Personal loans	1,666	627	604	2,897	135,711	138,608	-
Cash collateral personal loans	214	132	36	382	16,644	17,026	-
	2,205	**1,082**	**1,078**	**4,365**	**171,517**	**175,882**	**-**
Auto and leasing	43,537	15,956	8,279	**67,772**	475,120	**542,892**	-
Total	**$ 96,819**	**$ 44,972**	**$ 111,076**	**$ 252,867**	**$ 2,474,248**	**$ 2,727,115**	**$ 6,685**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

At September 30, 2014, the increase in delinquencies in the consumer and the auto and leasing portfolios compared to December 31, 2013 is mainly attributed to the fact that non-performing loans of acquired non-covered loan portfolio were accounted for under ASC 310-30. Such portfolios are increasing as new originations are ramping up the balances outstanding. More than a year from the BBVAPR Acquisition, those portfolios are beginning to reflect normal delinquency levels as seasoned portfolios. At September 30, 2014, the increase in delinquencies in the mortgage portfolio compared to December 31, 2013 is mainly attributed to Puerto Rico’s prolonged recession.

At September 30, 2014 and December 31, 2013, the Company had $458.0 million and $515.4 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. This entire amount was current at September 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

The following tables present the aging of the recorded investment in gross acquired loans accounted for under ASC 310-20 as of September 30, 2014 and December 31, 2013, by class of loans:

	September 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Corporate	$ -	$ -	$ -	$ -	$ 3,746	$ 3,746	$ -
Retail	-	-	342	342	482	824	-
Floor plan	-	-	101	101	3,972	4,073	-
	-	-	443	443	8,200	8,643	-
Other commercial and industrial							

Corporate	-	-	-	-	2,915	2,915	-
Retail	169	73	451	693	7,328	8,021	-
Floor plan	97	40	108	245	7,160	7,405	-
	266	113	559	938	17,403	18,341	-
	266	**113**	**1,002**	**1,381**	**25,603**	**26,984**	**-**
Consumer							
Credit cards	1,625	678	1,328	3,631	40,051	43,682	-
Personal loans	160	83	66	309	3,293	3,602	-
	1,785	**761**	**1,394**	**3,940**	**43,344**	**47,284**	**-**
Auto	**11,372**	**4,137**	**1,537**	**17,046**	**193,762**	**210,808**	**-**
Total	**$ 13,423**	**$ 5,011**	**$ 3,933**	**$ 22,367**	**$ 262,709**	**$ 285,076**	**$ -**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

The carrying amount corresponding to non-covered loans acquired with deteriorated credit quality, including those accounted under ASC 310-30 by analogy, in the statements of financial condition at September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014	December 31, 2013
	(In thousands)	
Contractual required payments receivable	$ 2,505,662	$ 2,929,353
Less: Non-accretable discount	523,987	579,587
Cash expected to be collected	1,981,675	2,349,766
Less: Accretable yield	404,130	517,553
Carrying amount, gross	1,577,545	1,832,213
Less: allowance for loan and lease losses	10,120	2,863
Carrying amount, net	$ 1,567,425	$ 1,829,350

During the quarter ended September 30, 2014, the Company sold non-performing residential mortgage loans that were accounted for under ASC 310-30 with a carrying amount of $19.7 million. No gain or loss was realized in the transaction in accordance to ASC 310-30 accounting.

At September 30, 2014 and December 31, 2013, the Company had $168.7 million and $180.5 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its non-covered acquired loans accounted for under ASC 310-30. This entire amount was current at September 30, 2014.

The following tables describe the accretable yield and non-accretable discount activity of acquired loans accounted for under ASC 310-30 for the quarters and nine-month periods ended September 30, 2014 and 2013, excluding covered loans:

	Quarter Ended September 30,			Nine-Month Period Ended September 30,		
	2014		2013	2014		2013
	(In thousands)					
Accretable Yield Activity						
Balance at beginning of period	$ 444,606		$ 561,485	$ 517,553		$ 655,833
Accretion	(38,340)		(48,352)	(118,323)		(150,447)
Transfer from (to) non-accretable discount	(2,136)		6,010	4,900		13,757
Balance at end of period	**$ 404,130**		**$ 519,143**	**$ 404,130**		**$ 519,143**

	Quarter Ended September 30,			Nine-Month Period Ended September 30,		
	2014		2013	2014		2013
	(In thousands)					
Non-Accretable Discount Activity						
Balance at beginning of period	$ 554,724		$ 686,231	$ 579,587		$ 714,462
Principal losses	(32,873)		(44,301)	(50,700)		(64,785)
Transfer from (to) accretable yield	2,136		(6,010)	(4,900)		(13,757)
Balance at end of period	**$ 523,987**		**$ 635,920**	**$ 523,987**		**$ 635,920**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

The carrying amount of covered loans at September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014			December 31, 2013	
	(In thousands)				
Contractual required payments receivable	$	561,844		$	702,126
Less: Non-accretable discount		77,940			129,477
Cash expected to be collected		483,904			572,649
Less: Accretable yield		109,984			162,959
Carrying amount, gross		373,920			409,690
Less: Allowance for covered loan and lease losses		62,227			52,729
Carrying amount, net	**$**	**311,693**		**$**	**356,961**

The following tables describe the accretable yield and non-accretable discount activity of covered loans for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,						Nine-Month Period Ended September 30,			
	2014			2013			2014			2013
	(In thousands)									
Accretable Yield Activity										
Balance at beginning of period	$	128,061		$	167,132		$	162,959		$	188,008
Accretion		(20,886)			(21,657)			(69,154)			(65,884)
Transfer from non-accretable discount		2,809			23,070			16,179			46,421
Balance at end of period	**$**	**109,984**		**$**	**168,545**		**$**	**109,984**		**$**	**168,545**
	Quarter Ended September 30,						**Nine-Month Period Ended September 30,**				
	2013			**2013**			**2014**			**2013**	
	(In thousands)										
Non-Accretable Discount Activity											

Balance at beginning of period	$	85,224	$	192,259	$	129,477	$	237,555
Principal losses		(4,475)		(7,762)		(35,358)		(29,707)
Transfer to accretable yield		(2,809)		(23,070)		(16,179)		(46,421)
Balance at end of period	**$**	**77,940**	**$**	**161,427**	**$**	**77,940**	**$**	**161,427**

OFG BANCORP

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, 2014 and December 31, 2013:

	September 30, 2014			December 31, 2013	
	(In thousands)				
Originated and other loans and leases held for investment					
Mortgage					
Traditional (by origination year):					
Up to the year 2002	$	3,613		$	3,428
Years 2003 and 2004		3,749			1,845
Year 2005		9,117			4,922
Year 2006		7,019			4,418
Years 2007, 2008 and 2009		9,817			4,511
Years 2010, 2011, 2012, 2013 and 2014		6,244			7,818
		39,559			26,942
Non-traditional		3,022			2,311
Loss mitigation program		17,636			18,792
		60,217			48,045
Home equity secured personal loans		125			138
		60,342			**48,183**
Commercial					
Commercial secured by real estate					
Middle market		10,608			11,895
Retail		8,942			7,208
		19,550			19,103
Other commercial and industrial					
Middle market		628			1,134
Retail		2,112			2,485
Floor plan		-			108
		2,740			3,727
		22,290			**22,830**
Consumer					
Credit cards		408			232
Overdrafts		1			-

Personal lines of credit		35		84
Personal loans		761		485
Cash collateral personal loans		36		4
		1,241		**805**
Auto and leasing		**9,008**		**5,089**
	$	**92,881**	$	**76,907**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2014		December 31, 2013
	(In thousands)		
Acquired loans accounted under ASC 310-20			
Commercial			
Commercial secured by real estate			
Retail	$ 342		$ 956
Floor plan	101		101
	443		1,057
Other commercial and industrial			
Corporate	-		97
Retail	455		1,371
Floor plan	121		18
	576		1,486
	1,019		**2,543**
Consumer			
Credit cards	1,326		2,068
Personal loans	76		151
	1,402		**2,219**
Auto	**1,746**		**1,608**
	4,167		**6,370**
Total non-accrual loans	**$ 97,048**		**$ 83,277**

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

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

At September 30, 2014 and December 31, 2013, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $273.6 million and $66.5 million, respectively, as they are performing under their new terms. During the quarter ended September 30, 2014, the revolving line of credit to finance the purchase of fuel for the day to day power generation activities of the Puerto Rico Electric Power Authority (“PREPA”) was classified substandard and a troubled-debt restructuring. Based on our analysis, the loan is being maintained in accrual status requiring no impairment. At September 30, 2014 this line of credit had an unpaid principal balance of $200.0 million.

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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 $226.8 million and $28.4 million at September 30, 2014 and December 31, 2013, respectively. Impaired commercial loans at September 30, 2014 included the PREPA line of credit with an unpaid principal balance of $200.0 million. The impaired commercial loans were measured based on the fair value of collateral or the present value of cash flows, including those identified as troubled-debt restructurings. The valuation allowance for impaired commercial loans amounted to $1.1 million and $1.4 million at September 30, 2014 and December 31, 2013, respectively. The total investment in impaired mortgage loans was $91.7 million and $84.5 million at September 30, 2014 and December 31, 2013, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to approximately $7.9 million and $8.7 million at September 30, 2014 and December 31, 2013, respectively.

Originated and Other Loans and Leases Held for Investment

The Company's recorded investment in non-covered commercial and mortgage loans categorized as originated and other loans and leases held for investment that were individually evaluated for impairment and the related allowance for loan and lease losses at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014								
	Unpaid Principal			Recorded Investment			Related Allowance		Coverage
	(In thousands)								
Impaired loans with specific allowance:									
Commercial	$	5,297		$	4,731		$	1,108	23%
Residential troubled-debt restructuring		97,289			91,692			7,932	9%
Impaired loans with no specific allowance:									
Commercial		228,968			221,852			N/A	N/A
Total investment in impaired loans	**$**	**331,554**		**$**	**318,275**		**$**	**9,040**	3%

	December 31, 2013			
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Coverage**
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 6,600	$ 5,553	$ 1,431	26%
Residential troubled-debt restructuring	89,539	84,494	8,708	10%
Impaired loans with no specific allowance				
Commercial	27,914	22,592	N/A	N/A
Total investment in impaired loans	**$ 124,053**	**$ 112,639**	**$ 10,139**	9%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company's recorded investment in non-covered commercial loans categorized as non-covered acquired loans accounted for under ASC 310-20 that were individually evaluated for impairment and the related allowance for loan and lease losses at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014								
	Unpaid Principal			**Recorded Investment**		**Related Allowance**			**Coverage**
	(In thousands)								
Impaired loans with no specific allowance									
Commercial		208			208		N/A		N/A
Total investment in impaired loans	**$**	**208**	**$**		**208**	**$**	**-**		**0%**
	December 31, 2013								
	Unpaid Principal			**Recorded Investment**		**Specific Allowance**			**Coverage**
	(In thousands)								
Impaired loans with no specific allowance									
Commercial		208			208		N/A		N/A
Total investment in impaired loans	**$**	**208**	**$**		**208**	**$**	**-**		**0%**

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

The Company's recorded investment in non-covered acquired loan pools accounted for under ASC 310-30 and their related allowance for non-covered loan and lease losses at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014

	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired non-covered loan pools:				
Commercial	$ 294,966	$ 257,234	$ 4,613	2%
Construction	52,367	45,770	5,502	12%
Consumer	42,897	36,463	5	0%
Total investment in impaired non-covered loan pools	**$ 390,230**	**$ 339,467**	**$ 10,120**	3%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013							
	Unpaid Principal		Recorded Investment		Allowance		Coverage to Recorded Investment
	(In thousands)							
Impaired non-covered loan pools:							
Mortgage	$	5,183	$	4,718	$	57	1%
Commercial		48,100		40,411		394	1%
Construction		21,526		17,818		1,319	7%
Consumer		73,043		63,606		361	1%
Auto		379,236		377,316		732	0%
Total investment in impaired non-covered loan pools	**$**	**527,088**	**$**	**503,869**	**$**	**2,863**	1%

The following table presents the interest recognized in non-covered commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30, for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,							
	2014				2013			
	Interest Income Recognized		Average Recorded Investment		Interest Income Recognized		Average Recorded Investment	
	(In thousands)							
Impaired loans with specific allowance								
Commercial	$	28	$	5,103	$	5	$	9,039
Residential troubled-debt restructuring		666		91,293		712		82,388
Impaired loans with no specific allowance								
Commercial		1,728		89,029		146		28,805
Total interest income from impaired loans	**$**	2,422	**$**	185,425	**$**	863	**$**	120,232

	Nine-Month Period Ended Ended September 30,										
	2014						2013				
	Interest Income Recognized			Average Recorded Investment			Interest Income Recognized			Average Recorded Investment	
	(In thousands)										
Impaired loans with specific allowance											
Commercial	$	83		$	6,187		$	16		$	14,872
Residential troubled-debt restructuring		1,876			89,597			1,942			81,406
Impaired loans with no specific allowance											
Commercial		5,185			44,203			438			26,471
Total interest income from impaired loans	**$**	7,144		**$**	139,987		**$**	2,396		**$**	122,749

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

The Company's recorded investment in covered loan pools that have recorded impairments and their related allowance for covered loan and lease losses as of September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014									
										Coverage
	Unpaid			Recorded						to Recorded
	Principal			Investment			Allowance			Investment
	(In thousands)									
Impaired covered loan pools:										
Loans secured by 1-4 family residential properties	$	138,029		$	106,823		$	15,252		14%
Construction and development secured by 1-4 family residential properties		61,562			20,249			8,679		43%
Commercial and other construction		105,542			73,424			37,907		52%
Consumer		8,408			4,844			389		8%
Total investment in impaired covered loan pools	**$**	**313,541**		**$**	**205,340**		**$**	**62,227**		30%

	December 31, 2013									
										Coverage
	Unpaid			Recorded			Specific			to Recorded
	Principal			Investment			Allowance			Investment
	(In thousands)									
Impaired covered loan pools with specific allowance										
Loans secured by 1-4 family residential properties	$	52,142		$	38,179		$	12,495		33%
Construction and development secured by 1-4 family residential properties		66,037			17,304			6,866		40%

Commercial and other construction		209,566			111,946			32,753		29%
Consumer		10,512			5,857			615		11%
Total investment in impaired covered loan pools	**$**	**338,257**		**$**	**173,286**		**$**	**52,729**		30%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

The following tables present the troubled-debt restructurings during the quarters and nine-month periods ended September 30, 2014 and 2013:

	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-Mod Weig Average T Mon
	(Dollars in thousands)							
Mortgage	26	$	3,016	5.62%	347	$	2,965	4.22%	
Commercial	20		200,007	7.25%	3		200,007	7.25%	
Consumer	6		58	10.00%	61		68	9.66%	

	Nine-Month Period 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-Mod Weig Average T Mon
	(Dollars in thousands)								
Mortgage	113	$	14,562	5.99%	349	$	14,162	4.21%	
Commercial	21		200,080	7.25%	3		200,080	7.25%	
Consumer	13		123	11.77%	66		136	11.48%	

	Quarter Ended September 30, 2013								
	Number of contracts	Pre-Modification Outstanding Recorded Investment		Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment		Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)								
Mortgage	21	$	2,887	6.74%	352	$	3,066	6.74%	

	Nine-Month Period Ended September 30, 2013

	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)						
Mortgage	102	$ 12,828	6.43%	334	$ 13,685	5.15%	
Commercial	2	1,842	8.99%	87	1,842	4.00%	

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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, 2014 and 2013:

	Twelve-Month Period Ended September 30,							
	2014					2013		
	Number of Contracts		Recorded Investment			Number of Contracts		Recorded Investment
	(Dollars in thousands)							
Mortgage	15		$	1,739		30		$ 3,097
Consumer	2		$	5		-		$ -

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of September 30, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of gross non-covered originated and other loans and acquired loans accounted for under ASC 310-20 subject to risk rating by class of loans is as follows:

	September 30, 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	$ 113,976	$ 90,006	$ 23,970	$ -	$ -	$ -
Institutional	37,177	27,232	9,702	-	-	243
Middle market	144,539	127,640	3,707	-	-	13,192
Retail	161,642	147,034	3,020	2,441	-	9,147
Floor plan	1,666	594	971	101	-	-
Real estate	11,878	11,878	-	-	-	-
	470,878	404,384	41,370	2,542	-	22,582
Other commercial and industrial:						
Corporate	60,402	60,402	-	-	-	-
Institutional	482,275	282,293	-	-	-	199,982
Middle market	83,206	77,504	3,144	-	-	2,558
Retail	80,813	76,684	308	2,360	-	1,461
Floor plan	39,661	38,301	1,147	213	-	-
	746,357	535,184	4,599	2,573	-	204,001
Total	1,217,235	939,568	45,969	5,115	-	226,583
Commercial - acquired loans (under ASC 310-20)						

Commercial secured by real estate:						
Corporate	3,746	3,746	-	-	-	-
Retail	824	467	-	357	-	-
Floor plan	4,073	4,073	-	-	-	-
	8,643	8,286	-	357	-	-
Other commercial and industrial:						
Corporate	2,915	2,915	-	-	-	-
Retail	8,021	7,612	9	400	-	-
Floor plan	7,405	7,405	-	-	-	-
	18,341	17,932	9	400	-	-
Total	26,984	26,218	9	757	-	-
Total	**$ 1,244,219**	**$ 965,786**	**$ 45,978**	**$ 5,872**	**$ -**	**$ 226,583**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 54,796	$ 54,796	$ -	$ -	$ -	$ -
Institutional	4,050	4,050	-	-	-	-
Middle market	161,583	133,061	16,627	118	-	11,777
Retail	166,642	149,018	2,182	2,258	-	13,184
Floor plan	1,835	1,835	-	-	-	-
Real estate	11,655	11,655	-	-	-	-
	400,561	354,415	18,809	2,376	-	24,961
Other commercial and industrial:						
Corporate	32,598	32,598	-	-	-	-
Institutional	536,445	536,445	-	-	-	-
Middle market	58,897	53,868	3,466	198	-	1,365
Retail	61,510	58,742	257	691	-	1,820
Floor plan	37,646	37,350	188	108	-	-
	727,096	719,003	3,911	997	-	3,185
Total	1,127,657	1,073,418	22,720	3,373	-	28,146
Commercial - acquired loans (under ASC 310-20)						
Commercial secured by real estate:						
Corporate	10,166	10,166	-	-	-	-

Retail	5,770	4,378	443	949	-	-
Floor plan	2,677	2,576	-	101	-	-
	18,613	17,120	443	1,050	-	-
Other commercial and industrial:						
Corporate	9,793	9,696	-	97	-	-
Retail	27,338	26,044	150	1,144	-	-
Floor plan	21,937	21,769	168	-	-	-
	59,068	57,509	318	1,241	-	-
Total	77,681	74,629	761	2,291	-	-
Total	**$ 1,205,338**	**$ 1,148,047**	**$ 23,481**	**$ 5,664**	**$ -**	**$ 28,146**

All loans individually measured for impairment are classified as substandard as of September 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2014 and December 31, 2013, we had approximately $647.9 million and $763.4 million, respectively, of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which $626.8 million and $696.0 million, respectively, were outstanding as of such dates. A substantial portion of our credit exposure to the government of Puerto Rico consists of collateralized loans or obligations that have a specific source of income or revenues identified for its repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services, such as water and electric power utilities. Public corporations have varying degrees of independence from the central government and many have received appropriations or are due other payments from it. We also have loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all their general obligation bonds and notes. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

In the second quarter of 2014, the government enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”), which establishes procedures for the adjustment of certain public corporations’ debts. The Recovery Act states in its preamble that it further promotes the central government’s public policy objectives of no longer providing financial support to public corporations and promoting their economic independence. The Recovery Act, which is without precedent and is being challenged in federal court on constitutional grounds, has increased the level of uncertainty as to the rights of the affected public corporation’s creditors. As of September 30, 2014, we had approximately $382.1 million of credit facilities granted to public corporations authorized to initiate proceedings under the Recovery Act.

Oriental Bank is part of a four bank syndicate providing a $550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of PREPA, a public corporation authorized to seek relief under the Recovery Act. The Bank’s participation in the line of credit has an unpaid principal balance of $200.0 million as of September 30, 2014. The Company, as part of the bank syndicate, agreed during the quarter to extend its credit facility with PREPA to March 31, 2015. In connection with such extension, PREPA appointed a Chief Restructuring Officer to work alongside the Executive Director to develop, organize and manage a financial and operational restructuring of PREPA subject to the approval of PREPA’s Board. PREPA also committed to delivering a comprehensive business plan by December 15, 2014 and a full debt restructuring plan by March 2, 2015. After the extension, the Company classified the credit as substandard and a troubled-debt restructuring. The Company conducted an impairment analysis considering the probability of collection of principal and interest. Based on the experience and knowledge of the borrower, independent scenarios were developed to assess the collectability of the Company’s current credit exposure to PREPA. Such scenarios project very probable outcomes based on a conservative set of assumptions related to PREPA’s ability for future cash flow generation. The Company concluded that the loan should be maintained in accrual status requiring no impairment.

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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, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of non-covered gross originated and other loans and acquired loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

	September 30, 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	$ 68,338	$ 54,931	$ 5,831	$ 3,160	$ 537	$ 999	$ 1,888	$ 992
Years 2003 and 2004	62,344	49,747	6,309	1,730	221	1,623	1,489	1,225
Year 2005	88,431	66,895	6,451	3,236	831	3,768	3,659	3,591
Year 2006	113,211	90,157	9,821	5,471	1,740	2,479	1,759	1,784
Years 2007, 2008 and 2009	97,063	79,950	2,874	2,774	839	3,181	3,352	4,093
Years 2010, 2011, 2012	193,562	180,558	4,088	1,224	106	1,597	1,281	4,708

2013 and 2014								
	622,949	522,238	35,374	17,595	4,274	13,647	13,428	16,393
Non-traditional	37,775	32,886	1,084	783	259	1,047	1,667	49
Loss mitigation program	89,583	9,249	1,665	789	628	1,022	980	75,250
	750,307	564,373	38,123	19,167	5,161	15,716	16,075	91,692
Home equity secured personal loans	733	607	-	-	-	-	126	-
GNMA's buy-back option program	40,066	-	-	-	8,825	18,512	12,729	-
	791,106	**564,980**	**38,123**	**19,167**	**13,986**	**34,228**	**28,930**	**91,692**
Consumer								
Credit cards	17,857	17,022	238	189	140	268	-	-
Overdrafts	340	318	20	2	-	-	-	-
Unsecured personal lines of credit	2,051	1,823	67	132	-	26	3	-
Unsecured personal loans	138,608	135,169	1,586	614	579	22	-	638
Cash collateral personal loans	17,026	16,644	214	132	36	-	-	-
	175,882	**170,976**	**2,125**	**1,069**	**755**	**316**	**3**	**638**
Auto and Leasing	**542,892**	**475,120**	**43,537**	**15,956**	**5,662**	**2,617**	**-**	**-**
	1,509,880	**1,211,076**	**83,785**	**36,192**	**20,403**	**37,161**	**28,933**	**92,330**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	43,682	40,053	1,625	678	483	843	-	-
Personal loans	3,602	3,293	160	83	32	34	-	-
	47,284	**43,346**	**1,785**	**761**	**515**	**877**	**-**	**-**
Auto	**210,808**	**193,762**	**11,372**	**4,137**	**1,209**	**328**	**-**	**-**
	258,092	**237,108**	**13,157**	**4,898**	**1,724**	**1,205**	**-**	**-**
Total	**$ 1,767,972**	**$ 1,448,184**	**$ 96,942**	**$ 41,090**	**$ 22,127**	**$ 38,366**	**$ 28,933**	**$ 92,330**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013							
	Delinquency							
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 76,512	$ 64,743	$ 6,594	$ 1,634	$ 868	$ 1,082	$ 1,458	$ 133
Years 2003 and 2004	65,117	56,283	4,722	1,938	56	1,437	352	329
Year 2005	89,541	74,016	8,414	2,119	1,198	3,037	573	184
Year 2006	120,322	99,243	12,055	4,312	1,148	2,755	515	294
Years 2007, 2008 and 2009	101,150	91,920	3,464	1,104	1,264	2,844	554	-
Years 2010, 2011, 2012 and 2013	149,546	134,577	3,192	1,609	115	974	989	8,090
	602,188	520,782	38,441	12,716	4,649	12,129	4,441	9,030
Non-traditional	42,102	35,168	3,217	1,162	-	1,324	833	398
Loss mitigation program	86,318	7,762	1,376	149	624	312	1,029	75,066

	730,608	563,712	43,034	14,027	5,273	13,765	6,303	84,494
Home equity secured personal loans	736	598	-	-	-	126	12	-
GNMA's buy-back option program	34,921	-	-	-	7,670	14,425	12,826	-
	766,265	**564,310**	**43,034**	**14,027**	**12,943**	**28,316**	**19,141**	**84,494**
Consumer								
Credit cards	15,241	14,555	287	168	118	113	-	-
Overdrafts	372	322	46	4	-	-	-	-
Unsecured personal lines of credit	1,981	1,844	33	38	25	34	7	-
Unsecured personal loans	94,560	92,102	1,272	399	300	39	13	435
Cash collateral personal loans	15,590	15,223	324	43	-	-	-	-
	127,744	**124,046**	**1,962**	**652**	**443**	**186**	**20**	**435**
Auto and Leasing	**379,874**	339,817	25,532	9,437	3,397	1,691	-	-
	1,273,883	**1,028,173**	**70,528**	**24,116**	**16,783**	**30,193**	**19,161**	**84,929**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	52,199	46,713	2,217	1,200	828	1,241	-	-
Personal loans	3,975	3,681	196	7	60	31	-	-
	56,174	**50,394**	**2,413**	**1,207**	**888**	**1,272**	**-**	**-**
Auto	**301,584**	283,825	12,534	3,616	1,095	514	-	-
	357,758	**334,219**	**14,947**	**4,823**	**1,983**	**1,786**	**-**	**-**
Total	**$ 1,631,641**	**$ 1,362,392**	**$ 85,475**	**$ 28,939**	**$ 18,766**	**$ 31,979**	**$ 19,161**	**$ 84,929**

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

	September 30, 2014		December 31, 2013	
	(In thousands)			
Allowance for loans and lease losses on non-covered loans:				
Originated and other loans and leases held for investment:				
Mortgage	$	18,872	$	19,937
Commercial		9,112		14,897
Consumer		8,709		6,006
Auto and leasing		13,404		7,866
Unallocated		182		375
		50,279		**49,081**
Acquired loans:				
Accounted for under ASC 310-20 (Loans with revolving feature and/or				
acquired at a premium)				
Commercial		270		926
Consumer		1,031		-
Auto		3,159		1,428
		4,460		**2,354**
Accounted for under ASC 310-30 (Loans acquired with deteriorated				
credit quality, including those by analogy)				
Commercial		10,115		1,713
Consumer		5		418
Auto		-		732
		10,120		**2,863**
		64,859		**54,298**
Allowance for loans and lease losses on covered loans:				
Loans secured by 1-4 family residential properties		15,252		12,495
Commercial and other construction		46,586		39,619
Consumer		389		615
		62,227		**52,729**
Total allowance for loan and lease losses	**$**	**127,086**	**$**	**107,027**

Non-Covered Loans

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors. While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Company's control. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. Same analysis was performed for the commercial portfolio during the quarter ended June 30, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months for auto and leasing and consumer. For the commercial portfolio, a look back period of 12 months was maintained. In addition, during the quarter ended June 30, 2014, 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 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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

lease losses' look-back period for the consumer and auto and leasing portfolios, and economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

Originated and Other Loans and Leases Held for Investment

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, 2014					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 19,062	$ 12,423	$ 7,887	$ 11,127	$ 139	$ 50,638
Charge-offs	(1,563)	(1,081)	(1,585)	(7,393)	-	(11,622)
Recoveries	138	56	66	2,434	-	2,694
Provision (recapture) for non-covered originated and other loan and lease losses	1,235	(2,286)	2,341	7,236	43	8,569
Balance at end of period	**$ 18,872**	**$ 9,112**	**$ 8,709**	**$ 13,404**	**$ 182**	**$ 50,279**

	Nine-Month Period Ended September 30, 2014					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
	(In thousands)					

Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 19,937	$ 14,897	$ 6,006	$ 7,866	$ 375	$ 49,081
Charge-offs	(3,764)	(2,043)	(3,820)	(17,994)	-	(27,621)
Recoveries	374	269	457	6,094	-	7,194
Provision (recapture) for non-covered originated and other loan and lease losses	2,325	(4,011)	6,066	17,438	(193)	21,625
Balance at end of period	**$ 18,872**	**$ 9,112**	**$ 8,709**	**$ 13,404**	**$ 182**	**$ 50,279**

	September 30, 2014					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
_	**(In thousands)**					
Allowance for loan and lease losses on non-covered originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 7,932	$ 1,108	$ -	$ -	$ -	$ 9,040
Collectively evaluated for impairment	10,940	8,004	8,709	13,404	182	41,239
Total ending allowance balance	**$ 18,872**	**$ 9,112**	**$ 8,709**	**$ 13,404**	**$ 182**	**$ 50,279**
Loans:						
Individually evaluated for impairment	$ 91,692	$ 226,583	$ -	$ -	$ -	$ 318,275
Collectively evaluated for impairment	699,414	990,652	175,882	542,892	-	2,408,840

Total ending loan balance	**$**	**791,106**		**$**	**1,217,235**		**$**	**175,882**		**$**	**542,892**		**$**	**-**		**$**	**2,727,115**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2013					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
_	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 21,375	$ 17,624	$ 2,341	$ 3,641	$ 720	$ 45,701
Charge-offs	(1,758)	(2,234)	(465)	(1,305)	-	(5,762)
Recoveries	-	28	37	639	-	704
Provision for non-covered originated and other loan and lease losses	1,374	(703)	2,915	3,143	201	6,930
Balance at end of period	**$ 20,991**	**$ 14,715**	**$ 4,828**	**$ 6,118**	**$ 921**	**$ 47,573**

	Nine-Month Period Ended September 30, 2013					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
_	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 21,092	$ 17,072	$ 856	$ 533	$ 368	$ 39,921
Charge-offs	(33,465)	(5,678)	(1,034)	(2,105)	-	(42,282)
Recoveries	-	291	143	855	-	1,289
Provision for non-covered originated and other loan and lease	33,364	3,030	4,863	6,835	553	48,645

losses												
Balance at end of period	**$**	**20,991**	**$**	**14,715**	**$**	**4,828**	**$**	**6,118**	**$**	**921**	**$**	**47,573**

	December 31, 2013											
	Mortgage		Commercial		Consumer		Auto and Leasing		Unallocated		Total	
_	(In thousands)											
Allowance for loan and lease losses for non-covered originated and other loans:												
Ending allowance balance attributable to loans:												
Individually evaluated for impairment	$	8,708	$	1,431	$	-	$	-	$	-	$	10,139
Collectively evaluated for impairment		11,229		13,466		6,006		7,866		375		38,942
Total ending allowance balance	**$**	**19,937**	**$**	**14,897**	**$**	**6,006**	**$**	**7,866**	**$**	**375**	**$**	**49,081**
Loans:												
Individually evaluated for impairment	$	84,494	$	28,145	$	-	$	-	$	-	$	112,639
Collectively evaluated for impairment		681,771		1,099,512		127,744		379,874		-		2,288,901
Total ending loans balance	**$**	**766,265**	**$**	**1,127,657**	**$**	**127,744**	**$**	**379,874**	**$**	**-**	**$**	**2,401,540**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	September 30, 2014									
	Commercial		**Consumer**		**Auto**		**Unallocated**		**Total**	
_	**(In thousands)**									
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:										
Ending allowance balance attributable to loans:										
Collectively evaluated for impairment		270		1,031		3,159		-		4,460
Total ending allowance balance	**$**	**270**	**$**	**1,031**	**$**	**3,159**	**$**	**-**	**$**	**4,460**
Loans:										
Collectively evaluated for impairment		26,984		47,284		210,808		-		285,076
Total ending loan balance	**$**	**26,984**	**$**	**47,284**	**$**	**210,808**	**$**	**-**	**$**	**285,076**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2013				
	Commercial	Consumer	Auto	Unallocated	Total
_	(In thousands)				
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$ 924	$ -	$ -	$ -	$ 924
Charge-offs	-	(1,233)	(1,598)	-	(2,831)
Recoveries	6	88	884	-	978
Provision (recapture)for non-covered acquired loan and lease losses accounted for under ASC 310-20	431	1,145	1,394	-	2,970
Balance at end of period	**$ 1,361**	**$ -**	**$ 680**	**$ -**	**$ 2,041**

	Nine-Month Period Ended September 30, 2013				
	Commercial	Consumer	Auto	Unallocated	Total
_	(In thousands)				
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$ -	$ -	$ -	$ -	$ -
Charge-offs	(25)	(3,847)	(4,723)	-	(8,595)

Recoveries		6		932		3,000		-		3,938
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		1,380		2,915		2,403		-		6,698
Balance at end of period	**$**	**1,361**	**$**	**-**	**$**	**680**	**$**	**-**	**$**	**2,041**

	December 31, 2013									
	Commercial		**Consumer**		**Auto**		**Unallocated**		**Total**	
_	**(In thousands)**									
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:										
Ending allowance balance attributable to loans:										
Collectively evaluated for impairment		926		-		1,428		-		2,354
Total ending allowance balance	**$**	**926**	**$**	**-**	**$**	**1,428**	**$**	**-**	**$**	**2,354**
Loans:										
Collectively evaluated for impairment		77,681		56,174		301,584		-		435,439
Total ending loan balance	**$**	**77,681**	**$**	**56,174**	**$**	**301,584**	**$**	**-**	**$**	**435,439**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Quarter Ended September 30, 2014					
	Mortgage	Commercial	Construction	Consumer	Auto	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:						
Balance at beginning of period	$ -	$ 6,216	$ -	$ 62	$ -	$ 6,278
Provision(recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-30	-	3,899	-	(57)	-	3,842
Balance at end of period	**$ -**	**$ 10,115**	**$ -**	**$ 5**	**$ -**	**$ 10,120**
	Nine-Month Period Ended September 30, 2014					
	Mortgage	Commercial	Construction	Consumer	Auto	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:						
Balance at beginning of period	$ -	$ 1,713	$ -	$ 418	$ 732	$ 2,863
Provision (recapture) for non-covered acquired	-	8,402	-	(413)	(732)	7,257

loan and lease losses accounted for under ASC 310-30						
Balance at end of period	**$ -**	**$ 10,115**	**$ -**	**$ 5**	**$ -**	**$ 10,120**

Non-covered acquired loans accounted for under ASC 310-30 were recognized at fair value as of December 18, 2012, which included the impact of expected credit losses, and therefore, no allowance for credit losses was recorded during the nine-month period ended September 30, 2013.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

The changes in the allowance for loan and lease losses on covered loans for the quarters and nine-month periods ended September 30, 2014 and 2013 were as follows:

	Quarter Ended September 30,						Nine-Month Period Ended September 30,				
_	2014			2013			2014			2013	
_	(In thousands)										
Balance at beginning of the period	$	59,515		$	53,992		$	52,729		$	54,124
Provision for covered loan and lease losses, net		1,115			3,074			4,339			4,956
FDIC shared-loss portion of provision for (recapture of)											
covered loan and lease losses, net		1,597			(511)			5,159			(2,525)
Balance at end of the period	**$**	**62,227**		**$**	**56,555**		**$**	**62,227**		**$**	**56,555**

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

The following table presents the activity in the FDIC indemnification asset and true-up payment obligation for the quarters and nine month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)							
FDIC indemnification asset:								
Balance at beginning of period	$	143,660	$	253,379	$	189,240	$	302,295
Shared-loss agreements reimbursements from the FDIC		(12,837)		(14,036)		(31,537)		(32,732)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net		1,597		(510)		5,159		(2,525)
FDIC indemnification asset expense		(16,059)		(15,198)		(51,180)		(46,623)
Incurred expenses to be reimbursed under shared-loss agreements		4,258		1,947		8,937		5,167
Balance at end of period	**$**	**120,619**	**$**	**225,582**	**$**	**120,619**	**$**	**225,582**

True-up payment obligation:									
Balance at beginning of period	$	20,231	$	16,907		$	18,510	$	15,496
Change in true-up payment obligation		875		767			2,596		2,178
Balance at end of period	**$**	**21,106**	**$**	**17,674**		**$**	**21,106**	**$**	**17,674**

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

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 indemnification asset expense of $16.1 million and $51.2 million for the quarter and nine-month period ended September 30, 2014 increased when compared to $15.2 million and $46.6 million for the same periods in 2013. These changes were caused by the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and the improved acc