

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

RAMON SYKES, Individually and on Behalf of All Others Similarly Situated,	:	Civil Action No.
	:	
	:	<u>CLASS ACTION</u>
Plaintiff,	:	
	:	COMPLAINT FOR VIOLATIONS OF THE
vs.	:	FEDERAL SECURITIES LAWS
	:	
DORAL FINANCIAL CORPORATION, GLENN R. WAKEMAN, ROBERT E. WAHLMAN, PENKO IVANOV, DAVID HOOSTON, ENRIQUE R. UBARRI- BARAGANO and CHRISTOPHER C. POULTON,	:	
	:	<u>DEMAND FOR JURY TRIAL</u>
	:	
Defendants.	:	
	:	

Plaintiff Ramon Sykes (“Plaintiff”), individually and on behalf of all others similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against defendants, alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and upon information and belief as to all other matters based on the investigation conducted by and through Plaintiff’s attorneys, which included, among other things, a review of U.S. Securities and Exchange Commission (“SEC”) filings by Doral Financial Corporation (“Doral” or the “Company”), as well as earnings conference call transcripts, and media and analyst reports about the Company. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a securities class action on behalf of all purchasers of the common stock of Doral between April 2, 2012 and May 1, 2014, inclusive (the “Class Period”). Plaintiff seeks to pursue remedies against Doral and certain of its most senior executives under §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”), and Rule 10b-5 promulgated thereunder.

JURISDICTION AND VENUE

2. Jurisdiction is conferred by §27 of the Exchange Act. The claims asserted herein arise under §§10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. This Court has jurisdiction over the subject matter of this action under 28 U.S.C. §§1331 and 1337, and §27 of the Exchange Act.

3. Venue is proper in this District pursuant to §27 of the Exchange Act and 28 U.S.C. §1391(b) as the alleged misconduct was transacted in and emanated from this District.

4. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

PARTIES

5. Plaintiff Ramon Sykes, as set forth in the accompanying Certification, which is incorporated by reference herein, purchased Doral common stock during the Class Period and has been damaged thereby.

6. Defendant Doral, headquartered in San Juan, Puerto Rico, operates as the bank holding company for Doral Bank, which provides retail banking services to the general public and institutions, primarily in Puerto Rico (the “Bank”). Doral’s common stock was listed and traded on the New York Stock Exchange (“NYSE”), an efficient market, throughout the Class Period, under the ticker symbol “DRL.” As of April 30, 2014, Doral had more than 6.6 million shares of common stock issued and outstanding.¹

7. Defendant Glen R. Wakeman (“Wakeman”) is, and was throughout the Class Period, Doral’s Chief Executive Officer (“CEO”), President and a Director of the Bank.

8. Defendant Robert E. Wahlman (“Wahlman”) served as Doral’s Executive Vice President, Chief Financial and Investment Officer and Chief Accounting Officer, and a Director of the Bank from the start of the Class Period until he was replaced as Chief Accounting Officer effective September 20, 2012, and who thereafter resigned the rest of his corporate positions on or about March 13, 2013.

¹ On June 28, 2013, after the close of trading, Doral effected a 1-for-20 reverse stock split of its common shares. Unless otherwise indicated, all common stock prices are presented in split-adjusted prices, while all daily trading volume is presented as the actual number of shares traded that day.

9. Defendant Penko Ivanov (“Ivanov”) served as Doral’s Interim Chief Financial Officer (“CFO”) between May 17, 2013 and October 3, 2013.

10. Defendant David E. Hooston (“Hooston”) joined Doral as an employee in its finance department on July 1, 2013, pending regulatory approval of his appointment as permanent CFO. Effective October 3, 2013, Defendant Hooston was appointed Executive Vice President and CFO.

11. Defendant Enrique R. Ubarri-Baragano (“Ubarri”) is, and was throughout the Class Period, Doral’s Chief Compliance Officer, Executive Vice President and General Legal Counsel.

12. Defendant Christopher C. Poulton (“Poulton”) is, and was throughout the Class Period, Doral’s Chief Business Development Officer and Executive Vice President.

13. The defendants referenced above in ¶¶7-12 are referred to herein as the “Individual Defendants,” and collectively with Doral, they are referred to herein as “Defendants.”

CLASS ACTION ALLEGATIONS

14. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all purchasers of the common stock of Doral during the Class Period (the “Class”). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns, and any entity in which Defendants have or had a controlling interest.

15. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Doral common stock was actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time, and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds of thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Doral and/or its transfer agent, and may be notified of the pendency of

this action by mail, using the form of notice similar to that customarily used in securities class actions.

16. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

17. Plaintiff will fairly and adequately protect the interests of the members of the Class, and has retained counsel competent and experienced in class and securities litigation.

18. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) whether the Exchange Act was violated by Defendants as alleged herein;
- (b) whether statements made by Defendants misrepresented material facts about the business, operations and management of Doral; and
- (c) to what extent the members of the Class have sustained damages and the proper measure of damages.

19. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

FACTUAL ALLEGATIONS

20. Doral was founded in 1972 and is based in San Juan, Puerto Rico. Doral operates as the bank holding company for the Bank, which provides retail banking services to the general public

and institutions through a network of 22 branches located in Puerto Rico; and 8 branches located in New York and Florida.

21. The Bank (now) primarily operates through four operating segments: Puerto Rico Growth, United States, Recovery, and Treasury. The Bank accepts deposits, including certificates of deposit, brokered deposits, regular passbook savings, NOW accounts and other transaction accounts, money market accounts, and non-interest bearing deposits; obtains borrowings; originates and invests in loans, including residential real estate mortgage loans; and offers traditional banking services. It also offers commercial and construction loan products; and purchases assigned interests in senior credit facilities from the syndicated leverage loan market in the United States. In addition, the company provides consumer loans, such as credit cards, personal loans, loans on savings deposits and other consumer loans. Further, it offers commercial real estate loans; commercial loans, including lines of credit and term facilities to finance business operations, and working capital for specific purposes, such as to finance the purchase of assets, equipment, or inventory; and construction lending products, as well as industrial and land loans. Additionally, the Bank originates, purchases, and sells mortgage loans; and offers property, casualty, life, and title insurance products primarily to its mortgage loan customers.

22. The Class Period starts on April 2, 2012. On March 30, 2012, after the close of trading, Doral filed its Annual Financial Report on Form 10-K with the SEC for the fiscal year ended December 31, 2011 (the “2011 10-K”). The 2011 10-K was signed and certified as to veracity as required by the Sarbanes Oxley Act of 2002 by Defendants Wakeman and Wahlman. Concerning the Company’s deferred tax assets, the 2011 10-K stated, in pertinent part, as follows:

Puerto Rico Income Taxes

Until December 31, 2011, the maximum statutory corporate income tax rate in Puerto Rico was 39.00%.

Under the 1994 Puerto Rico Internal Revenue Code (as amended “1994 Code”), corporations are not permitted to file consolidated returns with their subsidiaries and affiliates. Doral Financial is entitled to a 100% dividend received deduction on dividends received from Doral Bank or any other Puerto Rico subsidiary subject to tax under the Puerto Rico tax code.

On March 9, 2009, the Governor of Puerto Rico signed into law the Special Act Declaring a State of Fiscal Emergency and Establishing an Integral Plan of Fiscal Stabilization to Save Puerto Rico’s Credit, Act No. 7 (the “Act”). Pursuant to the Act, section 1020A was introduced to the Code to impose a 5.00% surtax over the total tax determined for corporations, partnerships, trusts, estates, as well as individuals whose combined gross income exceeds \$100,000 or married individuals filing jointly whose gross income exceeds \$150,000. This surtax is effective for tax years commenced after December 31, 2008 and before January 1, 2012. This increased the Company’s income tax rate from 39.00% to 40.95% for tax years from 2009 through 2011.

On November 15, 2010, Act 171 was enacted into law (“Act 171”) generally providing, among other things: (i) a one year income tax credit equal to 7.00% of the “tax liability due” to corporations that paid the Christmas Bonus required by local labor laws, and (ii) extending to 10 years the carry forward term of net operating losses incurred for the years commenced after December 31, 2004 and before December 31, 2012.

On January 31, 2011, the Governor signed into law the Internal Revenue Code of 2011 (“2011 Code”) making the 1994 Code generally ineffective for years commenced after December 31, 2010. Under the provisions of the 2011 Code, the maximum statutory corporate income tax rate is 30.00% for years starting after December 31, 2010 and ending before January 1, 2014; if the government meets its income generation and expense control goals, for years started after December 31, 2013, the maximum corporate tax rate will be 25.00%. The 2011 Code eliminated the special 5.00% surtax on corporations for tax year 2011. In general, the 2011 Code maintains the extension in the carry forward periods for net operating losses from 7 to 10 years as provided for in Act 171; maintains the concept of the alternative minimum tax although it changed the way it is computed; allows limited liability companies to have flow-through treatment under certain circumstances; imposes additional restrictions on the use of net operating loss carry forwards after certain types of reorganizations and/or changes in control; and specifies what types of auditors’ report will be acceptable when audited financial statements are required to be filed with the income tax return. Additionally, the 2011 Code provides for changes in the implications of being in a controlled group of corporations and/or group of related corporations. Notwithstanding the 2011 Code, a corporation may be subject to the provisions of the 1994 Code if it so elects it by the time it files its income tax return for the first year commenced after December 31, 2010 and ending before January 1, 2012. If the election is made to remain subject to the provisions of the 1994 Code, such election will be effective that year and the next four succeeding years.

In computing its interest expense deduction, Doral Financial's interest deduction is reduced in the same proportion that its average exempt obligations (including FHA and VA loans and GNMA securities) bear to its average total assets. Therefore, to the extent that Doral Financial holds FHA or VA loans and other tax exempt obligations, part of its interest expense may be disallowed for tax purposes.

The Company is evaluating the impact of the tax reform on its results of operations including the election to be taxed under the 1994 Code. Nevertheless, the Company recorded its deferred tax assets estimated to reverse after 2015 at the 30.00% tax rate required for all taxable earnings beginning in 2016, which is the latest taxable year that it would be permitted to elect taxation under the 1994 Code. Puerto Rico deferred tax asset subject to the maximum statutory tax rate and estimated to reverse prior to 2016, together with any related valuation allowance, are recorded at the 39.00% tax rate pursuant to the 1994 Code. Upon determination of which alternative treatment will be followed, the Company will adjust its deferred tax assets for any required tax rate change, if applicable. Adoption of the 2011 Code as of December 31, 2011, would represent an additional deferred tax expense of \$7.6 million.

* * *

As of December 31, 2011, we had a deferred tax asset of approximately \$111.0 million. The deferred tax asset is net of a valuation allowance of \$432.9 million.

* * *

On March 26, 2012 Doral Financial Corporation jointly with each of its Puerto Rico operating subsidiaries (the "Company") entered into a Closing Agreement with the Commonwealth of Puerto Rico (the "[Tax] Agreement") in which the Commonwealth of Puerto Rico recognized a prepayment of income taxes of approximately \$230 million from the Company related to the past overpayment of taxes. In accordance to the [Tax] Agreement, the Company has a present claim on the overpayment to the Commonwealth of Puerto Rico that is not dependent on its future earnings. The [Tax] Agreement also clarifies that the pre-paid tax asset survives in the event of a change in control of the Company or any of its Puerto Rico operating subsidiaries and can be apportioned among and used by the Company or any of its Puerto Rico subsidiaries. The [Tax] Agreement supersedes and replaces the previous Closing Agreements between the Company and the Commonwealth of Puerto Rico in which the Company's recovery of amounts related to the overpayment of taxes was in the form of an amortizing deferred tax asset which was used as an expense to reduce taxable income. ***The Company estimates it will recognize a tax benefit relating to the execution of the Agreement of approximately \$100 million due to release of the associated deferred tax asset reserves, and will increase its reported Tier 1 regulatory capital by approximately \$200 million.*** In the [Tax] Agreement the Company committed to expand its Home Preservation Program by \$50 million to allow Puerto Rico families to restructure or refinance their existing loans to remain in their homes, and to participate in a Puerto Rico government program to lend to small businesses. The Federal Reserve and the Federal Deposit

Insurance Corporation have supervisory oversight authority over the Company and Doral Bank, including the quality of our Tier I regulatory capital, and as such the Federal Deposit Insurance Corporation or Federal Reserve in the future can seek to reduce our Tier 1 regulatory capital.²

23. Concerning the reserve allowance the Company was required to take for inherent loan losses at an appropriate level based upon an assessment of the quality of Doral's loan portfolio, the 2011 Form 10-K stated that as of December 31, 2011, "the Company's allowance for loan and lease losses was \$102.6 million, a decrease of \$21.1 million from \$123.7 million as of December 31, 2010."

24. As to the then-status of the Company's internal controls, the 2011 Form 10-K stated, in pertinent part, that while the Company had previously identified certain material deficiencies in its internal controls as of December 31, 2011, the 10-K emphasized that "*Doral Financial's management, with the oversight of the Audit Committee, [would] complete the work necessary to remedy the identified material weaknesses in the Company's internal control over financial reporting as expeditiously as possible.*" Specifically, the 2011 Form 10-K stated, in pertinent part, as follows:

The Company did not maintain effective controls over the completeness and valuation of its allowance for loan and lease losses and the related provision for loan and lease losses. Specifically, the Company did not maintain effective controls to reasonably assure that (i) all residential second mortgages and all commercial real estate loans valuations were obtained and processed accurately so that all the property value updates received were reflected as charge-offs or in the estimate of the allowance for loan and lease losses in a timely manner, and (ii) the allowance for loan and lease losses estimate is adequately reviewed and that underlying data is properly reconciled. The control deficiency related to the accurate and timely processing of new residential and commercial real estate valuations resulted in the Company's reducing the amount of loans by \$10.1 million and reducing the allowance for loan and lease losses by \$10.1 million in the December 31, 2011 consolidated financial statements from the amounts reported in Doral's January 19, 2012 earnings release. These control deficiencies could have resulted in a misstatement of the Company's allowance for loan and lease losses and the related

² All emphasis is added unless otherwise noted.

provision for loan losses that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that these control deficiencies constitute material weaknesses.

* * *

Plan for Remediation of Material Weaknesses that Existed as of December 31, 2011

The following describes the *continuing remediation efforts that are being undertaken by Doral Financial* to address the material weaknesses in the Company's internal control over financial reporting that existed as of December 31, 2011:

To remediate the material weakness for residential second mortgages and commercial real estate loan valuations receipt and processing, management will clearly define the charge-off calculation, revise the charge-off documentation to clearly define the amount of the charge-off and the responsibility of completing the charge-off forms, retrain those responsible for calculating the charge-off, and design the process and establish written procedures to ensure that all new valuations are obtained timely and are considered in identifying loan charge-offs and in estimating the allowance for loan and lease losses and such charge-offs and loan loss provisions are timely recorded in the accounting records. To remediate the material weakness regarding the adequate review of the allowance for loan and lease losses estimate and the reconciliation of the underlying data, management will adopt specific policies and procedures that clearly delineate the respective roles, responsibilities and tasks over the preparation of the allowance for loan and lease losses estimate, including specific procedures to ascertain the completeness and accuracy of the data underlying the calculation, and ensure that each individual's work is properly reviewed and such review is documented.

The Company believes that the remediation efforts described will improve Doral's internal control over financial reporting and its disclosure controls and procedures. Doral's management, with the oversight of the Audit Committee, will complete the work necessary to remedy the identified material weaknesses in the Company's internal control over financial reporting as expeditiously as possible.

25. On the news that the Company was purportedly entitled to receive a large tax refund from the Puerto Rican government, rendering its Tier 1 capital requirements adequate, the price of Doral's common stock increased from its close of \$30.80 per share on Friday, March 30, 2012 to close at \$37.20 per share on Monday, April 2, 2012, on unusually high trading volume of more than one million shares.

26. As lamented by *American Banker* in its April 2, 2012 report stating “[s]hares of Doral . . . shot up Monday after the . . . company said in its annual report that the reclassification of a previously reported tax overpayment will result in a significant boost to its capital levels,” “Deferred Tax Assets are usually reversed when a company *proves that it can make money on a consistent basis*, but in Doral’s case the primary accounting implication is the asset will no longer be dependent on the company’s future earnings stream.” According to a research note by Sandler O’Neill & Partners LP, the reclassification added approximately \$200 million to Doral’s capital base and boosted its Tier 1 capital ratio from 12.2% of assets at December 31, 2011 to 15% for the quarter that had then recently ended March 31, 2012.

27. Following the announcement, on April 16, 2012, the Doral Board of Directors approved salary increases for several executive officers, including increasing Defendant Wakeman’s annual salary to \$1.25 million, Defendant Wahlman to \$500,000, Defendant Ubarri to \$450,000 and Defendant Poulton to \$500,000.

28. On May 11, 2012 the Company advised the SEC that it would be delinquent in filing its quarterly financial report on Form 10-Q for its first quarter 2012 ended March 31, 2012 due in large part to “additional work being undertaken concerning management’s assessment of the Company’s allowance for loan and lease losses as of quarter end, and . . . *additional work being undertaken in the accounting of the Closing Agreement entered into on March 26, 2012 between the Company (and its Puerto Rico operating subsidiaries) and the Commonwealth of Puerto Rico in which the Commonwealth of Puerto Rico recognized a prepayment of income taxes of approximately \$230 million from the Company related to past overpayment of taxes.*”

29. On May 15, 2012, after the close of trading, the Company issued a press release entitled “Doral Financial Corporation Reports Financial Results for the Quarter Ended March 31,

2012 – Reports Net Income of \$2.6 million – ***Increases Tier 1 Capital by \$101.5 million.***” Quoting Defendant Wakeman, the release stated, in pertinent part, as follows:

“Doral is on a solid course. Additional capital and reserves strengthened our balance sheet considerably. Our leading mortgage and retail franchise in Puerto Rico provides a strong foundation, while U.S. asset growth and liability management are expanding margins and profitability.” said Glen Wakeman, Chief Executive Officer of Doral Financial Corporation.

First Quarter Highlights:

- ***Realized an income tax benefit of \$112.6 million*** for the first quarter of 2012 largely as a result of the new Closing Agreement entered into between Doral Financial Corporation (and its Puerto Rico domiciled subsidiaries) and the Commonwealth of Puerto Rico.
- ***Incurred \$115.2 million in provision for loan and lease losses, recognizing the adoption of a more conservative outlook reflective of the uncertain economic and regulatory environments, receipt of new real estate valuations, availability of new market based and performance data and consideration of such new information in forecasting future cash flows on impaired loans.***
- Increased net interest income \$2.7 million to \$52.1 million in the first quarter of 2012 from \$49.4 million in the fourth quarter of 2011 resulting from an 18 basis points increase in net interest margin to 2.85%. Net interest income was \$8.9 million greater in the first quarter of 2012 compared to the first quarter of 2011.
- Recognized other-than-temporary impairment charges of \$6.4 million related to legacy investment bonds.
- Non-interest expenses of \$63.5 million included approximately \$2.5 million of non-recurring expenses.
- ***Increased total loans, net by \$49.8 million from the fourth quarter of 2011 to the first quarter of 2012.***
- Grew retail deposits by \$87.6 million from the fourth quarter of 2011 to the first quarter of 2012 driven by the growth in US sourced deposits while reducing deposit rates by 14 basis points during the quarter.
- ***Increased Tier 1 capital by \$101.5 million from December 31, 2011 to \$822.9, largely resulting from the new Closing Agreement. The Tier 1 leverage ratio increased by 106 basis points from December 31, 2011 to 10.19%.***

30. On May 15, 2012, the Company also filed, with the SEC, its quarterly financial report on Form 10-Q for the quarter ended March 31, 2012, which was signed by Defendants Wakeman

and Wahlman. The Form 10-Q stated that during the quarter, Doral had effected a “[r]eclassification of deferred tax asset to *prepaid income tax*” in the amount of \$225.735 million as of March 30, 2012. The Form 10-Q further stated, in pertinent part, as follows:

The Company reported other assets of \$406.2 million and \$168.3 million as of March 31, 2012 and December 31, 2011, respectively. Other assets included \$314.7 million and \$91.0 million related to prepaid income taxes as of March 31, 2012 and December 31, 2011, respectively. *The prepaid income tax balance as of March 31, 2011 includes \$225.7 million related to the Closing Agreement (as defined below in Note 21) entered into during the first quarter of 2012 with the Commonwealth of Puerto Rico related to past income tax overpayments.*

* * *

21. Income Taxes

Background

Income taxes include Puerto Rico income taxes as well as applicable U.S. federal and state taxes. Except for the U.S. operations of Doral Bank (referred to as “Doral Bank U.S.”) and Doral Money, which is a U.S. corporation, most of the Company’s operations are conducted through subsidiaries in Puerto Rico. As Puerto Rico corporations, Doral Financial and all of its Puerto Rico subsidiaries are generally required to pay U.S. income taxes only with respect to their income derived from the active conduct of a trade or business in the United States (excluding Puerto Rico) and certain investment income derived from U.S. assets. Any such U.S. tax is creditable, with certain limitations, against Puerto Rico income taxes.

Until December 31, 2010, the maximum statutory corporate income tax rate in Puerto Rico was 39.00%. Under the 1994 Puerto Rico Internal Revenue Code, as amended (the “1994 Code”), corporations are not permitted to file consolidated returns with their subsidiaries and affiliates. Doral Financial is entitled to a 100% dividend-received deduction on dividends received from Puerto Rico Operations of Doral Bank (“Doral Bank PR”) or any other Puerto Rico subsidiary subject to tax under the 1994 Code.

On March 9, 2009, the Governor of Puerto Rico signed into law the Special Act Declaring a State of Fiscal Emergency and Establishing an Integral Plan of Fiscal Stabilization to Save Puerto Rico’s Credit, Act No. 7 (the “Act”). Pursuant to the Act, Section 1020A was introduced to the 1994 Code to impose a 5.00% surtax over the total tax determined for corporations, partnerships, trusts, estates, as well as individuals whose combined gross income exceeds \$100,000 or married individuals filing jointly whose gross income exceeds \$150,000. This surtax is effective for tax years commenced after December 31, 2008 and before January 1, 2012. The Act

increased the Company's income tax rate from 39.00% to 40.95% for tax years from 2009 through 2011, but is no longer applicable for 2012.

On November 15, 2010, Act 171 was enacted into law, generally providing, among other things: (1) an income tax credit equal to 7.00% of the "tax liability due" to corporations that paid the Christmas bonus required by local labor laws, and (2) an extension for 10 years of the carry forward term of net operating losses incurred for years commenced after December 31, 2004 and before December 31, 2012.

On January 31, 2011, the Governor signed into law the Internal Revenue Code of 2011 (the "2011 Code") making the 1994 Code largely ineffective, for years commenced after December 31, 2010. Under the provisions of the 2011 Code, the maximum statutory corporate income tax rate is 30.00% for years starting after December 31, 2010 and ending before January 1, 2014; if the government meets its income generation and expense control goals, for years started after December 31, 2013, the maximum corporate tax rate will be 25.00%. The 2011 Code eliminated the special 5.00% surtax on corporations for tax year 2011. In general, the 2011 Code maintains the extension in the carry forward periods for net operating losses from seven to ten years as provided for in Act 171; maintains the concept of the alternative minimum tax although it changed the way it is computed; allows limited liability companies to have flow-through treatment under certain circumstances; imposes additional restriction on the use of net operating loss carry forwards after certain types of reorganizations and/or changes in control; and specifies what types of auditors' report will be acceptable when audited financial statements are required to be filed with the income tax return. Additionally, the 2011 Code provides for changes in the implications of being in a controlled group of corporations and/or a group of related corporations. Notwithstanding the 2011 Code, a corporation may be subject to the provisions of the 1994 Code if it so elects by the time it files its income tax return for the first year commenced after December 31, 2010 and ending before January 1, 2012, including extension. If the election is made to remain subject to the provisions of the 1994 Code, such election will be effective that year and the next four succeeding years.

The Company is currently evaluating the impact of the tax reform on its results of operations including the election to be taxed under the 1994 Code. ***Nevertheless, the Company recorded its deferred tax assets estimated to reverse after 2015 at the 30.00% tax rate required for all taxable earnings beginning in 2016, which is the latest taxable year that it would be permitted to elect taxation under the 1994 Code.*** Puerto Rico deferred tax assets subject to the maximum statutory tax rate and estimated to reverse prior to 2016, together with any related valuation allowance, are recorded at the 39.00% tax rate pursuant to the 1994 Code. Upon determination of which alternative treatment will be followed, the Company will adjust its deferred tax assets for any required tax rate change, if applicable. Adoption of the 2011 Code would represent an additional deferred tax expense of \$0.6 million as of March 31, 2012.

Income Tax Expense

The components of income tax expense are summarized below:

<i>(Dollars in thousands)</i>	Quarters Ended	
	March 31,	
	2012	2011
Current income tax expense—United States	\$ 1,839	\$2,373
Deferred income tax (benefit) expense:		
Puerto Rico	(113,895)	2,670
United States	(568)	53
Total deferred income tax (benefit) expense	(114,463)	2,723
Total income tax (benefit) expense	\$(112,624)	\$5,096

The current income tax expense of \$1.8 million for the quarter ended March 31, 2012 was related to the growth of the U.S. operations and the branch-level interest tax resulting from operating as a foreign branch in the U.S. ***The deferred income tax benefit of \$114.5 million for the quarter ended March 31, 2012 resulted mainly from the \$112.0 million benefit recorded when Doral Financial Corporation and its Puerto Rico domiciled subsidiaries entered into a new Closing Agreement with the Commonwealth of Puerto Rico related to past income tax overpayments, which allowed Doral to convert certain DTAs into a prepaid tax.***

Deferred Tax Components

The Company's DTA consists primarily of the differential in the tax basis of net operating loss carry-forwards, allowance for loan losses and other temporary differences arising from the daily operations of the Company.

Prior to March 2012, the largest component of the DTA arose from the IO DTA, which represented a stand-alone intangible asset subject to a straight-line amortization based on a useful life of 15 years. The intangible asset was created by a series of closing agreements that Doral entered into with the Puerto Rico Government, which were entered into in 2004 through 2010. ***However, on March 26, 2012 Doral signed a new closing agreement (the "Closing Agreement") specifying the terms and conditions under which Doral could recover certain amounts paid as taxes to the Commonwealth of Puerto Rico for certain years prior to 2005. In the agreement, the Commonwealth of Puerto Rico states that as of March 26, 2012 it has a payable to Doral of approximately \$230.0 million resulting from past Doral tax payments (prepaid tax), and that Doral has the right to use the amount due from the Commonwealth of Puerto Rico to offset future Doral tax obligations, or that Doral may claim a refund that the Commonwealth of Puerto Rico may pay over a five-year period.*** This agreement is the fifth agreement between Doral and the Commonwealth of Puerto Rico related to this matter. ***This agreement clearly states and recognizes the source of the amount of past taxes paid by Doral, and the Commonwealth of Puerto Rico's obligation to Doral to return the overpayments.***

Net operating losses ("NOLs") generated between 2005 and 2012 can be carried forward for a period of 10 years (there is no carry-back allowed in Puerto Rico). The

NOLs creating deferred tax assets as of March 31, 2011, will expire beginning in 2016 until 2022 for Puerto Rico entities and 2025 through 2032 for United States entities filing in the United States. Since each legal entity files a separate income tax return, the NOLs can only be used to offset future taxable income of the entity that incurred it.

The Company evaluates its deferred tax asset for realizability, and the deferred tax asset is reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax asset will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized.

In assessing the realization of deferred tax assets, the Company considers the expected reversal of its deferred tax assets and liabilities, projected future taxable income, cumulative losses in recent years, and tax planning strategies. The determination of a valuation allowance on deferred tax assets requires judgment based on the weight of all available evidence and considering the relative impact of negative and positive evidence.

As of March 31, 2012, the Company had two Puerto Rico entities which had incurred several consecutive years of losses. For purposes of assessing the realization of the DTAs, the loss position for these two entities is considered significant negative evidence that has caused management to conclude that the Company will not be able to fully realize the deferred tax assets related to these two entities in the future.

Accordingly, as of March 31, 2012 and December 31, 2011, the Company determined that it was more likely than not that \$328.4 million and \$432.9 million, respectively, of its gross deferred tax asset would not be realized and maintained a valuation allowance for that amount.

* * *

Puerto Rico deferred tax assets subject to the maximum statutory tax rate and estimated to reverse prior to 2016, together with any related valuation allowance, are recorded at the tax rate in effect under the 1994 Code, 39.00%. As of March 31, 2012, DTAs totalling \$309.0 million were at the higher rates with a valuation allowance of \$305.7 million. DTAs of \$12.6 million were at the 30.00% tax rate while DTAs of \$31.7 million with a valuation allowance of \$22.6 million, were at other tax rates (and would not be impacted by the change in the tax code). If the Company elects to adopt the 2011 Code, DTAs would be \$257.0 million with a valuation allowance of \$257.8 million for a net deferred tax liability of \$0.8 million.

For Puerto Rico taxable entities with positive core earnings, a valuation allowance on deferred tax assets has not been recorded since they are expected to continue to be profitable. At March 31, 2012, the net deferred tax asset associated with these two companies Doral Mortgage, LLC and Doral Insurance Agency, Inc. was \$6.2 million,

compared to \$6.4 million at December 31, 2011. In management's opinion, for these companies, the positive evidence of profitable core earnings outweighs any negative evidence.

Management assesses the realization of its deferred tax assets at each reporting period. To the extent that earnings improve and the deferred tax assets become realizable, the Company may be able to reduce the valuation allowance through earnings.

As of March 31, 2012 and December 31, 2011, the deferred tax asset valuation allowance off-set the following deferred tax assets:

<i>(Dollars in thousands)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Differential in tax basis of IOs sold	\$ —	\$ 85,514
Net operating loss carry-forwards	187,791	238,085
Allowance for loan and lease losses	61,314	36,816
Capital loss carry-forward	20,586	16,754
Reserve for losses on OREO	17,038	13,983
Other	41,630	41,781
Total valuation allowance	<u>\$ 328,359</u>	<u>\$ 432,933</u>

The valuation allowance also includes \$0.1 million and \$0.4 million related to deferred taxes on unrealized losses on cash flow hedges as of March 31, 2012 and December 31, 2011, respectively.

Accounting for Uncertainty in Income Taxes

As of March 31, 2012, the Company did not have unrecognized tax benefits and had accrued interest of \$0.8 million on previously unrecognized tax benefits. The Company classifies all interest related to tax uncertainties as income tax expense.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the expiration of statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity, and the addition or elimination of uncertain tax positions. During the third quarter of 2010, the Company settled its uncertain tax positions. As of March 31, 2012, the following years remain subject to examination: for U.S. federal jurisdictions – 2005 through 2009 and for Puerto Rico, – 2006 through 2009.

During the quarter ended March 31, 2012, the Company did not identify any additional uncertain tax position.

31. The Form 10-Q also stated in pertinent part that as of March 31, 2012, the Company's allowance for loan and lease losses was \$166.79 million. And while the Form 10-Q stated that "the

Company's disclosure controls and procedures were [still] not effective as of March 31, 2012," the Form 10-Q also emphasized that "[w]hile the Company has identified certain material weaknesses in its system of internal control over financial reporting, *it believes that it has taken reasonable steps to ascertain that the financial information contained in this report is in accordance with generally accepted accounting principles.*"

32. On May 16, 2012, at 10:00 a.m. EDT, the Company held an earnings conference call with investors and stock analysts during which Defendants Doral, Wakeman, Wahlman, Ubarri and Poulton provided additional positive commentary about the Company's then present business metrics and financial prospects.

33. On August 8, 2012, the Bank entered into a consent order with the Federal Deposit Insurance Corporation ("FDIC") and the Commissioner of Financial Institutions of Puerto Rico (the "Commissioner") (the "Consent Order"). The Consent Order included provisions that required Doral to maintain Tier 1 leverage, Tier 1 risk-based, and Total risk-based capital ratios in the amount of 8.0%, 10.0%, and 12.0%, respectively, and required Doral to obtain a waiver from the FDIC before accepting new brokered deposits. The Company's Quarterly Financial Report for the period ended June 30, 2012, filed with the SEC on Form 10-Q on August 9, 2012, stated that "Doral estimates it is currently in compliance with the capital ratio requirements," that "[t]he Company also expects to enter into an agreement with the Federal Reserve Bank of New York ("FRBNY")," and that the "terms of the FDIC consent order and expected FRBNY agreement [were to be] described in more detail" in the Form 10-Q. The Current Report also stated that "[o]ther than the FDIC consent order and FRBNY expected agreement, the Company evaluated subsequent events through the date that these consolidated financial statements were issued and determined that no events ha[d] occurred that require disclosure or adjustments."

34. On August 9, 2012, after the close of trading, the Company issued a press release entitled “Doral Financial Corporation Reports Financial Results for the Quarter Ended June 30, 2012 – Reports Q2 2012 Net Loss of \$1.6 million – *Maintained book value per share of \$3.82.*” Quoting Defendant Wakeman, the release stated, in pertinent part, as follows:

Second Quarter Highlights:

- Increased net interest income \$2.0 million to \$54.1 million in the second quarter of 2012 from \$52.1 million in the first quarter of 2012 resulting from a 6 basis points increase in net interest margin to 2.91%.
- *Increased total net loans receivable by \$119.0 million from the first quarter of 2012 to the second quarter of 2012.*
- Grew retail deposits by \$115.6 million from the first quarter of 2012 to the second quarter of 2012 while reducing total deposit rates by 15 basis points during the quarter.

“Over the past several quarters Doral took prudent actions that increased regulatory capital, strengthened asset coverage ratios and grew revenue. Our successful US expansion continues to offset elevated credit and compliance costs,” said Glen R. Wakeman, President and Chief Executive Officer.

The Company’s financial results for the second quarter of 2012 is being released simultaneously along with the Quarterly Report on Form 10-Q.

The Company also announced that on August 8, 2012 Doral Bank entered into a Consent Order with the Federal Deposit Insurance Corporation (the “FDIC”) and the Office of the Commissioner of Financial Institutions of Puerto Rico (the “OCFI”). The consent order includes provisions that require Doral Bank to maintain Tier 1 leverage, Tier 1 risk-based, and Total risk-based capital ratios in the amount of 8.0%, 10.0%, and 12.0%, respectively, and require Doral Bank to obtain a waiver from the FDIC before accepting, renewing or rolling over brokered deposits. *As of the signing of the Consent Order, Doral Bank’s capital ratios exceeded the required levels. In addition, Doral Financial maintained capital levels in excess of the noted levels and the holding company serves as a source of capital strength to Doral Bank.*

35. On August 8, 2012, the Company also filed its Quarterly Financial Report on Form 10-Q for the second quarter 2012, ended June 30, 2012, signed by Defendants Wakeman and Wahlman. In addition to stating that the Company had a “[p]repaid income tax” asset of \$315.905

million as of June 30, 2012, the Form 10-Q contained a similar discussion of the background concerning the Company's entitlement to the purported tax receivable, as the Company's 2011 10-K and first quarter 2012 Form 10-Q had. Concerning the Company's "Regulatory Capital Ratios," the second quarter 2012 Form 10-Q stated, in pertinent part, as follows:

As of June 30, 2012, Doral Bank was in compliance with all the applicable regulatory capital requirements as a state non-member bank (i.e., Total capital and Tier 1 capital to risk-weighted assets of at least 8% and 4%, respectively, and Tier 1 capital to average assets of at least 4%). However, as described below, Doral Financial is subject to a consent order pursuant to which it submitted a capital plan in which it has agreed to maintain capital ratios in excess of the prompt corrective action well capitalized floors at both the holding company and Doral Bank level.

* * *

As of June 30, 2012, Doral Financial exceeded the thresholds for well-capitalized banks as set forth in the prompt corrective action plan regulations adopted by the FDIC pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. The thresholds for a well-capitalized institution as prescribed by the FDIC's regulation are, a Leverage Ratio of at least 5%, a Tier 1 Capital Ratio of at least 6% and a Total Capital Ratio of at least 10% and the institution must not be subject to any written agreement or directive to meet a higher specific capital ratio.

Failure to meet minimum regulatory capital requirements could result in the initiation of certain mandatory and additional discretionary actions by banking regulators against Doral Financial and its banking subsidiary that, if undertaken, could have a material adverse effect on the Company.

On March 17, 2006, the Company entered into a consent order with the Federal Reserve. Pursuant to the requirements of the existing cease and desist order, the Company submitted a capital plan to the Federal Reserve in which it has agreed to maintain minimum leverage ratio of at least 5.5% and 6.0% for Doral Financial and Doral Bank, respectively. While the Tier 1 and Total capital ratios have risk weighting components that take into account the low level of risk associated with the Company's mortgage and securities portfolios, the Leverage Ratio is significantly lower because it is based on total average assets without any risk weighting.

36. The Form 10-Q also stated that as of June 30, 2012, the Company's allowance for loan and lease losses was \$152.689 million. And while the second quarter 2012 Form 10-Q stated that "the Company's disclosure controls and procedures were [still] not effective as of June 30,

2012,” the Form 10-Q again emphasized that “[w]hile the Company has identified certain material weaknesses in its system of internal control over financial reporting, *it believes that it has taken reasonable steps to ascertain that the financial information contained in this report is in accordance with generally accepted accounting principles.*”

37. On August 9, 2012, at 10:00 a.m. EDT, the Company held an earnings conference call with investors and stock analysts during which Defendants Doral, Wakeman, Wahlman, Ubarri and Poulton provided additional positive commentary about the Company’s then present business metrics and financial prospects.

38. On September 13, 2012, the Company filed a Current Report on Form 8-K with the SEC disclosing, in pertinent part, as follows (and attaching the Written Agreement by and between the Federal Reserve Bank of New York and Doral Financial Corporation dated September 11, 2012):

Doral Financial Corporation (“Doral Financial” or the “Company”) entered into a written agreement with its primary supervisor, the Federal Reserve Bank of New York (the “FRBNY”), on September 11, 2012, which replaces and supersedes the existing Cease and Desist Order entered into by Doral Financial with the Board of Governors of the Federal Reserve System (the “Board of Governors”) on March 16, 2006. The written agreement, among other things, requires:

(i) Doral Financial take appropriate steps to fully utilize its financial and managerial resources to serve as a source of strength to Doral Bank, including steps to ensure that Doral Bank complies with any supervisory action taken by Doral Bank’s federal and state regulators;

(ii) Doral Financial undertake a management and staffing review to aid [] in the development of a suitable management structure that is adequately staffed by qualified and trained personnel;

(iii) Doral Financial establish programs, policies and procedures acceptable to the FRBNY relating to credit risk management practices, credit administration, loan grading, asset improvement, other real estate owned, allowance for loan and lease losses, accounting and internal controls, and internal audit;

(iv) Doral Financial may not declare any dividends without the prior written approval of the FRBNY and the Director of Banking Supervision and Regulation of the Board of Governors, and Doral Financial may not directly or indirectly take any dividends

or any other form of payment representing a reduction of capital from Doral Bank without the prior written approval of the FRBNY;

(v) Doral Financial and its nonbank subsidiaries may not, directly or indirectly, incur, increase or guarantee any debt without the prior written approval of the FRBNY;

(vi) Doral Financial may not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the FRBNY;

(vii) Doral Financial submit to the FRBNY an acceptable written plan to maintain sufficient capital at Doral Financial on a consolidated basis; and

(viii) Doral Financial must seek regulatory approval prior to the appointment of a new director or senior executive officer, any change in a senior executive officer's responsibilities, or making certain severance or indemnification payments to directors, executive officers or other affiliated persons.

39. On September 24, 2012, the Company announced that effective September 20, 2012, the Board had appointed Nancy Reinhard as Doral's Principal Accounting Officer, reporting to Defendant Walhman who remained Doral's Chief Financial and Investment Officer.

40. On November 9, 2012, the Company issued a press release entitled "Doral Financial Corporation Reports Financial Results for the Quarter Ended September 30, 2012 – Reports Net Loss of \$32.5 million for Quarter Ending September 30, 2012 – **Capital Ratios Continue to Exceed Well-Capitalized Standards.**" Quoting Defendant Wakeman, the release stated, in pertinent part, as follows:

"Our results reflect the high credit costs as we continue to work with thousands of homeowners during this difficult economic time. Despite this, **we have** increased revenue, **strengthened our mortgage and retail franchise in Puerto Rico**, continued to successfully grow our U.S. operations, and **preserved our high levels of capital.**" said Glen Wakeman, CEO and President of Doral Financial Corporation.

Third Quarter Highlights:

- Increased net interest income \$1.5 million to \$55.6 million in the third quarter of 2012 from \$54.1 million in the second quarter of 2012. **Increased total net loans receivable by \$103.8 million from the second quarter of 2012 to the third quarter of 2012 based on strong growth in the U.S. commercial portfolio.**

- Grew Puerto Rico's mortgage loan production 21%, from \$209.4 million in the second quarter of 2012 to \$254.3 million in the third quarter of 2012.

- Grew retail deposits by \$93.2 million from the second quarter of 2012 to the third quarter of 2012.

- ***Increased loan and lease loss provisions by \$29.2 million to \$34.4 million in the third quarter of 2012, compared to \$5.2 million in the second quarter of 2012 as a result of re-defaults on previously modified loans and new valuations of defaulted residential loans.***

- ***Preserved excess capital levels well above the standards established by the federal banking agencies with ratios of Tier 1 Leverage of 9.32%, Tier 1 Risk-based Capital of 11.94% and Total Risk-based Capital of 13.26%. The Leverage, Tier 1 and Total Risk-based Capital Ratios exceeded the well-capitalized standards by \$361.3 million, \$387.9 million and \$213.0 million, respectively.***

41. On November 9, 2012, the Company also filed its Quarterly Financial Report on Form 10-Q for the period ended September 30, 2012, which was signed by Defendants Wakeman and Wahlman. In addition to stating that the Company had a “[p]repaid income tax” asset worth \$317.407 million as of September 30, 2012, the Form 10-Q contained a similar discussion of the background concerning the Company’s entitlement to the purported tax receivable, and the status of its Regulatory Capital Ratios as the Company’s 2011 10-K and first two 2012 Forms 10-Q had, including expressly stating that ***“[a]s of September 30, 2012, Doral Bank was in compliance with all the applicable regulatory capital requirements as a state non-member bank (i.e., Total capital and Tier 1 capital to risk-weighted assets of at least 8% and 4%, respectively, and Tier 1 capital to average assets of at least 4%).”***

42. The Form 10-Q also stated that as of September 30, 2012, the Company’s allowance for loan and lease losses was \$154.803 million. And while the third quarter 2012 Form 10-Q stated that “the Company’s disclosure controls and procedures were [still] not effective as of September 30, 2012,” the Form 10-Q again emphasized that “[w]hile the Company has identified certain material weaknesses in its system of internal control over financial reporting, ***it believes that it has taken reasonable steps to ascertain that the financial information contained in this report is in accordance with generally accepted accounting principles.***” Moreover, describing the then-status

of Defendants' purported efforts to correct the material defects in the Company's internal controls, the Form 10-Q also stated, in pertinent part, as follows:

The Company has executed these remediation efforts during the quarter ended September 30, 2012. To remediate the material weakness for residential second mortgages and commercial real estate loan valuations receipt and processing, management created an appraisals department that is responsible for managing the process of requesting and obtaining appraisals, and also hired a Vice President of Collateral Valuation that reports directly to the Chief Risk & Credit Officer, whom is responsible of providing oversight over the Appraisals process. Management also increased significantly the staffing level of the commercial loans department in order to shift from a portfolio management process to a loan relationship level management process. The relationship officers working in the commercial loans department are responsible for calculating the charge-offs, and the Controllershship department monitors that all charge-offs required by the charge-off policy are recorded within the corresponding period. To remediate the material weakness regarding the adequate review of the allowance for loan and lease losses estimate and the reconciliation of the underlying data, management adopted specific policies and procedures that clearly delineate the respective roles, responsibilities and tasks over the preparation of the allowance for loan and lease losses estimate. Further, several detailed control activities were implemented during the quarter, including loan data reconciliations, analytical reviews of the different models, spreadsheet review checklists, and roll-forward reconciliations. Except for these remediation efforts, there were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, Doral Financial's internal control over financial reporting.

43. On November 9, 2012, Doral also disclosed that on November 8, 2012, it had received notice from the NYSE stating that Doral was not in compliance with the NYSE's continued listing standards because the average per share closing price of Doral's common stock for the consecutive 30 trading-day period ending on October 31, 2012 had fallen below the NYSE's share price requirement of at least \$1.00 per share. Doral stated that it had six months to cure the deficiency (or face delisting), and that the Company would "take steps to cure this deficiency within the prescribed timeframe."

44. On November 9, 2012, at 10:00 a.m. EST, the Company held an earnings conference call with investors and stock analysts during which Defendants Doral, Wakeman, Wahlman, Ubarri

and Poulton provided additional positive commentary about the Company's then present business metrics and financial prospects.

45. On March 13, 2013, the Company announced that Defendant Wahlman had notified the Company he was resigning as Doral's Chief Financial and Investment Officer. The Board appointed Defendant Ivanov interim CFO, and organized a search committee to identify a permanent CFO.

46. On March 13, 2013, after the close of trading, the Company also issued a press release entitled "Doral Financial Corporation Reports Financial Results for the Quarter Ended December 31, 2012 – Reports Net Income of \$28.3 million for Quarter Ending December 31, 2012 – *Capital Ratios Continue to Exceed Well-Capitalized Standards.*" Quoting Defendant Wakeman, the release stated, in pertinent part, as follows:

"Over the past year, Doral improved revenue, capital and generated substantial benefits from our tax assets while making significant investments in credit and compliance. This year, we expect to be managing a multi-market growing and profitable banking operation and a newly created group focused on managing non-performing loans. In all, we expect this structural change to improve both operating results of our growing operations and transparency," said Glen Wakeman, CEO of Doral Financial Corporation.

Fourth Quarter Highlights:

- Grew retail deposits by \$98.4 million from the third quarter of 2012 to the fourth quarter of 2012.
- Mortgage loan origination volume of \$252 million in the fourth quarter 2012 was up 60% from the fourth quarter of 2011 volume of \$159 million, and remained consistent with the third quarter of 2012 volume of \$254 million.
- *Preserved excess capital levels well above the standards established by the federal banking agencies, with ratios for Tier 1 Leverage of 9.39%, Tier 1 Risk-based Capital of 11.93% and Total Risk-based Capital of 13.19%.*
- Recognized an income tax benefit of \$50.2 million for the quarter ended December 31, 2012 compared to an income tax expense of \$550 thousand for the third quarter of 2012. The improvement of \$50.8 million is due mainly to the

conversion of Doral Insurance Agency to a limited liability company and the related release of a portion of Doral Financial Corporation's valuation allowance.

- Non-interest expense was \$87.1 million for the fourth quarter of 2012, an increase of \$13.3 million from the third quarter of 2012.

- ***Provided \$21.3 million for loan and lease losses as a result of redefaults on previously modified loans and new valuations received on defaulted residential mortgage loans.***

47. On March 13, 2013, the Company also filed its Annual Financial Report on Form 10-K for the period ended December 31, 2012, which was signed by Defendants Wakeman and Wahlman. In addition to stating the Company now had a "[p]repaid income tax" asset worth \$103.784 million as of December 31, 2012, the 2012 Form 10-K contained a similar discussion of the background concerning the Company's entitlement to the purported tax receivable and the status of its Regulatory Capital Requirements, as the Company's 2011 Form 10-K and three 2012 Forms 10-Q had, including stating, in pertinent part, as follows:

As of December 31, 2012, Doral Bank exceeded the thresholds for well-capitalized banks as set forth in the prompt corrective action regulations adopted by the FDIC pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. The thresholds for a well-capitalized institution prescribed by the FDIC's regulations are, a Leverage Ratio of at least 5%, a Tier 1 Capital Ratio of at least 6% and a Total Capital Ratio of at least 10% unless the institution is subject to any written agreement or directive to meet a specific capital ratio. The Consent Order requires Doral Bank to develop a capital plan that details the manner in which Doral Bank will meet and maintain a Tier 1 Capital Ratio of at least 8%, a Tier 1 Risk-Based Capital Ratio of at least 10% and a Total Risk-Based Capital Ratio of at least 12%.

48. The 2012 Form 10-K also stated that as of December 31, 2012, the Company's allowance for loan and lease losses was \$144.821 million for Puerto Rico and \$5.366 million for the U.S., and \$25.911 for the Company's liquidating operations, for a combined allowance of \$176.098 million. The Form 10-K further explained, in pertinent part, as follows:

Significant provisions for loan losses were recorded for the residential mortgage portfolio, with \$112.2 million, commercial real estate with \$35.3 million, and construction and land with \$23.8 million in 2012 while provision for loan losses of \$31.6 million for residential mortgage loans, \$5.7 million for commercial real estate,

and \$23.9 million for construction and land were recorded in 2011. *The 2012 PLLL in general reflects the more conservative estimates adopted by Doral in the provision for loan and lease loss estimates, the receipt of new valuations on properties previously defaulted on their loans or defaulting on their loans during the year, and the increase in nonperforming loans, particularly in the residential mortgage loan portfolio.* Substantially all the 2012 provision for loan and lease losses relates to loans extended to borrowers domiciled in Puerto Rico.

49. As to the then-present status of Doral's internal controls, the 2012 Form 10-K now stated that "[m]anagement of the Company ha[d] assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012," that "[i]n making its assessment of internal control over financial reporting, management used the criteria in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)," and that "[a]s a result of its assessment, management ha[d] concluded that as of December 31, 2012 *the Company's internal control over financial reporting [was] effective.*" Detailing the "Remediation Efforts to Address the Material Weaknesses that Existed as of December 31, 2011," the Form 10-K further stated, in pertinent part, as follows:

Management previously reported material weaknesses in the Company's internal control over financial reporting related to i) residential second mortgages and commercial real estate loan valuations receipt and processing so that property value updates are reflected as charge-offs or in the estimate of allowance for loan and lease losses in a timely manner, and ii) the adequate review of the allowance for loan and lease losses estimate and the reconciliation of the underlying data, in Doral Financial's Annual Report on Form 10-K for the year ended December 31, 2011. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

As described in Doral Financial's Form 10-Q for the quarter ended September 30, 2012, the Company implemented certain steps to address the material weaknesses in internal control over financial reporting that were identified as of December 31, 2011. The Company's management has completed the documentation and evaluation of the effectiveness of the internal controls of (a) the residential second mortgages and commercial real estate loan valuations receipt and processing so that property value updates are reflected as charge-offs or in the estimate of allowance for loan and lease losses in a timely manner, and (b) the review of the allowance for loan and lease losses estimate and the reconciliation of the

underlying data, and concluded that these material weaknesses have been remediated.

50. On March 14, 2013, at 10:00 a.m. EDT, the Company held an earnings conference call with investors and stock analysts during which Defendants Doral, Wakeman, Wahlman, and Ubarri provided additional positive commentary about the Company's then present business metrics and financial prospects.

51. On May 8, 2013, after the close of trading, Doral issued a press release announcing its financial results for its first quarter 2013 ended March 31, 2013. Quoting Defendant Wakeman, the release stated, in pertinent part, as follows:

“As we successfully established Doral Recovery as a new special servicer, our teams focused on our growth businesses, which have shown significant increases in revenue and returns. Our core businesses in each of our markets are showing consistent results as we've increased deposits, *greatly strengthened our Puerto Rico mortgage franchise*, and continue steady growth in U.S. commercial lending.” said Glen Wakeman, CEO of Doral Financial Corporation.

First Quarter Highlights:

- Grew retail deposits by \$213.9 million.
- Produced \$619.7 million in new loans, including \$260.4 million of residential mortgage loans in Puerto Rico, an increase of 83.6% from the first quarter of 2012 volume of \$141.8 and consistent with fourth quarter 2012 volume of \$245.7 million.
- *Increased loans receivable \$22.4 million to \$6.1 billion at March 31, 2013.*
- *Preserved capital levels with ratios for Tier 1 Leverage of 9.26%, Tier 1 Risk-based Capital of 11.66% and Total Risk-based Capital of 12.92%.*
- Generated net interest income of \$60.7 million and non-interest income of \$24.8 million.
- *Provided \$18.7 million for loan and lease losses largely as a result of new valuations received on defaulted residential and commercial loans and recently delinquent residential mortgage loans.*

52. On May 9, 2013, the Company also filed its Quarterly Financial Report on Form 10-Q with the SEC for the first quarter 2013 ended March 30, 2013, signed by Defendants Wakeman

and Wahlman. In addition to stating that the Company had a “[p]repaid income tax” asset of \$317.309 million as of March 31, 2013, the Form 10-Q contained a similar discussion of the background concerning the Company’s entitlement to the purported tax receivable and Regulatory Capital Ratios as the Company’s 2011 and 2012 Forms 10-K and its 2012 Forms 10-Q had, including stating that “*[a]s of March 31, 2013, Doral Bank was in compliance with all the applicable regulatory capital requirements as a state non-member bank (i.e., Total capital and Tier 1 capital to risk-weighted assets of at least 8% and 4%, respectively, and Tier 1 capital to average assets of at least 4%).*” The Form 10-Q also stated that as of March 30, 2013, “the Company’s allowance for loan and lease losses was \$125.3 million, a decrease of \$10.1 million from \$135.3 million as of December 31, 2012.” The 10-Q also stated that “the Company’s disclosure controls and procedures were effective as of March 31, 2013.”

53. On May 9, 2013, at 10:00 a.m. EDT, the Company held an earnings conference call with investors and stock analysts during which Defendants Doral, Wakeman, Ubarri and Poulton provided additional positive commentary about the Company’s then present business metrics and financial prospects.

54. On June 17, 2013, Doral filed with the SEC a “Prospectus Supplement No. 1 To Reoffer Prospectus Dated October 19, 2011 of DORAL FINANCIAL CORPORATION Relating to [the resale] of 6,750,000 Shares of Common Stock.” The June 27th Prospectus Supplement registered for resale 6.75 million shares of its common stock by various selling stockholders “who ha[d] acquired [its] common stock, par value \$0.01 per share, pursuant to [its] 2008 Stock Incentive Plan” that had previously been registered for resale pursuant to Registration No. 333-152460. The “Selling Stockholders” who would “offer their shares of common stock through public or private transactions, in the over-the-counter markets or on any exchanges on which [Doral’s] common stock

[was] traded at the time of sale, at prevailing market prices or at privately negotiated prices,” included Defendants Wakeman, Wahlman, Ivanov, Ubarri and Poulton who sought to sell 500,000, 200,000, 50,000, 100,000 and 200,000 shares of their personally-held Doral common stock, respectively, and several other current and former Doral executives.

55. On June 28, 2013, Doral filed a Certificate of Amendment to its Certificate of Incorporation with the Secretary of State of the Commonwealth of Puerto Rico effecting a 20-for-1 reverse stock split of the Company’s issued and outstanding common stock, which had been approved by the Company’s stockholders at the Company’s Annual Meeting of Stockholders held on June 19, 2013, correspondingly reducing the number of authorized shares of Common Stock from 300 million to 15 million.

56. On August 12, 2013, Doral notified the SEC that it would be unable to timely file its Quarterly Financial Report on Form 10-Q for the second quarter 2013 ended June 30, 2013, stating that “[d]uring the final closing procedures relating to the quarterly financial statements, the Company became aware that the recording of past due interest associated with a number of loan modifications was incorrect,” that the “Company [was] reviewing the potentially affected population of loan modifications in order to determine the impact of the matter to the financial statements of the Company,” that the “Company [was] also currently evaluating the control implications of these corrections,” and that “[a]s a result of these matters, the Company [was] unable to file its Form 10-Q on a timely basis without unreasonable effort and expense.” Doral thereafter sought another short extension on the deadline to file its second quarter 2013 Form 10-Q.

57. On August 15, 2013, after the close of trading, Doral issued a press release announcing its financial results for its second quarter 2013 ended June 30, 2013. Quoting Defendant Wakeman, the release stated, in pertinent part, as follows:

Doral ... reported that it incurred a net loss for the three months ended June 30, 2013. *The loss, however, does not reflect the long term potential of Doral and management's success in recapitalizing Doral, segregating and addressing its portfolio of problem loans, the positioning of Doral as a leading community bank for Puerto Rico, or Doral's expansion into the U.S. mainland.* Consistent with this, Doral Bank for the quarter achieved growth in important indicators such as retail deposits and new loans, including residential mortgages, over the prior quarter.

For the second quarter ended June 30, 2013, Doral Financial recorded net loss of \$10.4 million. For the first quarter ended March 31, 2013 and the year ago quarter ended June 30, 2012, Doral had net losses of \$12.4 million and \$1.6 million respectively. Doral Financial's net loss attributable to common shareholders for the three months ended June 30, 2013 was \$12.8 million. For the first quarter of 2013, the net loss attributable to common shareholders was \$14.8 million and for the second quarter of 2012 the net loss attributable to common shareholders was \$4.0 million.

Glen Wakeman, CEO of Doral Financial Corporation, stated, "We, like a number of other banks in Puerto Rico, *have been confronted by legacy issues exacerbated by years of difficult economic conditions that have hampered the Commonwealth. At Doral, we are successfully addressing and eliminating these issues. Doral is now positioned with a more appropriate matching of our assets and liabilities. Our capital ratios are in excess of regulatory requirements.* We have reorganized Doral Bank into two units- Doral Growth, which is a profitable mortgage and commercial bank, and Doral Recovery, which is a special servicing group that holds Doral's non-performing loans with the objective of maximizing their value. This structure is designed to enable the organization to allocate its focus and resources to best serve each unit.

Doral's expansion to the U.S. mainland continues to experience steady growth as a commercial lender and with a retail banking operation with branches in Florida and New York. Meanwhile, our focus in the Puerto Rico market is being a leading community bank, led by a high-touch successful mortgage franchise.

To this end, we have structured our organization to meet the needs of our customers while continuing to create community directed programs including those related to keeping people from losing their homes and fostering women entrepreneurship to help stimulate a stronger economic Puerto Rico for the long term," Wakeman said.

Second Quarter Highlights:

- Grew retail deposits by \$341.5 million.
- Produced \$630.7 million in new loans, including \$206.1 million of residential mortgage loans in Puerto Rico, a decrease of 1.6% compared to the second quarter of 2012 volume of \$209.4 million.
- *Increased net loans receivable \$14.3 million, to \$6.1 billion at June 30, 2013.*

- ***Preserved capital levels with ratios for Tier 1 Leverage of 8.98%, Tier 1 Risk-based Capital of 11.21% and Total Risk-based Capital of 12.51%.***

- Generated net interest income of \$50.5 million and non-interest income of \$16.8 million.

- ***Provided \$5.5 million for loan and lease losses, largely as a result of new valuations received on delinquent and defaulted residential and commercial loans.***

58. On August 15, 2013, the Company also filed its Quarterly Financial Report on Form 10-Q with the SEC for the second quarter 2013 ended June 30, 2013, which was signed by Defendants Wakeman and Ivanov. The Form 10-Q contained a similar discussion of the background concerning the Company's entitlement to the purported tax receivable as the Company's 2011 and 2012 Forms 10-K and 10-Q had, including stating that "[i]n the Closing Agreement, the Commonwealth of Puerto Rico state[d] that as of March 26, 2012 it ha[d] a payable to Doral of approximately \$230.0 million resulting from past Doral tax payments (prepaid tax), and that Doral ha[d] the right to use the amount due from the Commonwealth of Puerto Rico to offset future Doral tax obligations, or that Doral may claim a refund that the Commonwealth of Puerto Rico may pay over a five-year period," and again emphasizing that "*[t]he Closing Agreement clearly states and recognizes the source of the amount of past taxes paid by Doral, and the Commonwealth of Puerto Rico's obligation to return the overpayments to Doral.*" As to the Company's Regulatory Capital Ratio, the Form 10-Q also stated that "[a]s of June 30, 2013, Doral Bank was in compliance with all the applicable regulatory capital requirements as a state non-member bank (i.e., Total capital and Tier 1 capital to risk-weighted assets of at least 8% and 4%, respectively, and Tier 1 capital to average assets of at least 4%)." The Form 10-Q also stated that "[a]s of June 30, 2013, the Company's allowance for loan and lease losses was \$112.5 million, a decrease of \$22.9 million, or 16.9%, from \$135.3 million as of December 31, 2012," and that "the Company's disclosure controls and procedures were effective as of June 30, 2013."

59. On August 16, 2013, at 10:00 a.m. EDT, the Company held an earnings conference call with investors and stock analysts, during which Defendants Doral, Wakeman and Ubarri provided additional positive commentary about the Company's then present business metrics and financial prospects.

60. On August 28, 2013 and August 30, 2013, Defendants Poulton and Ivanov cashed in, selling, respectively, 10,000 shares of Doral at \$23.99 per share, receiving \$239,900 in proceeds, and 2,705 shares of Doral stock at \$23.50 per share, receiving \$63,567 in proceeds. Then, on September 11, 2013, Defendant Ubarri sold 3,600 shares of Doral common stock at \$23.25 per share, receiving \$835,200 in proceeds.

61. On October 3, 2013, the Company announced that following regulatory approval, Defendant Hooston had been appointed an Executive Vice President and the permanent CFO.

62. On November 5, 2013, after the close of trading, the Company issued a press release announcing its third quarter 2013 financial results for the period ended September 30, 2013. The release stated, in pertinent part, as follows:

Doral . . . reported for the third quarter ended September 30, 2013 ***continued improvement in its financial performance over the year ago third quarter and this year's preceding quarter.***

Doral Financial reduced its net loss for the third quarter ended September 30, 2013 to \$7.5 million. This compares to net losses of \$10.4 million and \$32.5 million for the second quarter ended June 30, 2013 and the year ago quarter ended September 30, 2012, respectively. Doral Financial's net loss attributable to common shareholders for the three months ended September 30, 2013 was \$9.9 million. For the second quarter of 2013, the net loss attributable to common shareholders was \$12.8 million and for the third quarter of 2012 the net loss attributable to common shareholders was \$35.0 million.

Glen Wakeman, CEO of Doral Financial Corporation, stated, "***The third quarter demonstrated continued progress for Doral as we work towards building a profitable and stronger bank.*** Our decision to divide operations into Doral Growth, a profitable mortgage and commercial bank, and Doral Recovery, a special servicing portfolio, have ***allowed us to weather the continued economic recession in Puerto Rico.*** We continue to take advantage of significant opportunities in our U.S.

mainland operation and remain committed to creating affordable mortgage solutions for our customers and local communities in Puerto Rico.”

As with the 2013 second quarter, retail deposits and loans for the 2013 third quarter were up over the preceding quarter. Reflecting Doral’s development of U.S. mainland opportunities, as of September 30, 2013, \$2.6 billion, or 42% of loans, are to U.S. commercial borrowers. *At the same time, Doral continues to strengthen its franchise in Puerto Rico as a major provider of fixed-rate, affordable residential mortgages.*

* * *

Financial Highlights

- *The Company’s capital ratios exceed the standards established by the federal banking agencies, with ratios of Tier 1 Leverage of 8.67%, Tier 1 Risk-based Capital of 10.72%, and Total Risk-based Capital of 12.07%.*

- Net loss attributable to common shareholders for the three months ended September 30, 2013 was \$9.9 million compared to a net loss attributable to common shareholders of \$12.8 million for the second quarter of 2013, and a net loss attributable to common shareholders of \$35.0 million for the third quarter of 2012.

- *The Company had total assets of \$8.6 billion as of September 30, 2013, compared to \$8.5 billion as of June 30, 2013, resulting in an increase of \$48.4 million, or 0.6%, from the second quarter of 2013. This increase was mainly due to an increase in total net loans of \$45.0 million.*

* * *

- *Loan and lease loss provision for the quarter ended September 30, 2013 was \$16.4 million compared to a \$5.5 million provision in the three months ended June 30, 2013 and a \$34.4 million provision in the three months ended September 30, 2012.*

63. On November 5, 2013, the Company also filed its Quarterly Financial Report on Form 10-Q with the SEC for the third quarter 2013 ended September 30, 2013, signed by Defendants Wakeman and Hooston. The Form 10-Q contained a similar discussion of the background concerning the Company’s entitlement to the purported tax receivables as the Company’s 2011 and 2012 Forms 10-K, and its 2012 and 2013 Forms 10-Q had, including stating that “[i]n the Closing Agreement, the Commonwealth of Puerto Rico state[d] that as of March 26, 2012 it ha[d] a payable to Doral of approximately \$230.0 million resulting from past Doral tax payments (prepaid tax), and

that Doral ha[d] the right to use the amount due from the Commonwealth of Puerto Rico to offset future Doral tax obligations, or that Doral may claim a refund that the Commonwealth of Puerto Rico may pay over a five-year period,” and again emphasizing that “*[t]he Closing Agreement clearly states and recognizes the source of the amount of past taxes paid by Doral, and the Commonwealth of Puerto Rico’s obligation to return the overpayments to Doral.*” As to the Company’s Regulatory Capital Ratio, the Form 10-Q also stated that “[a]s of September 30, 2013, Doral Bank was in compliance with all the applicable regulatory capital requirements as a state non-member bank (i.e., Total capital and Tier 1 capital to risk-weighted assets of at least 8% and 4%, respectively, and Tier 1 capital to average assets of at least 4%).” The Form 10-Q also stated that “[a]s of September 30, 2013, the Company’s allowance for loan and lease losses was \$113.3 million, a decrease of \$22.0 million, or 16.3%, from \$135.3 million as of December 31, 2012,” and that “the Company’s disclosure controls and procedures were effective as of September 30, 2013.”

64. Also on November 5, 2013, at 10:00 a.m. EST, the Company held an earnings conference call with investors and stock analysts during which Defendants Doral, Wakeman, Hooston, Ubarri and Poulton provided additional positive commentary about the Company’s then present business metrics and financial prospects.

65. On December 4, 2013, Doral received a letter from the SEC addressing its Form 10-Q filed for the third quarter of 2013 which, among other things, extensively questioned the basis of its compliance with the “Consent Order with the FDIC and Commissioner of Financial Institutions of Puerto Rico entered into on August 8, 2012, and [the] written agreement dated September 11, 2012 with the Federal Reserve Bank of New York”; asked it to better explain the operational risk caused by its total loans being in excess of its total assets; asked it to answer a series of question concerning how it was valuing its loan assets and establishing its loan loss reserves, in particular, asking the

Company to explain how its loan loss reserves reflected a “more conservative outlook.” After seeking several extensions to respond, Doral provided a detailed response to the SEC on January 16, 2014 purporting to explain away the issues raised in the SEC letter concerning its compliance and accounting issues.

66. The statements referenced above in ¶¶ 22-24, 29-38, 40-42, 44, 46-53, 57-59 and 62-64 were each materially false and misleading when made because they misrepresented and failed to disclose the following adverse facts, which were known to Defendants or recklessly disregarded by them, as follows:

(a) that the Company had a material weakness in its internal controls over financial reporting and disclosure controls, and that such controls were ineffective;

(b) that the Company had under reserved for loan losses;

(c) as a result of having under-reserved for loan losses, the Company’s assets were overstated, its expenses were understated, its net income was overstated, and the Bank did not meet its Tier I regulatory capital requirements as stated throughout the Class Period and as required by bank regulators to operate the Bank, and did not comply in other respects with its agreements and the Consent Order with its other regulators; and

(d) as a result of the foregoing, Defendants knew the Bank was undercapitalized and the Company was not on track to achieve the financial results they had led the market to expect during the Class Period.

67. On March 18, 2014, Doral notified the SEC that it was unable to timely file its annual financial report for fiscal 2013, disclosing, in pertinent part, as follows:

These delays were primarily a result of performing additional analyses and reviews of the Company’s process for estimating its allowance for loan losses and evaluating the effectiveness of the Company’s disclosure controls and procedures and changes in internal control over financial reporting. ***The Company has concluded that it has***

a material weakness in its internal control over financial reporting as of December 31, 2013, related to the review of the underlying data and mathematical model supporting its allowance for loan and lease losses and the related provision for loan and lease losses. As a result of the material weakness, the Company has concluded that its internal control over financial reporting and disclosure controls and procedures were ineffective as of December 31, 2013. While the Company has implemented processes and controls to address this material weakness during the fourth quarter, *management has determined that sufficient time has not passed to conclude that the weakness has been remediated.*

68. On this news, the price of Doral common stock dropped more than \$1 per share, closing down at \$11.17 per share on March 18, 2014 from its close the prior evening of \$12.30 per share.

69. Then, on Friday March 21, 2014, after the close of trading, Doral issued a press release and filed its annual financial report with the SEC on Form 10-K, for the period ended December 31, 2013, disclosing, in pertinent part, as follows:

- the Company had been forced to take an increased provision for loan and lease losses of \$25.8 million in the fourth quarter of 2013 “as a result of redefaults on previously modified loans and new valuations received on defaulted residential mortgage loans,” compared to a \$23.6 million provision taken in the third quarter of 2013 and a \$21.3 million provision taken in the fourth quarter of 2012;
- as a result, the Company was reporting a *net loss of \$50.9 million for its fourth quarter 2013* ended December 31, 2013, *compared to a net gain of \$28.3 million* for its fourth quarter 2012, and a *net loss of \$88.3 million* for its fiscal year ended December 31, 2013 compared to a *net loss of \$3.3 million* for fiscal 2012; and
- the Company would be forced to restate its previously reported financial statements for the period third quarter 2013 ended September 30, 2013, increasing the provision for loan losses for that quarter by \$7.2 million, increasing the total provision taken to \$23.6 million, and increasing the net loss attributable to common shareholders to \$17.1 million, or \$2.57 per share, as compared to the previously reported net losses of \$16.4 million, \$9.9 million and \$1.49, respectively.

70. On this news, the price of Doral common stock declined from its close of \$11.55 per share on the evening of March 21st to close at \$10.76 per share on Monday March 24th. However, preventing a more dramatic stock price reduction, Defendants expressly emphasized in the March

21st release that “[t]he Company’s capital ratios continue[d] to exceed the standards established by the federal banking agencies with the following ratios as of December 31, 2013; Tier 1 Leverage of 7.58%, Tier 1 Risk-based Capital of 9.66% and Total Risk-based Capital of 11.31%.”

71. On March 24, 2014, at 10:00 a.m. EST, the Company held an earnings conference call with investors and stock analysts, during which Defendants Doral, Wakeman, Hooston and Ubarri provided additional positive commentary about the Company’s then present business metrics and financial prospects. In particular, Defendant Wakeman emphasized in his prepared remarks that “2013 was a difficult year as [Doral] posted a total year loss of \$88 million,” explaining “[t]he costs of credit and compliance in our Puerto Rico market overwhelmed our progress on several fronts,” yet emphasizing that “[i]n spite of the loss *we maintained compliance with our regulatory consent order and capital requirements. . . .*”

72. Yet the price of Doral common stock would plunge by 62% when on May 1, 2014, after the close of trading, the Company filed a Current Report on Form 8-K with the SEC, disclosing, in pertinent part, as follows:

Doral . . . currently carries on its balance sheet tax receivables from the Puerto Rico Government. Certain tax receivables in the amount of \$226 million reflecting certain prior year tax over-payments as agreed to by the Department of Treasury under a closing agreement dated March 26, 2012 (the “2012 Closing Agreement”).

Doral’s insured bank subsidiary, Doral Bank, has been advised by the Federal Deposit Insurance Corporation (the “FDIC”) that it may no longer include in its calculation of its Tier 1 Capital some or all of the tax receivables from the Government of Puerto Rico. Puerto Rico tax receivables accounted for \$289 million of the bank’s approximately \$679 million of Tier 1 Capital at December 31, 2013. The FDIC’s determination will cause Doral Bank to no longer be in compliance with its capital requirements under its Consent Order with the FDIC. Pursuant to the Consent Order Doral Bank is not permitted to accept, renew, or roll over any brokered deposits unless it has been granted a brokered deposit waiver by the FDIC. In conversations with the FDIC, the FDIC indicated that until such time as Doral Bank provides revised capital calculations that incorporate this & adjusts [,] the FDIC would not consider granting Doral Bank waivers to accept brokered deposits. At April 21, 2014, brokered deposits accounted for approximately 18% of the total funding of Doral’s operations. Doral has been working to reduce its reliance on

brokered deposits and one of the goals of its current business plan is to eliminate its reliance on brokered deposits. ***Doral Bank believes that as part of its capital plan it must seek immediate financial support from equity and debt holders and/or external sources.***

Under the terms of its Consent Order dated August 8, 2012 issued by the FDIC, in the event any capital ratio falls below the minimum required by the Consent Order, Doral Bank is required to either (i) increase capital in an amount sufficient to comply with the capital ratios as set forth in Doral Bank's approved capital plan, or (ii) submit to the FDIC a contingency plan for the sale, merger, or liquidation of Doral Bank in the event the primary sources of capital are not available within 120 days. Doral also expects that it may have to submit a new capital plan to the Federal Reserve Bank of New York ("FRBNY), Doral's primary regulatory authority, for approval.

Subsequent to entering into the 2012 Closing Agreement, Doral included the Puerto Rico Government tax receivables as Tier 1 capital at Doral Bank without objection by the FDIC and the FRBNY until this recent determination by the FDIC and Office of the Commissioner of Financial Institutions. Accordingly, Doral continues to believe Puerto Rico Government tax receivables may properly be included in Doral Bank's Tier 1 capital. Doral will be meeting with its regulators to address and to seek to mutually resolve the outstanding issues while preserving its appeal rights as appropriate.

On April 15, 2014 Doral received a letter from the Puerto Rico Department of Treasury ("Hacienda") requesting Doral to provide information to prove that Doral made actual tax payments to Hacienda that are the subject of the 2012 Closing Agreement pursuant to which the Government of Puerto Rico agreed to pay back to Doral its tax over-payments. In addition to the request for information Hacienda asserted that it did not understand the basis upon which Doral would be due a tax refund of \$229,884,087 because the refund was due to "accounting" losses versus actual tax payments. On April 23, 2014 Doral responded to the letter from Hacienda and provided copies of tax payments made of approximately \$155,634,626 which together with interest entitled Doral under Puerto Rico tax law as of the 2012 Closing Agreement to a refund of \$232,089,728.

Doral also explained in its response to Hacienda how Hacienda used the accounting basis of the deferred tax asset held by Doral as recorded in its financial statements to negotiate a lower refund payment than the tax refund that was actually due pursuant to Puerto Rico tax law. In addition, Doral notified Hacienda that the 2012 Closing Agreement expressly provided that it would constitute a violation of the agreement if Hacienda sought to reopen negotiations concerning the tax refund due to Doral. Hacienda sent a copy of its letter to Doral to the Office of the Commissioner of Financial Institutions of Puerto Rico and Doral sent a copy of its response to Hacienda to its principal regulators, the FDIC, the FRBNY and the Office of the Commissioner of Financial Institutions.

Doral is developing a revised capital plan for regulatory approval. Doral currently projects it can continue to finance its operations at least through the remainder of 2014 without the use of additional brokered deposits as Doral currently has other sources of liquidity. Nonetheless, *unless Doral can effectuate a capital plan (which would include a recapitalization and restructuring of Doral) that complies with regulatory requirements (1) Doral's financial condition and results of operations will be materially and adversely affected, (2) Doral may not be able to effectuate the recapitalization and restructuring plans that Doral believes are necessary to comply with regulatory requirements or Doral does effectuate such plans that Doral can restructure and recapitalize its balance sheet and businesses on terms that will preserve the value of its outstanding debt and equity, (3) Doral may not be able to obtain on an ongoing basis an unqualified opinion of Doral's independent auditors, and (4) Doral's regulators may take additional regulatory action against Doral.*

73. On this news, the price of Doral common stock, which had traded as high as \$25 per share in intraday trading during the Class Period (on July 24, 2013, following the reverse twenty-for-one stock split in June 2013), plummeted to a level approximately **85%** from its Class Period high to close at \$3.73 per share on May 2, 2014, on unusually high trading volume of more than 2.37 million shares trading, *erasing more than \$141 million in market capitalization from the stock's Class Period high.*

74. The market for Doral common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and omissions as set forth above, Doral common stock traded at artificially inflated prices during the Class Period. Plaintiff and the other members of the Class purchased or otherwise acquired Doral common stock relying upon the integrity of the market price of Doral common stock and market information relating to Doral, and have been damaged thereby.

75. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of Doral common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that

they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

76. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused, or were a substantial contributing cause, of the damages sustained by Plaintiff and the other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about Doral's business, prospects, and operations. These material misstatements and omissions had the cause and effect of creating, in the market, an unrealistically positive assessment of Doral and its business, prospects, and operations, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and the other members of the Class purchasing Doral common stock at artificially inflated prices, thus causing the damages complained of herein. When the true facts about the Company were revealed to the market, the inflation in the price of Doral common stock was removed, and the price of Doral common stock declined dramatically, causing losses to Plaintiff and the other members of the Class.

ADDITIONAL SCIENTER ALLEGATIONS

77. As alleged herein, Doral and the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, these Defendants, by virtue of their receipt of information reflecting the true facts regarding Doral, their control over, and/or receipt and/or modification of Doral's allegedly materially misleading statements and/or their associations

with the Company which made them privy to confidential proprietary information concerning Doral, participated in the fraudulent scheme alleged herein.

NO SAFE HARBOR

78. The “Safe Harbor” warnings accompanying Doral’s reportedly forward-looking statements (“FLS”) issued during the Class Period were ineffective to shield those statements from liability. To the extent that projected revenues and earnings were included in the Company’s financial reports prepared in accordance with GAAP, including those filed with the SEC on Form 8-K, they are excluded from the protection of the statutory Safe Harbor. *See* 15 U.S.C. §78u-5(b)(2)(A).

79. Defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew that the FLS was false or misleading, and/or that the FLS was authorized and/or approved by an executive officer of Doral who knew that the FLS was false. None of the historic or present tense statements made by Defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by Defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

APPLICATION OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET

80. Plaintiff will rely upon the presumption of reliance established by the fraud on the market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

- (b) the omissions and misrepresentations were material;
- (c) the Company's common stock traded in an efficient market;
- (d) the misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's common stock; and
- (e) Plaintiff and the other members of the Class purchased Doral common stock between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

81. At all relevant times, the market for Doral common stock was efficient for the following reasons, among others:

- (a) as a regulated issuer, Doral filed periodic public reports with the SEC; and
- (b) Doral regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the major news wire services, and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts, and other similar reporting services.

LOSS CAUSATION/ECONOMIC LOSS

82. During the Class Period, as detailed herein, Defendants made false and misleading statements and engaged in a scheme to deceive the market, and engaged in a course of conduct that artificially inflated the price of Doral common stock and operated as a fraud or deceit on Class Period purchasers of Doral common stock by misrepresenting the value of the Company's business and prospects, by overstating its earnings, and by concealing the significant defects in its internal controls. As Defendants' misrepresentations and fraudulent conduct became apparent to the market, the price of Doral common stock fell precipitously, as the prior artificial inflation came out of the price. As a result of their purchases of Doral common stock during the Class Period, Plaintiff and

the other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

COUNT I

For Violations of §10(b) of the Exchange Act and Rule 10b-5 Against all Defendants

83. Plaintiff incorporates ¶¶1-82 by reference.

84. During the Class Period, Defendants disseminated and/or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations, and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

85. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon Plaintiff and the other investors similarly situated in connection with their purchases of Doral common stock during the Class Period.

86. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Doral common stock. Plaintiff and the Class would not have purchased Doral common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

COUNT II

For Violations of §20(a) of the Exchange Act Against All Defendants

87. Plaintiff incorporates ¶¶1-86 by reference.

88. The Individual Defendants acted as controlling persons of Doral within the meaning of §20(a) of the Exchange Act. By reason of their positions with the Company, and their ownership of Doral common stock, the Individual Defendants had the power and authority to cause Doral to engage in the wrongful conduct complained of herein. Doral controlled the Individual Defendants and all of its employees. By reason of such conduct, Defendants are liable pursuant to §20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff, and certifying Plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Awarding such equitable/injunctive or other relief as deemed appropriate by the Court.

JURY DEMAND

Plaintiff demands a trial by jury.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 13th day of May, 2014.

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