OFG BANCORP
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

45,011,649 common shares ($1.00 par value per share) outstanding as of April 30, 2014

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FORWARD-LOOKING STATEMENTS

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

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

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- the fiscal and monetary policies of the federal government and its agencies;
- a credit default by the government;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on the

Company's businesses, business practices and cost of operations;

- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in

Puerto Rico;

- the performance of the stock and bond markets;
- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation ("FDIC") assessments; and
- possible legislative, tax or regulatory changes.

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

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

ITEM 1. ***FINANCIAL STATEMENTS***

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF MARCH 31, 2014 AND DECEMBER 31, 2013

		March 31, 2014		December 31, 2013
		(In thousands, except share data)		
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$	616,984	$	614,302
Money market investments		7,652		6,967
Total cash and cash equivalents		**624,636**		**621,269**
Restricted cash		15,170		82,199
Securities purchased under agreements to resell		-		60,000
Investments:				
Trading securities, at fair value, with amortized cost of $2,453 (December 31, 2013 - $2,448)		1,910		1,869
Investment securities available-for-sale, at fair value, with amortized cost of $1,437,106 (December 31, 2013 - $1,575,043)		1,455,685		1,588,425
Federal Home Loan Bank (FHLB) stock, at cost		24,430		24,450
Other investments		65		65
Total investments		**1,482,090**		**1,614,809**
Loans:				
Mortgage loans held-for-sale, at lower of cost or fair value		19,355		46,529
Loans not covered under shared-loss agreements with the FDIC, net of allowance for loan and lease losses of $56,183 (December 31, 2013 - $54,298)		4,635,394		4,615,929
Loans covered under shared-loss agreements with the FDIC, net of allowance for loan and lease losses of $54,398 (December 31, 2013 - $52,729)		347,865		356,961
Total loans, net		**5,002,614**		**5,019,419**
Other assets:				
FDIC shared-loss indemnification asset		166,194		189,240
Foreclosed real estate covered under shared-loss agreements with the FDIC		37,785		33,209
Foreclosed real estate not covered under shared-loss agreements with the FDIC		59,099		56,815
Accrued interest receivable		18,969		18,734
Deferred tax asset, net		127,657		137,564
Premises and equipment, net		83,029		82,903

Customers' liability on acceptances			28,152		23,042
Servicing assets			13,970		13,801
Derivative assets			15,861		20,502
Goodwill			86,069		86,069
Other assets			94,343		98,440
Total assets		$	**7,855,638**	$	**8,158,015**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Demand deposits		$	2,188,458		2,138,005
Savings accounts			1,267,290		1,194,567
Time deposits			1,845,244		2,050,693
Total deposits			**5,300,992**		**5,383,265**
Borrowings:					
Securities sold under agreements to repurchase			1,012,240		1,267,618
Advances from FHLB			335,689		336,143
Subordinated capital notes			100,404		100,010
Federal funds purchased			23,712		-
Other borrowings			3,708		3,663
Total borrowings			**1,475,753**		**1,707,434**
Other liabilities:					
Derivative liabilities			13,830		14,937
Acceptances executed and outstanding			28,535		23,042
Accrued expenses and other liabilities			140,037		144,424
Total liabilities			**6,959,147**		**7,273,102**
Commitments and contingencies (See Note 16)					
Stockholders' equity:					
Preferred stock; 10,000,000 shares authorized;					
1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D					
issued and outstanding, (December 31, 2013 - 1,340,000; 1,380,000; and 960,000) $25 liquidation value			92,000		92,000
84,000 shares of Series C issued and outstanding (December 31, 2013 - 84,000); $1,000 liquidation value			84,000		84,000
Common stock, $1 par value; 100,000,000 shares authorized; 52,713,673 shares issued:					
45,003,924 shares outstanding (December 31, 2013 - 52,707,023; 45,676,922)			52,714		52,707
Additional paid-in capital			538,287		538,071
Legal surplus			64,292		61,957
Retained earnings			147,919		133,629
Treasury stock, at cost, 7,709,749 shares (December 31, 2013 - 7,030,101 shares)			(90,743)		(80,642)
Accumulated other comprehensive income, net of			8,022		3,191

tax of $87 (December 31, 2013 - $831)					
Total stockholders' equity		**896,491**			**884,913**
Total liabilities and stockholders' equity	$	**7,855,638**		$	**8,158,015**

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

	Quarter Ended March 31,				
	2014			2013	
	(In thousands, except per share data)				
Interest income:					
Loans not covered under shared-loss agreements with the FDIC	$	85,243		$	80,807
Loans covered under shared-loss agreements with the FDIC		23,388			20,229
Total interest income from loans		**108,631**			**101,036**
Mortgage-backed securities		12,417			10,818
Investment securities and other		2,026			2,318
Total interest income		**123,074**			**114,172**
Interest expense:					
Deposits		8,978			9,935
Securities sold under agreements to repurchase		7,411			7,248
Advances from FHLB and other borrowings		2,295			1,713
Subordinated capital notes		992			1,660
Total interest expense		**19,676**			**20,556**
Net interest income		**103,398**			**93,616**
Provision for non-covered loan and lease losses		10,062			7,916
Provision for covered loan and lease losses, net		1,629			672
Total provision for loan and lease losses		**11,691**			**8,588**
Net interest income after provision for loan and lease losses		**91,707**			**85,028**
Non-interest income:					
Banking service revenue		10,606			11,838
Financial service revenue		6,867			7,660
Mortgage banking activities		1,950			3,153
Total banking and financial service revenues		**19,423**			**22,651**
FDIC shared-loss expense, net:					
FDIC shared-loss indemnification asset		(17,622)			(12,201)
True-up payment obligation		(865)			(670)
		(18,487)			(12,871)
Net gain (loss) on:					
Sale of securities		4,366			-

Derivatives		(478)			(788)
Early extinguishment of debt		-			1,061
Other non-interest income		454			46
Total non-interest income, net		**5,278**			**10,099**
Non-interest expense:					
Compensation and employee benefits		21,787			23,249
Professional and service fees		4,206			6,478
Occupancy and equipment		8,309			9,216
Insurance		2,074			2,678
Electronic banking charges		4,743			3,728
Information technology expenses		1,815			2,643
Advertising, business promotion, and strategic initiatives		1,781			1,409
Merger and restructuring charges		-			5,534
Foreclosure, repossession and other real estate expenses		6,436			3,382
Loan servicing and clearing expenses		2,060			1,475
Taxes, other than payroll and income taxes		3,735			2,622
Communication		957			864
Printing, postage, stationary and supplies		554			1,166
Director and investor relations		251			236
Other		2,745			2,129
Total non-interest expense		**61,453**			**66,809**
Income before income taxes		**35,532**			**28,318**
Income tax expense		11,785			7,126
Net income		**23,747**			**21,192**
Less: dividends on preferred stock		(3,465)			(3,465)
Income available to common shareholders	**$**	**20,282**		**$**	**17,727**
Earnings per common share:					
Basic	**$**	**0.45**		**$**	**0.39**
Diluted	**$**	**0.42**		**$**	**0.37**
Average common shares outstanding and equivalents		**52,598**			**52,892**
Cash dividends per share of common stock	**$**	**0.08**		**$**	**0.06**
See notes to unaudited consolidated financial statements.					

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

	Quarter Ended March 31,				
_	2014			2013	
	(In thousands)				
Net income	**$**	**23,747**		**$**	**21,192**
Other comprehensive income (loss) before tax:					
Unrealized gain (loss) on securities available-for-sale		9,563			(10,992)
Realized gain on investment securities included in net income		(4,366)			-
Unrealized gain on cash flow hedges		378			1,462
Other comprehensive income (loss) before taxes		**5,575**			**(9,530)**
Income tax effect		(744)			701
Other comprehensive income (loss) after taxes		**4,831**			**(8,829)**
Comprehensive income	**$**	**28,578**		**$**	**12,363**

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

	Quarter Ended March 31,			
	2014		2013	
	(In thousands)			
Preferred stock:				
Balance at beginning of period	$	176,000	$	176,000
Balance at end of period		**176,000**		**176,000**
Common stock:				
Balance at beginning of period		52,707		52,671
Exercised stock options		7		-
Balance at end of period		**52,714**		**52,671**
Additional paid-in capital:				
Balance at beginning of period		538,071		537,453
Stock-based compensation expense		439		437
Exercised stock options		71		-
Lapsed restricted stock units		(294)		(351)
Common stock issuance costs		-		(23)
Preferred stock issuance costs		-		(16)
Balance at end of period		**538,287**		**537,500**
Legal surplus:				
Balance at beginning of period		61,957		52,143
Transfer from retained earnings		2,335		1,985
Balance at end of period		**64,292**		**54,128**
Retained earnings:				
Balance at beginning of period		133,629		70,734
Net income		23,747		21,192
Cash dividends declared on common stock		(3,657)		(2,737)
Cash dividends declared on preferred stock		(3,465)		(3,465)
Transfer to legal surplus		(2,335)		(1,985)
Balance at end of period		**147,919**		**83,739**
Treasury stock:				
Balance at beginning of period		(80,642)		(81,275)
Stock repurchased		(10,393)		-
Lapsed restricted stock units		292		351
Stock used to match defined contribution plan		-		77
Balance at end of period		**(90,743)**		**(80,847)**

Accumulated other comprehensive income, net of tax:					
Balance at beginning of period		3,191			55,880
Other comprehensive income (loss), net of tax		4,831			(8,829)
Balance at end of period		**8,022**			**47,051**
Total stockholders' equity	**$**	**896,491**		**$**	**870,242**
See notes to unaudited consolidated financial statements.					

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

	Quarter Ended March 31,				
	2014			**2013**	
	(In thousands)				
Cash flows from operating activities:					
Net income	$	**23,747**		$	**21,192**
Adjustments to reconcile net income to net cash provided by operating activities:					
Amortization of deferred loan origination fees, net of costs		601			256
Amortization of fair value discounts on acquired loans		3,634			2,579
Amortization of investment securities premiums, net of accretion of discounts		412			6,200
Amortization of core deposit and customer relationship intangibles		542			644
Amortization of fair value premiums on acquired deposits		1,897			5,267
FDIC shared-loss expense, net		18,487			12,871
Amortization of prepaid FDIC assessment		-			860
Other impairments on securities		-			7
Depreciation and amortization of premises and equipment		2,399			3,092
Deferred income taxes, net		(826)			5,265
Provision for covered and non-covered loan and lease losses, net		11,691			8,588
Stock-based compensation		439			437
(Gain) loss on:					
Sale of securities		(4,366)			-
Sale of mortgage loans held-for-sale		(1,242)			(1,631)
Derivatives		478			788
Early extinguishment of debt		-			(1,061)
Foreclosed real estate		1,500			1,793
Sale of other repossessed assets		1,973			84
Sale of premises and equipment		(2)			-
Originations of loans held-for-sale		(50,843)			(68,493)
Proceeds from sale of loans held-for-sale		24,653			29,347
Net (increase) decrease in:					

Trading securities		(41)			(1,292)
Accrued interest receivable		(235)			(2,677)
Servicing assets		(169)			(748)
Other assets		4,935			1,446
Net increase (decrease) in:					
Accrued interest on deposits and borrowings		(1,382)			(391)
Accrued expenses and other liabilities		2,362			(2,518)
Net cash provided by operating activities		**40,644**			**21,905**
Cash flows from investing activities:					
Purchases of:					
Investment securities available-for-sale		(127,373)			(1,383)
FHLB stock		(48,600)			(3,150)
Maturities and redemptions of:					
Investment securities available-for-sale		153,340			163,940
FHLB stock		48,620			8,103
Proceeds from sales of:					
Investment securities available-for-sale		139,152			29,062
Foreclosed real estate and other repossessed assets		13,392			6,036
Premises and equipment		10			155
Origination and purchase of loans, excluding loans held-for-sale		(161,182)			(206,229)
Principal repayment of loans, including covered loans		141,118			161,912
Reimbursements from the FDIC on shared-loss agreements		8,236			6,650
Additions to premises and equipment		(2,532)			(1,711)
Net change in securities purchased under agreements to resell		60,000			20,000
Net change in restricted cash		67,029			5,060
Net cash provided by investing activities		**291,210**			**188,445**

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

	Quarter Ended March 31,				
	2014			**2013**	
	(In thousands)				
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits		(79,572)			(133,055)
Short term borrowings		-			(31,382)
Securities sold under agreements to repurchase		(255,000)			(203,636)
FHLB advances, federal funds purchased, and other borrowings		23,311			(91,185)
Subordinated capital notes		394			(46,541)
Exercise of stock options and restricted units lapsed, net		76			-
Purchase of treasury stock		(10,393)			-
Termination of derivative instruments		(181)			(9)
Dividends paid on preferred stock		(3,465)			(3,465)
Dividends paid on common stock		(3,657)			(2,737)
Other financing activities		-			(39)
Net cash used in financing activities		**(328,487)**			**(512,049)**
Net change in cash and cash equivalents		**3,367**			**(301,699)**
Cash and cash equivalents at beginning of period		621,269			868,695
Cash and cash equivalents at end of period	**$**	**624,636**		**$**	**566,996**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:					
Interest paid	$	22,620		$	21,243
Mortgage loans securitized into mortgage-backed securities	$	23,228		$	27,679
Transfer from loans to foreclosed real estate and other repossessed assets	$	25,106		$	15,459
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	1,747		$	-
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	33,125		$	-
See notes to unaudited consolidated financial statements.					

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

OFG Bancorp (the “Company”) is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. The Company operates through various subsidiaries including, a commercial bank, Oriental Bank (or the “Bank”), a securities broker-dealer, Oriental Financial Services Corp. (“Oriental Financial Services”), an insurance agency, Oriental Insurance, Inc. (“Oriental Insurance”) and a retirement plan administrator, Caribbean Pension Consultants, Inc. (“CPC”). The Company also has a special purpose entity, Oriental Financial (PR) Statutory Trust II (the “Statutory Trust II”). Through these subsidiaries and their respective divisions, the Company provides a wide range of banking and financial services such as commercial, consumer and mortgage lending, leasing, auto loans, financial planning, insurance sales, money management and investment banking and brokerage services, as well as corporate and individual trust services. On April 25, 2013, the Company changed its corporate name from Oriental Financial Group Inc. to OFG Bancorp.

On April 30, 2010, the Bank acquired certain assets and assumed certain deposits and other liabilities in the FDIC-assisted acquisition of Eurobank. On December 18, 2012, the Company purchased Banco Bilbao Vizcaya Argentaria Puerto Rico (“BBVAPR”), referred to as the “BBVAPR Acquisition.”

Recent Accounting Developments

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

The following table includes the composition of the restricted cash:

	March 31, 2014			December 31, 2013	
	(In thousands)				
Deposits pledged as collateral to other financial institutions to secure:					
Securities sold under agreements to repurchase	$	-		$	67,029
Derivatives		2,980			2,980
Obligations under agreement of loans sold with recourse		12,190			12,190
	$	**15,170**		**$**	**82,199**

The Company delivers cash as collateral to meet margin calls for some long term securities sold under agreements to repurchase. An alternative to cash delivery is entering into securities purchased under agreements to resell and use the securities collateral received as collateral to be delivered. At December 31, 2013, the possibility of entering into securities purchased under agreements to resell to receive securities collateral and then deliver it to counterparties securities sold under agreements to repurchase was very limited for market reasons. Therefore, at December 31, 2013, the Company had $67.0 million in cash collateral delivered. At March 31, 2014, the Company did not have cash collateral delivered.

As part of the BBVAPR Acquisition, the Company assumed a contract with FNMA which required collateral to guarantee the repurchase, if necessary, of loans sold with recourse. At March 31, 2014 and December 31, 2013, the Company delivered cash amounting to $12.2 million.

NOTE 3 – SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND INVESTMENTS

Money Market Investments

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At March 31, 2014 and December 31, 2013, money market instruments included as part of cash and cash equivalents amounted to $7.7 million and $7.0 million, respectively.

Securities Purchased Under Agreements to Resell

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 1,093,717	$ 31,769	$ 4,690	$ 1,120,796	3.03%
GNMA certificates	6,146	426	23	6,549	4.93%
CMOs issued by US Government-sponsored agencies	211,308	351	4,139	207,520	1.78%
Total mortgage-backed securities	**1,311,171**	**32,546**	**8,852**	**1,334,865**	**2.84%**
Investment securities					
US Treasury securities	70,000	-	-	70,000	0.03%
Obligations of US Government-sponsored agencies	9,539	-	42	9,497	1.23%
Obligations of Puerto Rico Government and political subdivisions	22,367	-	5,298	17,069	5.32%
Other debt securities	24,029	225	-	24,254	3.46%
Total investment securities	**125,935**	**225**	**5,340**	**120,820**	**1.72%**
Total securities available for sale	**$ 1,437,106**	**$ 32,771**	**$ 14,192**	**$ 1,455,685**	**2.74%**

	December 31, 2013				
		Gross	Gross		Weighted

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The amortized cost and fair value of the Company's investment securities at March 31, 2014, by contractual maturity, are shown in the next table. Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2014				
	Available-for-sale				
	Amortized Cost			Fair Value	
	(In thousands)				
Mortgage-backed securities					
Due after 5 to 10 years					
FNMA and FHLMC certificates	$	26,294		$	26,625
Total due after 5 to 10 years		**26,294**			**26,625**
Due after 10 years					
FNMA and FHLMC certificates		1,067,423			1,094,171
GNMA certificates		6,146			6,549
CMOs issued by US Government-sponsored agencies		211,308			207,520
Total due after 10 years		**1,284,877**			**1,308,240**
Total mortgage-backed securities		**1,311,171**			**1,334,865**
Investment securities					
Due in less than one year					
US Treasury securities		70,000			70,000
Other debt securities		20,000			20,053
Total due in less than one year		**90,000**			**90,053**
Due from 1 to 5 years					
Obligations of Puerto Rico Government and political subdivisions		11,903			9,827
Total due from 1 to 5 years		**11,903**			**9,827**
Due after 5 to 10 years					
Obligations of US Government and sponsored agencies		9,539			9,497
Total due after 5 to 10 years		**9,539**			**9,497**
Due after 10 years					
Obligations of Puerto Rico Government and political subdivisions		10,464			7,242
Other debt securities		4,029			4,201
Total due after 10 years		**14,493**			**11,443**
Total investment securities		**125,935**			**120,820**
Total securities available-for-sale	**$**	**1,437,106**		**$**	**1,455,685**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the quarter ended March 31, 2014, the Company sold $24.0 million of available-for-sale GNMA certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period. In addition, during the quarter ended March 31, 2014, there were certain sales of available-for-sale securities because the Company believed that gains could be realized and that there were good opportunities to invest the proceeds in other investment securities with attractive yields and terms that would allow the Company to continue protecting its net interest margin.

For the quarter ended March 31, 2014 the Company recorded a net gain on sale of securities of $4.4 million. The tables below present the gross realized gains by category for such period. There was no realized gain or loss for the quarter ended March 31, 2013.

	Quarter Ended March 31, 2014							
			Book Value		Gross		Gross	
Description	Sale Price		at Sale		Gains		Losses	
	(In thousands)							
Sale of securities available-for-sale								
Mortgage-backed securities								
FNMA and FHLMC certificates	$	115,159	$	110,792	$	4,366	$	-
GNMA certificates		23,993		23,993		-		-
Total	**$**	**139,152**	**$**	**134,785**	**$**	**4,366**	**$**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	March 31, 2014		
	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 1,897	$ 163	$ 1,734
Obligations of Puerto Rico Government and political subdivisions	22,367	5,298	17,069
GNMA certificates	80	10	70
	$ 24,344	**$ 5,471**	**$ 18,873**
	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 177,882	$ 3,976	$ 173,906
FNMA and FHLMC certificates	214,926	4,690	210,236
Obligations of US government and sponsored agencies	9,539	42	9,497
GNMA certificates	121	13	108
	$ 402,468	**$ 8,721**	**$ 393,747**
	Total		
	Amortized Cost	Unrealized Loss	Fair Value
	(In thousands)		
Securities available-for-sale			
CMOs issued by US Government-sponsored agencies	$ 179,779	$ 4,139	$ 175,640
FNMA and FHLMC certificates	214,926	4,690	210,236
Obligations of Puerto Rico Government and political subdivisions	22,367	5,298	17,069
Obligations of US government and sponsored agencies	9,539	42	9,497
GNMA certificates	201	23	178
	$ 426,812	**$ 14,192**	**$ 412,620**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013					
	12 months or more					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico Government and political subdivisions	$	20,845	$	5,470	$	15,375
CMOs issued by US Government-sponsored agencies		2,559		237		2,322
GNMA certificates		81		11		70
	$	**23,485**	**$**	**5,718**	**$**	**17,767**
	Less than 12 months					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico Government and political subdivisions	$	100,190	$	1,375	$	98,815
CMOs issued by US Government-sponsored agencies		182,661		6,577		176,084
GNMA certificates		122		13		109
FNMA and FHLMC certificates		220,913		6,669		214,244
Obligations of US Government and sponsored agencies		10,691		42		10,649
Other debt securities		20,000		320		19,680
	$	**534,577**	**$**	**14,996**	**$**	**519,581**
	Total					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
Obligations of Puerto Rico Government and political subdivisions	$	121,035	$	6,845	$	114,190
CMOs issued by US Government-sponsored agencies		185,220		6,814		178,406

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Most of the investments in an unrealized loss position at March 31, 2014 ($404.4 million or 95%) consist of securities issued or guaranteed by the U.S. Treasury or U.S. government-sponsored agencies, all of which are highly liquid securities that have a large and efficient secondary market. Their aggregate losses and their variability from period to period are the result of changes in market conditions, and not due to the repayment capacity or creditworthiness of the issuers or guarantors of such securities.

The remaining investments in an unrealized loss position at March 31, 2014 ($22.4 million or 5%) consist of obligations issued or collateralized by the government of Puerto Rico and its political subdivisions or instrumentalities. The recent decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. As of March 31, 2014, the Company analyzed these investments under a plausible set of scenarios that included the possibility of a further downgrade in the credit ratings of the Commonwealth, and also considered numerous factors that, in the Company's view, support the ability of the Commonwealth to continue servicing its debt obligations. Such factors include (i) the collateralization and sources of repayment for such debt obligations; (ii) the government's efforts to increase revenues and reduce expenses to tackle its recurrent budget deficits; (iii) the Commonwealth's constitutional framework that provides that "public debt" (e.g., general obligation bonds such as the $98.7 million principal amount Puerto Rico government bond owned by the Company, and repaid by the issuer on March 1, 2014) constitutes a first claim on available Commonwealth resources; and (iv) the Commonwealth's compliance and commitment to its contractual debt obligations. In addition, the Company believes it is probable that it will collect all amounts due according to the contractual terms of its Puerto Rico government bonds. Based on these factors, the Company expects that such bonds will be repaid in full when due, and given that the Company does not have the intent to sell any such bonds in an unrealized loss position, the Company does not consider them to be other-than-temporarily impaired as of March 31, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

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

	March 31, 2014		December 31, 2013	
	(In thousands)			
Loans not covered under shared-loss agreements with FDIC:				
Originated and other loans and leases held for investment:				
Mortgage	$	782,150	$	766,265
Commercial		1,170,145		1,127,657
Consumer		142,492		127,744
Auto and leasing		447,940		379,874
		2,542,727		**2,401,540**
Acquired loans:				
Accounted for under ASC 310-20 (Loans with revolving feature and/or				
acquired at a premium)				
Commercial		71,577		77,681
Consumer		52,049		56,174
Auto		268,865		301,584
		392,491		**435,439**
Accounted for under ASC 310-30 (Loans acquired with deteriorated				
credit quality, including those by analogy)				
Mortgage		703,454		717,904
Commercial		532,695		545,117

Construction		122,693		126,427
Consumer		53,310		63,620
Auto		341,889		379,145
		1,754,041		**1,832,213**
		4,689,259		**4,669,192**
Deferred loan cost , net		2,318		1,035
Loans receivable		**4,691,577**		**4,670,227**
Allowance for loan and lease losses on non-covered loans		(56,183)		(54,298)
Loans receivable, net		**4,635,394**		**4,615,929**
Mortgage loans held-for-sale		19,355		46,529
Total loans not covered under shared-loss agreements with FDIC, net		**4,654,749**		**4,662,458**
Loans covered under shared-loss agreements with FDIC:				
Loans secured by 1-4 family residential properties		124,239		121,748
Construction and development secured by 1-4 family residential properties		18,254		17,304
Commercial and other construction		253,804		264,249
Consumer		5,769		6,119
Leasing		197		270
Total loans covered under shared-loss agreements with FDIC		**402,263**		**409,690**
Allowance for loan and lease losses on covered loans		(54,398)		(52,729)
Total loans covered under shared-loss agreements with FDIC, net		**347,865**		**356,961**
Total loans, net	$	**5,002,614**	$	**5,019,419**

During the quarter ended March 31, 2014, the Company reclassified $23.5 million in mortgage loans held-for-sale to held-for-investment.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-covered Loans

Originated and Other Loans and Leases Held for Investment

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

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

	March 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 5,330	$ 2,620	$ 2,877	$ 10,827	$ 61,269	$ 72,096	$ 91
Years 2003 and 2004	5,494	2,445	2,342	10,281	53,234	63,515	-
Year 2005	6,620	2,288	6,289	15,197	72,621	87,818	-
Year 2006	10,151	4,376	4,474	19,001	97,903	116,904	-
Years 2007, 2008 and 2009	3,807	2,025	4,850	10,682	87,158	97,840	-

Years 2010, 2011, 2012, 2013 and 2014	3,890	1,122	4,939	9,951	172,216	182,167	167
	35,292	14,876	25,771	75,939	544,401	620,340	258
Non-traditional	1,744	470	2,425	4,639	35,151	39,790	-
Loss mitigation program	8,149	6,485	12,559	27,193	58,812	86,005	2,254
	45,185	21,831	40,755	107,771	638,364	746,135	2,512
Home equity secured personal loans	-	-	138	138	595	733	-
GNMA's buy-back option program	-	-	35,282	35,282	-	35,282	-
	45,185	**21,831**	**76,175**	**143,191**	**638,959**	**782,150**	**2,512**
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	62,935	62,935	-
Institutional	-	-	-	-	9,833	9,833	-
Middle market	-	-	1,531	1,531	168,222	169,753	-
Retail	1,241	277	4,780	6,298	150,396	156,694	-
Floor plan	-	-	-	-	1,699	1,699	-
Real estate	-	-	-	-	11,837	11,837	-
	1,241	277	6,311	7,829	404,922	412,751	-
Other commercial and industrial:							
Corporate	-	-	-	-	28,475	28,475	-
Institutional	-	-	-	-	553,249	553,249	-
Middle market	-	-	513	513	82,420	82,933	-
Retail	609	292	1,622	2,523	64,532	67,055	-
Floor plan	-	-	-	-	25,682	25,682	-
	609	292	2,135	3,036	754,358	757,394	-
	1,850	**569**	**8,446**	**10,865**	**1,159,280**	**1,170,145**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	March 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	263	171	354	788	14,702	15,490	-
Overdrafts	28	11	4	43	288	331	-
Personal lines of credit	60	99	57	216	1,718	1,934	-
Personal loans	1,418	524	248	2,190	105,847	108,037	-
Cash collateral personal loans	375	46	16	437	16,263	16,700	-
	2,144	**851**	**679**	**3,674**	**138,818**	**142,492**	**-**
Auto and leasing	**33,788**	**8,559**	**5,872**	**48,219**	**399,721**	**447,940**	**-**
Total	**$ 82,967**	**$ 31,810**	**$ 91,172**	**$ 205,949**	**$ 2,336,778**	**$ 2,542,727**	**$ 2,512**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

At March 31, 2014, the Company had $539.9 million in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. This entire amount was current at March 31, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	March 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Corporate	$ -	$ -	$ -	$ -	$ 11,079	$ 11,079	$ -
Retail	47	-	603	650	3,651	4,301	-
Floor plan	-	-	101	101	2,651	2,752	-
	47	-	704	751	17,381	18,132	-
Other commercial and industrial							

Corporate		14		-		82		96		2,851		2,947		-
Institutional		-		-		-		-		221		221		-
Retail		645		128		716		1,489		15,727		17,216		-
Floor plan		84		-		126		210		32,851		33,061		-
		743		128		924		1,795		51,650		53,445		-
		790		**128**		**1,628**		**2,546**		**69,031**		**71,577**		**-**
Consumer														
Credit cards		1,413		781		2,078		4,272		44,109		48,381		**-**
Personal loans		105		83		57		245		3,423		3,668		**-**
		1,518		**864**		**2,135**		**4,517**		**47,532**		**52,049**		**-**
Auto		**13,161**		**3,522**		**1,342**		**18,025**		**250,840**		**268,865**		**-**
Total	**$**	**15,469**	**$**	**4,514**	**$**	**5,105**	**$**	**25,088**	**$**	**367,403**	**$**	**392,491**	**$**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Contractual required payments receivable	$ 2,799,336	$ 2,929,353
Less: Non-accretable discount	563,294	579,587
Cash expected to be collected	2,236,042	2,349,766
Less: Accretable yield	482,001	517,553
Carrying amount	$ 1,754,041	$ 1,832,213

At March 31, 2014 and December 31, 2013, the Company had $196.1 million and $180.5 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its non-covered acquired loans accounted for under ASC 310-30.

The following tables describe the accretable yield and non-accretable discount activity of acquired loans accounted for under ASC 310-30 for the quarters ended March 31, 2014 and 2013, excluding covered loans:

	Quarter Ended March 31,			
	2014		2013	
Accretable Yield Activity				
Balance at beginning of period	$	517,553	$	655,833
Accretion		(40,269)		(47,668)
Transfer from non-accretable discount		4,717		-

Balance at end of period	**$**	**482,001**		**$**	**608,165**
	Quarter Ended March 31,				
	2014			**2013**	
Non-Accretable Discount Activity					
Balance at beginning of period	$	579,587		$	714,462
Principal losses		(11,576)			(8,746)
Transfer to accretable yield		(4,717)			-
Balance at end of period	**$**	**563,294**		**$**	**705,716**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Contractual required payments receivable	$ 657,353	$ 702,126
Less: Non-accretable discount	107,323	129,477
Cash expected to be collected	550,030	572,649
Less: Accretable yield	147,767	162,959
Carrying amount, gross	402,263	409,690
Less: Allowance for covered loan and lease losses	54,398	52,729
Carrying amount, net	**$ 347,865**	**$ 356,961**

The following tables describe the accretable yield and non-accretable discount activity of covered loans for the quarters ended March 31, 2014 and 2013:

	Quarter Ended March 31, 2014	Quarter Ended March 31, 2013
	(In thousands)	
Accretable yield activity		
Balance at beginning of period	$ 162,959	$ 188,008
Accretion	(23,388)	(20,229)
Transfer from non-accretable discount	8,196	6,328
Balance at end of period	**$ 147,767**	**$ 174,107**

	Quarter Ended March 31, 2014	Quarter Ended March 31, 2013
	(In thousands)	
Non-accretable discount activity		
Balance at beginning of period	$ 129,477	$ 237,555
Principal losses	(13,958)	(16,991)
Transfer to accretable yield	(8,196)	(6,328)
Balance at end of period	**$ 107,323**	**$ 214,236**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

The following table presents the recorded investment in loans in non-accrual status by class of loans as of March 31, 2014 and December 31, 2013:

	March 31, 2014			December 31, 2013
	(In thousands)			
Originated and other loans and leases held for investment				
Mortgage				
Traditional (by origination year):				
Up to the year 2002	$	2,884	$	3,428
Years 2003 and 2004		2,359		1,845
Year 2005		6,667		4,922
Year 2006		4,555		4,418
Years 2007, 2008 and 2009		4,943		4,511
Years 2010, 2011, 2012, 2013 and 2014		8,342		7,818
		29,750		26,942
Non-traditional		2,425		2,311
Loss mitigation program		16,903		18,792
		49,078		48,045
Home equity secured personal loans		138		138
		49,216		**48,183**
Commercial				
Commercial secured by real estate				
Middle market		11,596		11,895
Retail		8,760		7,208
		20,356		19,103
Other commercial and industrial				
Middle market		513		1,134
Retail		2,923		2,485
Floor plan		-		108
		3,436		3,727
		23,792		**22,830**
Consumer				
Credit cards		354		232
Overdrafts		4		-

Personal lines of credit		161		84
Personal loans		547		485
Cash collateral personal loans		18		4
		1,084		**805**
Auto and leasing		**6,047**		**5,089**
	$	**80,139**	$	**76,907**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	March 31, 2014	December 31, 2013
	(In thousands)	
Acquired loans accounted under ASC 310-20		
Commercial		
Commercial secured by real estate		
Retail	$ 688	$ 956
Floor plan	101	101
	789	1,057
Other commercial and industrial		
Corporate	96	97
Retail	851	1,371
Floor plan	126	18
	1,073	1,486
	1,862	**2,543**
Consumer		
Credit cards	2,076	2,068
Personal loans	58	151
	2,134	**2,219**
Auto	**1,515**	**1,608**
	5,511	**6,370**
Total non-accrual loans	**$ 85,650**	**$ 83,277**

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

Effective April 24, 2013, delinquent residential mortgage loans insured or guaranteed under applicable FHA and VA programs are placed in non-accrual when they become 18 months or more past due, since they are insured loans. Before that date, they were placed in non-accrual when they became 90 days or more past due.

At March 31, 2014 and December 31, 2013, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $70.8 million and $66.5 million, respectively, as they are performing under their new terms.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the Company’s allowance for loan and lease losses at March 31, 2014 and December 31, 2013 was as follows:

	March 31, 2014	December 31, 2013
	(In thousands)	
Allowance for loans and lease losses on non-covered loans:		
Originated and other loans and leases held for investment:		
Mortgage	$ 19,511	$ 19,937
Commercial	13,994	14,897
Consumer	7,135	6,006
Auto and leasing	8,731	7,866
Unallocated	136	375
	49,507	**49,081**
Acquired loans:		
Accounted for under ASC 310-20 (Loans with revolving feature and/or		
acquired at a premium)		
Commercial	867	926
Consumer	504	-
Auto	2,247	1,428
	3,618	**2,354**
Accounted for under ASC 310-30 (Loans acquired with deteriorated		
credit quality, including those by analogy)		
Commercial	2,653	1,713
Consumer	405	418
Auto	-	732
	3,058	**2,863**
	56,183	**54,298**
Allowance for loans and lease losses on covered loans:		
Loans secured by 1-4 family residential properties	14,221	12,495
Commercial and other construction	39,562	39,619
Consumer	615	615
	54,398	**52,729**
Total allowance for loan and lease losses	**$ 110,581**	**$ 107,027**

Non-Covered Loans

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors. While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Company's control. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. As a result, the period was changed to 24 months from the previously determined 12 months. This change in the allowance for loan and lease losses' look back period for the consumer and auto and leasing portfolios is considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Originated and Other Loans and Leases Held for Investment

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

	Quarter Ended March 31, 2014					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 19,937	$ 14,897	$ 6,006	$ 7,866	$ 375	$ 49,081
Charge-offs	(1,214)	(419)	(838)	(4,645)	-	(7,116)
Recoveries	148	98	147	1,524	-	1,917
Provision for non-covered originated and other loan and lease losses	640	(582)	1,820	3,986	(239)	5,625
Balance at end of period	**$ 19,511**	**$ 13,994**	**$ 7,135**	**$ 8,731**	**$ 136**	**$ 49,507**

	March 31, 2014					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
	(In thousands)					
Allowance for loan and lease losses on non-covered originated and other loans:						

Ending allowance balance attributable to loans:												
Individually evaluated for impairment	$	8,001	$	1,704	$	-	$	-	$	-	$	9,705
Collectively evaluated for impairment		11,510		12,290		7,135		8,731		136		39,802
Total ending allowance balance	**$**	**19,511**	**$**	**13,994**	**$**	**7,135**	**$**	**8,731**	**$**	**136**	**$**	**49,507**
Loans:												
Individually evaluated for impairment	$	87,744	$	27,767	$	-	$	-	$	-	$	115,511
Collectively evaluated for impairment		694,406		1,142,378		142,492		447,940		-		2,427,216
Total ending loan balance	**$**	**782,150**	**$**	**1,170,145**	**$**	**142,492**	**$**	**447,940**	**$**	**-**	**$**	**2,542,727**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended March 31, 2013					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 21,092	$ 17,072	$ 856	$ 533	$ 368	$ 39,921
Charge-offs	(2,588)	(557)	(246)	(91)	-	(3,482)
Recoveries	-	28	65	7	-	100
Provision for (recapture of) non-covered originated and other loan and lease losses	4,385	(229)	638	1,292	(291)	5,795
Balance at end of period	**$ 22,889**	**$ 16,314**	**$ 1,313**	**$ 1,741**	**$ 77**	**$ 42,334**

	December 31, 2013					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 8,708	$ 1,431	$ -	$ -	$ -	$ 10,139
Collectively evaluated for impairment	11,229	13,466	6,006	7,866	375	38,942

Total ending allowance balance	**$**	**19,937**	**$**	**14,897**	**$**	**6,006**	**$**	**7,866**	**$**	**375**	**$**	**49,081**
Loans:												
Individually evaluated for impairment	$	84,494	$	28,145	$	-	$	-	$	-	$	112,639
Collectively evaluated for impairment		681,771		1,099,512		127,744		379,874		-		2,288,901
Total ending loans balance	**$**	**766,265**	**$**	**1,127,657**	**$**	**127,744**	**$**	**379,874**	**$**	**-**	**$**	**2,401,540**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The following tables present the activity in our allowance for loan losses and related recorded investment of the associated loans in our non-covered acquired loan portfolio, excluding loans accounted for under ASC 310-30, for the quarter ended March 31, 2014:

	Quarter Ended March 31, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:										
Balance at beginning of period	$	926	$	-	$	1,428	$	-	$	2,354
Charge-offs		(174)		(2,058)		(1,296)		-		(3,528)
Recoveries		-		100		450		-		550
Provision for non-covered acquired loan and lease losses accounted for under ASC 310-20		115		2,462		1,665		-		4,242
Balance at end of period	**$**	**867**	**$**	**504**	**$**	**2,247**	**$**	**-**	**$**	**3,618**

	March 31, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:										

Ending allowance balance attributable to loans:										
Collectively evaluated for impairment		867		504		2,247		-		3,618
Total ending allowance balance	**$**	**867**	**$**	**504**	**$**	**2,247**	**$**	**-**	**$**	**3,618**
Loans:										
Collectively evaluated for impairment		71,577		52,049		268,865		-		392,491
Total ending loan balance	**$**	**71,577**	**$**	**52,049**	**$**	**268,865**	**$**	**-**	**$**	**392,491**

	Quarter Ended March 31, 2013									
	Commercial		**Consumer**		**Auto**		**Unallocated**		**Total**	
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:										
Balance at beginning of period	$	-	$	-	$	-	$	-	$	-
Charge-offs		-		(1,456)		(1,715)		-		(3,171)
Recoveries		-		207		1,230		-		1,437
Provision for non-covered acquired loan and lease losses accounted for under ASC 310-20		386		1,249		485		-		2,120
Balance at end of period	**$**	**386**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**386**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

The following tables present the activity in our allowance for loan losses and related recorded investment of the associated loans in our non-covered acquired loan portfolio accounted for under ASC 310-30, for the quarter ended March 31, 2014:

	Quarter Ended March 31, 2014					
	Mortgage	**Commercial**	**Construction**	**Consumer**	**Auto**	**Total**
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:						
Balance at beginning of period	$ -	$ 1,713	$ -	$ 418	$ 732	$ 2,863

Provision for non-covered acquired loan and lease losses accounted for under ASC 310-30		-		940		-		(13)		(732)		195
Balance at end of period	$	**-**	$	**2,653**	$	**-**	$	**405**	$	**-**	$	**3,058**

Non-covered loans acquired accounted for under ASC 310-30 were recognized at fair value as of December 18, 2012, which included the impact of expected credit losses and, therefore, no allowance for credit losses was recorded during the quarter ended March 31, 2013.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

The Company evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. The total investment in impaired commercial loans was $27.8 million and $28.1 million at March 31, 2014 and December 31, 2013, respectively. The impaired commercial loans were measured based on the fair value of collateral or the present value of cash flows, including those identified as troubled-debt restructurings. The valuation allowance for impaired commercial loans amounted to approximately $1.4 million at March 31, 2014 and December 31, 2013. The total investment in impaired mortgage loans was $87.7 million and $84.5 million at March 31, 2014 and December 31, 2013, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to approximately $8.0 million and $8.7 million at March 31, 2014 and December 31, 2013, respectively.

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

Originated and Other Loans and Leases Held for Investment

	March 31, 2014						
	Unpaid Principal		Recorded Investment		Related Allowance		Coverage
	(In thousands)						
Impaired loans with specific allowance:							
Commercial	$ 7,856		$ 6,686		$ 1,704		25%
Residential troubled-debt restructuring	92,870		87,744		8,002		9%
Impaired loans with no specific allowance:							
Commercial	26,744		21,081		N/A		N/A
Total investment in impaired loans	**$ 127,470**		**$ 115,511**		**$ 9,706**		**8%**

	December 31, 2013

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Acquired Loans Accounted for under ASC-310-20 (Loans with revolving feature and/or acquired at a premium)									
	March 31, 2014								
	Unpaid Principal			**Recorded Investment**		**Related Allowance**			**Coverage**
	(In thousands)								
Impaired loans with no specific allowance									
Commercial		208			208		N/A		N/A
Total investment in impaired loans	**$**	**208**		**$**	**208**	**$**	**-**		**0%**
	December 31, 2013								
	Unpaid Principal			**Recorded Investment**		**Specific Allowance**			**Coverage**
	(In thousands)								
Impaired loans with no specific allowance									
Commercial		208			208		N/A		N/A
Total investment in impaired loans	**$**	**208**		**$**	**208**	**$**	**-**		**0%**

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

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

	March 31, 2014								
	Unpaid Principal			**Recorded Investment**			**Allowance**		**Coverage**
	(In thousands)								
Impaired non-covered loan pools:									
Mortgage	$	5,008		$	4,510		$	57	1%
Commercial		89,496			78,742			879	1%

Construction		46,256			40,397			1,773		4%
Consumer		61,584			53,307			349		1%
Total investment in impaired non-covered loan pools	**$**	**202,344**		**$**	**176,956**		**$**	**3,058**		**2%**

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the interest recognized in commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30, for the quarters ended March 31, 2014 and 2013:

	Quarter Ended March 31,			
	2014		2013	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 24	$ 6,259	$ 4	$ 15,472
Residential troubled-debt restructuring	645	87,052	443	78,748
Impaired loans with no specific allowance				
Commercial	78	21,629	293	30,360
Total interest income from impaired loans	$ 747	$ 114,940	$ 740	$ 124,580

Modifications

The following table presents the troubled-debt restructurings during the quarters ended March 31, 2014 and 2013:

	Quarter Ended March 31, 2014						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modificatio Weighted Average Term (i Months)
	(Dollars in thousands)						
Mortgage	34	$ 4,009	6.43%	347	$ 3,910	4.35%	37
Consumer	5	42	12.97%	67	44	12.95%	6

	Quarter Ended March 31, 2013						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modification Weighted Average Term (in Months)
	(Dollars in thousands)						
Mortgage	57	$ 7,518	6.28%	331	$ 8,040	4.35%	40

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents troubled-debt restructurings for which there was a payment default during the twelve-month period ended March 31, 2014 and 2013:

	Twelve-Month Period Ended March 31,								
	2014					2013			
	Number of Contracts		Recorded Investment			Number of Contracts		Recorded Investment	
	(Dollars in thousands)								
Mortgage	19		$	2,592		32		$	4,295
Commercial	-		$	-		1		$	18
Consumer	1		$	11		-		$	-

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	March 31, 2014					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 62,935	$ 62,935	$ -	$ -	$ -	$ -
Institutional	9,833	9,833	-	-	-	-
Middle market	169,753	141,537	16,619	-	-	11,597
Retail	156,694	139,971	1,929	1,892	-	12,902
Floor plan	1,699	1,699	-	-	-	-
Real estate	11,837	11,837	-	-	-	-
	412,751	367,812	18,548	1,892	-	24,499
Other commercial and industrial:						
Corporate	28,475	28,475	-	-	-	-
Institutional	553,249	553,249	-	-	-	-
Middle market	82,933	77,566	3,336	771	-	1,260
Retail	67,055	63,366	119	1,562	-	2,008
Floor plan	25,682	25,372	202	108	-	-
	757,394	748,028	3,657	2,441	-	3,268
Total	1,170,145	1,115,840	22,205	4,333	-	27,767
Commercial - acquired loans (under ASC 310-20)						

Commercial secured by real estate:						
Corporate	11,079	11,079	-	-	-	-
Retail	4,301	3,490	245	566	-	-
Floor plan	2,752	2,651	-	101	-	-
	18,132	17,220	245	667	-	-
Other commercial and industrial:						
Corporate	2,947	2,851	-	96	-	-
Institutional	221	221	-	-	-	-
Retail	17,216	16,460	100	656	-	-
Floor plan	33,061	32,998	63	-	-	-
	53,445	52,530	163	752	-	-
Total	71,577	69,750	408	1,419	-	-
Total	**$ 1,241,722**	**$ 1,185,590**	**$ 22,613**	**$ 5,752**	**$ -**	**$ 27,767**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

At March 31, 2014 and December 31, 2013, we had approximately $766.7 million and $763.4 million, respectively, of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which $718.8 million and $696.0, respectively, were outstanding as of such dates. A substantial portion of our credit exposure to the government of Puerto Rico consists of collateralized loans or obligations that have a specific source of income or revenues identified for its repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services, such as water and electric power utilities. Public corporations have varying degrees of independence from the central government and many receive appropriations or other payments from it. We also have loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all their general obligation bonds and notes. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For residential and consumer loan classes, the Company evaluates credit quality based on the delinquency status of the loan. As of March 31, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of non-covered gross originated and other loans and acquired loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

	March 31, 2014							
	Delinquency							
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 72,096	$ 61,268	$ 5,230	$ 2,621	$ 382	$ 1,037	$ 1,459	$ 99
Years 2003 and 2004	63,515	53,170	5,494	2,445	484	1,246	612	64
Year 2005	87,818	72,414	6,448	2,288	1,233	3,576	1,324	535
Year 2006	116,904	97,822	10,151	4,376	1,169	2,410	850	126
Years 2007, 2008 and 2009	97,840	87,065	3,807	2,025	223	3,619	875	226
Years 2010, 2011, 2012	182,167	164,134	2,126	721	1,070	1,004	1,064	12,048

2013 and 2014								
	620,340	535,873	33,256	14,476	4,561	12,892	6,184	13,098
Non-traditional	39,790	35,078	1,744	470	-	1,439	986	73
Loss mitigation program	86,005	8,366	1,001	171	219	779	896	74,573
	746,135	579,317	36,001	15,117	4,780	15,110	8,066	87,744
Home equity secured personal loans	733	595	-	- -	-	126	12	-
GNMA's buy-back option program	35,282	-	-	- -	5,529	16,742	13,011	-
	782,150	**579,912**	**36,001**	**15,117**	**10,309**	**31,978**	**21,089**	**87,744**
Consumer								
Credit cards	15,490	14,701	263	171	136	219	-	-
Overdrafts	331	289	28	11	1	2	-	-
Unsecured personal lines of credit	1,934	1,718	60	99	15	35	7	-
Unsecured personal loans	108,037	105,369	1,397	512	195	42	12	510
Cash collateral personal loans	16,700	16,263	375	46	13	3	-	-
	142,492	**138,340**	**2,123**	**839**	**360**	**301**	**19**	**510**
Auto and Leasing	**447,940**	**399,721**	**33,788**	**8,559**	**3,461**	**2,411**	**-**	**-**
	1,372,582	**1,117,973**	**71,912**	**24,515**	**14,130**	**34,690**	**21,108**	**88,254**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	48,381	44,111	1,413	781	743	1,333	-	-
Personal loans	3,668	3,423	105	83	4	53	-	-
	52,049	**47,534**	**1,518**	**864**	**747**	**1,386**	**-**	**-**
Auto	**268,865**	**250,840**	**13,161**	**3,522**	**804**	**538**	**-**	**-**
	320,914	**298,374**	**14,679**	**4,386**	**1,551**	**1,924**	**-**	**-**
Total	**$ 1,693,496**	**$ 1,416,347**	**$ 86,591**	**$ 28,901**	**$ 15,681**	**$ 36,614**	**$ 21,108**	**$ 88,254**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

The changes in the allowance for loan and lease losses on covered loans for the quarters ended March 31, 2014 and 2013 were as follows:

	Quarter Ended March 31,				
_	2014			2013	
_	(In thousands)				
Balance at beginning of the period	$	52,729		$	54,124
Provision for covered loan and lease losses, net		1,629			672
FDIC shared-loss portion of provision for (recapture of)					
covered loan and lease losses, net		40			(1,822)
Balance at end of the period	**$**	**54,398**		**$**	**52,974**

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

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

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

	March 31, 2014

	Unpaid Principal	Recorded Investment	Allowance	Coverage
	(In thousands)			
Impaired covered loan pools:				
Loans secured by 1-4 family residential properties	$ 147,597	$ 111,410	$ 14,221	13%
Construction and development secured by 1-4 family residential properties	65,747	18,254	6,866	38%
Commercial and other construction	192,095	111,679	32,696	29%
Consumer	9,671	5,503	615	11%
Total investment in impaired covered loan pools	**$ 415,110**	**$ 246,846**	**$ 54,398**	**22%**

	December 31, 2013			
	Unpaid Principal	Recorded Investment	Specific Allowance	Coverage
	(In thousands)			
Impaired covered loan pools with specific allowance				
Loans secured by 1-4 family residential properties	$ 52,142	$ 38,179	$ 12,495	33%
Construction and development secured by 1-4 family residential properties	66,037	17,304	6,866	40%
Commercial and other construction	209,566	111,946	32,753	29%
Consumer	10,512	5,857	615	11%
Total investment in impaired covered loan pools	**$ 338,257**	**$ 173,286**	**$ 52,729**	**30%**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6- FDIC LOSS SHARE ASSET AND TRUE-UP PAYMENT OBLIGATION

As part of the Purchase and Assumption Agreement between the Bank and the FDIC (the “Purchase and Assumption Agreement”), the Bank and the FDIC entered into shared-loss agreements whereby the FDIC in connection with the Eurobank acquisition, covers a substantial portion of any losses on loans (and related unfunded loan commitments), foreclosed real estate and other repossessed properties.

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

The following table presents the activity in the FDIC loss share asset and true-up payment obligation for the quarters ended March 31, 2014 and 2013:

	Quarter Ended March 31,				
	2014			2013	
	(In thousands)				
FDIC share-loss indemnification asset:					
Balance at beginning of period	$	189,240		$	302,295
Shared-loss agreements reimbursements from the FDIC		(8,236)			(6,650)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net		40			(1,822)
FDIC shared-loss expense		(17,622)			(12,201)
Incurred expenses to be reimbursed under shared-loss agreements		2,772			1,502
Balance at end of period	**$**	**166,194**		**$**	**283,124**
True-up payment obligation:					
Balance at beginning of period	$	18,510		$	15,496
FDIC shared-loss expense		865			670

Balance at end of period	**$**	**19,375**	**$**	**16,166**

The FDIC shared-loss expense increased as the Company continues to forecast better performance and cash flows from covered loans than previously expected resulting in a minor increase in the amortization of the FDIC shared-loss indemnification asset.

The FDIC shared-loss expense of $18.5 million for the quarter ended March 31, 2014 compared to $12.9 million for the same period in 2013, resulted from the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and the improved accretable yield on the covered loans. Forecasted losses show a decreasing trend during the quarter ended March 31, 2014 as compared to the projections in 2013.The reduction in claimable losses amortizes the shared-loss indemnification asset through the shorter of the life of the shared loss agreement or the loan holding period. This amortization is net of the accretion of the discount recorded to reflect the expected claimable loss at its net present value. During the quarter ended March 31, 2014, the net amortization included $3.5 million of additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction, commercial, and leasing loan pools. Additional amortization of the FDIC indemnification asset may be recorded, should the Company continue to experience reduced expected losses. The majority of the FDIC indemnification asset is recorded for projected claimable losses on non-single family residential loans whose loss share period ends in the second quarter of 2015, although the recovery share period extends for an additional three-year period.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Bank agreed to make a true-up payment, also known as clawback liability or clawback provision, to the FDIC on the date that is 45 days following the last day (such day, the “True-Up Measurement Date”) of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of $906.0 million (or $181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or $227.5 million); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of $19.4 million and $18.5 million, net of discount, as of March 31, 2014 and December 31, 2013, respectively. The estimated liability is included within other liabilities in the unaudited consolidated statements of financial condition.

NOTE 7 — DERIVATIVE ACTIVITIES

During the quarter ended March 31, 2014, losses of $478 thousand were recognized and reflected as “Derivative Activities” in the unaudited consolidated statements of operations, which were mainly related to the options tied to the Standard & Poor’s 500 stock market index. During the quarter ended March 31, 2013, losses of $788 thousand were recognized and were mainly related to the options tied to the Standard & Poor’s 500 stock market index

The following table details “Derivative Assets” and “Derivative Liabilities” as reflected in the unaudited consolidated statements of financial condition at March 31, 2014 and December 31, 2013:

	March 31, 2014			December 31, 2013	
	(In thousands)				
Derivative assets:					
Options tied to S&P 500 Index	$	12,555		$	16,430
Interest rate swaps designated as cash flow hedges		166			850
Interest rate swaps not designated as hedges		2,755			2,861
Interest rate caps		374			319
Other		11			42
	$	**15,861**		**$**	**20,502**

Derivative liabilities:				
Interest rate swaps designated as cash flow hedges		10,695		11,757
Interest rate swaps not designated as hedges		2,755		2,861
Interest rate caps		374		319
Other		6		-
	$	**13,830**	**$**	**14,937**

Interest Rate Swaps

The Company enters into interest rate swap contracts to hedge the variability of future interest cash flows of forecasted wholesale borrowings, attributable to changes in a predetermined variable index rate. The interest rate swaps effectively fix the Company's interest payments on an amount of forecasted interest expense attributable to the variable index rate corresponding to the swap notional stated rate. These swaps are designated as cash flow hedges for the forecasted wholesale borrowing transactions and are properly documented as such, and therefore, qualify for cash flow hedge accounting. Any gain or loss associated with the effective portion of our cash flow hedges was recognized in other comprehensive income and is subsequently reclassified into earnings in the period during which the hedged forecasted transactions affect earnings. Changes in the fair value of these derivatives are recorded in accumulated other comprehensive income to the extent there is no significant ineffectiveness in the cash flow hedging relationships. Currently, the Company does not expect to reclassify any amount included in other comprehensive income related to these interest rate swaps to earnings in the next twelve months.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these swaps and their terms at March 31, 2014:

Type	Notional Amount (In thousands)		Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
Interest Rate Swaps	$	25,000	2.4365%	1-Month LIBOR	05/05/11	05/04/12	05/04/16
		25,000	2.6200%	1-Month LIBOR	05/05/11	07/24/12	07/24/16
		25,000	2.6350%	1-Month LIBOR	05/05/11	07/30/12	07/30/16
		50,000	2.6590%	1-Month LIBOR	05/05/11	08/10/12	08/10/16
		100,000	2.6750%	1-Month LIBOR	05/05/11	08/16/12	08/16/16
		40,277	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$	**265,277**					

An unrealized loss of $10.5 million was recognized in accumulated other comprehensive income related to the valuation of these swaps at March 31, 2014, and the related asset and liability are being reflected in the accompanying unaudited consolidated statements of financial condition.

At March 31, 2014 and December 31, 2013, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $2.8 million and $2.9 million, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial position. The credit risk to these clients stemming from these derivatives, if any, is not material. At March 31, 2014 and December 31, 2013, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $2.8 million and $2.9 million, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition.

The following table shows a summary of these interest rate swaps not designated as hedging instruments and their terms at March 31, 2014:

Type	Notional Amount (In thousands)		Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
Interest Rate Swaps - Derivatives Offered to Clients	$	4,094	5.1300%	1-Month LIBOR	07/03/06	07/03/16

		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,594**				
Interest Rate Swaps - Mirror Image Derivatives	$	4,094	5.1300%	1-Month LIBOR	07/03/06	07/03/16
		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,594**				

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. The Company uses option agreements with major broker-dealers to manage its exposure to changes in this index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the index in exchange for a fixed premium. The changes in fair value of the option agreements used to manage the exposure in the stock market in the certificates of deposit are recorded in earnings. At March 31, 2014 and December 31, 2013, the purchased options used to manage exposure to the S&P 500 Index on stock indexed deposits represented an asset of $12.6 million (notional amount of $23.8 million) and $16.4 million (notional amount of $28.0 million), respectively, and the options sold to customers embedded in the certificates of deposit and recorded as deposits in the unaudited consolidated statements of financial condition, represented a liability of $12.1 million (notional amount of $22.9 million) and $15.7 million (notional amount of $26.9 million), respectively.

Interest rate caps

The Company has entered into interest rate cap transactions with various clients with floating-rate debt who wish to protect their financial results against increases in interest rates. In these cases, the Company simultaneously enters into mirror-image interest rate cap transactions with financial counterparties. None of these cap transactions qualify for hedge accounting; therefore, they are marked to market through earnings. The outstanding total notional amount of interest rate caps was $110.0 million at both March 31, 2014 and December 31, 2013. At March 31, 2014 and December 31, 2013, the interest rate caps sold to clients represented a liability of $374 thousand and $319 thousand, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition. At March 31, 2014 and December 31, 2013, the interest rate caps purchased as mirror-images represented an asset of $374 thousand and $319 thousand, respectively, and were included as part of derivative assets in the unaudited consolidated statements of financial condition.

NOTE 8 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at March 31, 2014 and December 31, 2013 consists of the following:

	March 31,		December 31,
	2014		2013
	(In thousands)		

Non-covered loans	$	14,440	$	13,378
Investments		4,529		5,356
	$	**18,969**	**$**	**18,734**

Other assets at March 31, 2014 and December 31, 2013 consist of the following:

		March 31, 2014		December 31, 2013
		(In thousands)		
Prepaid expenses	$	15,531	$	15,439
Core deposit and customer relationship intangibles		11,370		11,912
Other repossessed assets		13,964		12,583
Mortgage tax credits		8,706		8,706
Investment in Statutory Trust		1,083		1,083
Accounts receivable and other assets		43,689		48,717
	$	**94,343**	**$**	**98,440**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Prepaid expenses amounting to $15.5 million and $15.4 million at March 31, 2014 and December 31, 2013, respectively, include prepaid municipal, property and income taxes aggregating to $9.0 million and $9.6 million, respectively.

As part of the FDIC-assisted acquisition of Eurobank and BBVAPR Acquisition, the Company recorded a core deposit intangible representing the value of checking and savings deposits acquired. At March 31, 2014 and December 31, 2013, this core deposit intangible amounted to $7.5 million and $7.8 million, respectively. In addition, as part of the BBVAPR Acquisition on December 18, 2012, the Company recorded a customer relationship intangible amounting to $5.0 million representing the value of customer relationships acquired in the broker-dealer and insurance subsidiaries as of December 31, 2012. At March 31, 2014 and December 31, 2013, this customer relationship intangible amounted to $3.9 million and $4.1million, respectively.

Other repossessed assets totaled $14.0 million and $12.6 million at March 31, 2013 and December 31, 2013, respectively, include repossessed automobiles amounting to $13.7 million and $12.3 million, respectively.

At March 31, 2014 and December 31, 2013, tax credits for the Company amounted $8.7 million. These tax credits do not have an expiration date.

NOTE 9 — DEPOSITS AND RELATED INTEREST

Total deposits as of March 31, 2014 and December 31, 2013 consist of the following:

	March 31, 2014			December 31, 2013	
	(In thousands)				
Non-interest bearing demand deposits	$	755,909		$	550,302
Interest-bearing savings and demand deposits		2,604,664			2,683,996
Individual retirement accounts		338,719			347,262
Retail certificates of deposit		556,928			598,367
Institutional certificates of deposit		331,859			375,224
Total core deposits		**4,588,079**			**4,555,151**
Brokered deposits		712,913			828,114

Total deposits	$	**5,300,992**		$	**5,383,265**

Brokered deposits include $617.7 million in certificates of deposits and $95.2 million in money market accounts at March 31, 2014, and $729.8 million in certificates of deposits and $98.3 million in money market accounts at December 31, 2013.

The weighted average interest rate of the Company’s deposits was 0.68% at March 31, 2014 and 0.73% at December 31, 2013, inclusive of non-interest bearing deposits of $755.9 million and $550.3 million, respectively. Interest expense for the quarters ended March 31, 2014 and 2013 was as follows:

	Quarter Ended March 31,					
	2014			2013		
	(In thousands)					
Demand and savings deposits	$	5,028		$	5,962	
Certificates of deposit		3,950			3,973	
	$	**8,978**		**$**	**9,935**	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At March 31, 2014 and December 31, 2013, demand and interest-bearing deposits and certificates of deposit included deposits of Puerto Rico Cash & Money Market Fund, Inc., which amounted to $97.9 million and $93.1 million, respectively, with a weighted average rate of 0.77% in both years, and were collateralized with investment securities with a fair value of $77.2 million and $67.5 million, respectively.

At March 31, 2014 and December 31, 2013, time deposits in denominations of $100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $769.1 million and $845.8 million, including public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of $6.8 million and $26.7 million, respectively, at a weighted average rate of 0.49% at March 31, 2014 and 0.32% at December 31, 2013.

At December 31, 2013, public fund deposits from various Puerto Rico government agencies were collateralized with investment securities with a fair value of $97.8 million, and with commercial loans amounting to $547.3 million at March 31, 2014 and $549.0 million at December 31, 2013.

Excluding equity indexed options in the amount of $11.1 million, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interests of $1.7 million and unamortized deposit discount in the amount of $3.3 million, the scheduled maturities of certificates of deposit at March 31, 2014 are as follows:

	March 31, 2014	
	(In thousands)	
Within one year:		
Three (3) months or less	$	303,340
Over 3 months through 1 year		780,260
		1,083,600
Over 1 through 2 years		351,142
Over 2 through 3 years		257,750
Over 3 through 4 years		84,607
Over 4 through 5 years		52,029
	$	**1,829,128**

The aggregate amount of overdraft in demand deposit accounts that were reclassified to loans amounted to $734 thousand and $1.8 million as of March 31, 2014 and December 31, 2013, respectively.

NOTE 10 — BORROWINGS

Securities Sold under Agreements to Repurchase

At March 31, 2014, securities underlying agreements to repurchase were delivered to, and are being held by, the counterparties with whom the repurchase agreements were transacted. The counterparties have agreed to resell to the Company the same or similar securities at the maturity of these agreements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At March 31, 2014 and December 31, 2013, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $2.2 million and $2.6 million, respectively, were as follows:

	March 31, 2014					December 31, 2013			
		Borrowing Balance		Fair Value of Underlying Collateral			Borrowing Balance		Fair Value of Underlying Collateral
	(In thousands)								
JP Morgan Chase Bank NA		255,000		273,834			255,000		273,250
Credit Suisse Securities (USA) LLC		755,000		860,088			755,000		864,232
Deutsche Bank		-		-			255,000		272,053
Total	$	**1,010,000**	$	**1,133,922**		$	**1,265,000**	$	**1,409,535**

The following table shows a summary of the Company's repurchase agreements and their terms, excluding accrued interest in the amount of $2.2 million, at March 31, 2014:

Year of Maturity		Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)			
2014	$	85,000	0.675%	12/3/2012	12/3/2014
		85,000			
2015		255,000	0.840%	12/10/2012	6/13/2015
		255,000			
2016		170,000	1.500%	12/6/2012	12/8/2016
		170,000			

2017		500,000	4.78%	3/2/2007	3/2/2017
	$	**1,010,000**	**2.89%**		

The Company's repurchase agreement in the amount of $500 million with an original term of ten years, maturing on March 2, 2017, was modified in December 2013 to (i) eliminate the optional early termination clause that allowed the counterparty to terminate it before maturity, (ii) increase the interest rate paid by the Company from 4.67% to 4.78%; and (iii) substitute the counterparty.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the liability associated with the repurchase transactions (excluding accrued interest), their maturities and weighted average interest rates. Also, it includes the carrying value and approximate market value of collateral (excluding accrued interest) at March 31, 2014 and December 31, 2013. The information excludes repurchase agreements transactions which were collateralized with securities or cash or which have been obtained under agreements to resell:

	March 31, 2014						
			Market Value of Underlying Collateral				
	Repurchase Liability	Weighted Average Rate	FNMA and FHLMC Certificates	GNMA Certificates	CMOs issued by US Government Sponsored Agencies	Obligations of US Government Sponsored Agencies	Total
	(Dollars in thousands)						
Over 90 days	1,010,000	2.89%	1,061,519	2,403	-	70,000	1,133,922
Total	**$ 1,010,000**	**2.89%**	**$ 1,061,519**	**$ 2,403**	**$ -**	**$ 70,000**	**$ 1,133,922**

	December 31, 2013						
			Market Value of Underlying Collateral				
	Repurchase Liability	Weighted Average Rate	FNMA and FHLMC Certificates	GNMA Certificates	CMOs issued by US Government Sponsored Agencies	Obligations of US Government Sponsored Agencies	Total
	(Dollars in thousands)						
Within 30 days	$ 255,000	0.50%	$ 216,201	$ -	$ 48,923	$ 6,929	$ 272,053
Over 90 days	1,010,000	2.89%	1,018,632	3,000	45,100	3,720	1,070,452
Total	**$ 1,265,000**	**2.41%**	**$ 1,234,833**	**$ 3,000**	**$ 94,023**	**$ 10,649**	**$ 1,342,505**

Advances from the Federal Home Loan Bank of New York

Advances are received from the FHLB-NY under an agreement whereby the Company is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At March 31, 2014 and December 31, 2013, these advances were secured by mortgage and commercial loans amounting to $1.2 billion and $1.3 billion, respectively. Also, at March 31, 2014 and December 31, 2013 the Company had an additional borrowing capacity with the FHLB-NY of $614.1 million and $674.2 million, respectively. At March 31, 2014 and December 31, 2013, the weighted average remaining maturity of FHLB's advances was 10.7 months and 11.3 months, respectively. The original terms of these advances range between one month and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of March 31, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $327 thousand, at March 31, 2014:

Year of Maturity		Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)			
2014	$	25,000	0.37%	3/4/2014	4/4/2014
		50,000	0.39%	3/10/2014	4/10/2014
		100,000	0.38%	3/17/2014	4/16/2014
		25,000	0.36%	3/24/2014	4/24/2014
		25,000	0.36%	3/31/2014	4/30/2014
		40,277	0.37%	3/3/2014	4/1/2014
		265,277			
2017		4,673	1.24%	4/3/2012	4/3/2017
2018		30,000	2.19%	1/16/2013	1/16/2018
		25,000	2.18%	1/16/2013	1/16/2018
		55,000			
2020		10,413	2.59%	7/19/2013	7/20/2020
	$	**335,363**	**0.75%**		

All of the advances referred to above with maturity dates up to the date of this report were renewed as one-month short-term advances.

Subordinated Capital Notes

Subordinated capital notes amounted to $100.4 million at March 31, 2014 and $100.0 million at December 31, 2013.

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

_	Redemption fund	
	(In thousands)	
Redemption fund - March 31, 2014	$	48,575
2014		6,700
2015		6,700
2016		5,025
	$	**67,000**

Federal Funds Purchased

Federal funds purchased, presented in the unaudited consolidated statement of financial condition amounted to $23.7 million as of March 31, 2014. The weighted average interest rate during such period was 0.24%.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other borrowings

Other borrowings, presented in the unaudited consolidated statement of financial condition amounted to $3.7 million at March 31, 2014 and December 31, 2013, which mainly consists of unsecured fixed-rate borrowings and term notes tied to the appreciation of the S&P index. For both periods, the unsecured fixed rate borrowings amounted to $1.7 million at a fixed rate of 3.0%. The term notes tied to the S&P index amounted to $1.0 million at March 31, 2014 and at December 31, 2013 with an index appreciation of $995 thousand and $957 thousand, respectively.

NOTE 11 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following table presents the potential effect of rights of set-off associated with the Company's recognized financial assets and liabilities at March 31, 2014 and December 31, 2013:

March 31, 2014						
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)					
Derivatives	$ 15,861	$ -	$ 15,861	$ 6,814	$ -	$ 9,047
Total	**$ 15,861**	**$ -**	**$ 15,861**	**$ 6,814**	**$ -**	**$ 9,047**

December 31, 2013						
				Gross Amounts Not Offset in the Statement of Financial Condition		

	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
			(In thousands)			
Derivatives	$ 20,502	$ -	$ 20,502	$ 2,450	$ 6,780	$ 11,272
Securities purchased under agreements to resell	60,000	-	60,000	64,587	-	(4,587)
Total	**$ 80,502**	**$ -**	**$ 80,502**	**$ 67,037**	**$ 6,780**	**$ 6,685**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

March 31, 2014						
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 25,950	$ -	$ 25,950	$ -	$ 2,980	$ 22,970
Securities sold under agreements to repurchase	1,010,000	-	1,010,000	1,133,922	-	(123,922)
Total	**$ 1,035,950**	**$ -**	**$ 1,035,950**	**$ 1,133,922**	**$ 2,980**	**$ (100,952)**

December 31, 2013						
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 30,672	$ -	$ 30,672	$ -	$ 2,349	$ 28,323

Securities sold under agreements to repurchase		1,265,000		-		1,265,000		1,277,919		67,029		(79,948)
Total	**$**	**1,295,672**	**$**	**-**	**$**	**1,295,672**	**$**	**1,277,919**	**$**	**69,378**	**$**	**(51,625)**

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12 — RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. As of March 31, 2014 and December 31, 2013, these loan balances amounted to $19.3 million and $19.0 million, respectively. The activity and balance of these loans for the quarters ended March 31, 2014 and 2013 were as follows:

	Quarter Ended March 31,				
	2014			2013	
	(In thousands)				
Balance at the beginning of year	$	18,963		$	3,772
New loans		-			2,435
Repayments and sales		304			(95)
Credits of persons no longer considered related parties		-			(57)
Balance at the end of year	**$**	**19,267**		**$**	**6,055**

NOTE 13 — INCOME TAXES

On June 30, 2013 the Governor signed Act No. 40-2013, known as “Ley de Redistribución y Ajuste de la Carga Contributiva” (Act of Redistribution and Adjustment of Tax Burden), as amended. The main purpose of the Act is to increase government collections in order to alleviate the structural deficit. The most relevant provisions of the Act, as applicable to the Company, and effective for taxable years beginning after December 31,2012 are as follows: (1) the maximum Corporate Income Tax rate was increased from 30% to 39%; (2) the deduction allowed for determining the income subject to surtax was reduced from $750,000 to $25,000 (which must be allocated among the members of a controlled group of corporations); (3) the allowable Net Operating Loss (“NOL”) deduction was reduced to (i) 90% of the corporation’s net income subject to regular tax for purposes of computing the regular income tax, and (ii) 80% of the alternative minimum taxable income for purposes of computing the alternative minimum tax (“AMT”); (4) the NOL carryover period was extended from 10 to 12 years for NOLs incurred in taxable years beginning after December 31, 2004 and before January 1, 2013, and from 7 to 10 years for losses incurred in taxable years beginning after December 31, 2012; (5) a new special tax based on gross income (the “Special Tax”) was added to the Puerto Rico Internal Revenue Code of 2011, as further described below; and (6) a special tax of 1% was imposed on insurance premiums earned after June 30, 2013.

In the case of non-financial institutions, the Special Tax is paid as part of the AMT and thus is accounted for under the provisions of ASC 740. The applicable Special Tax rate for non-financial institutions increases gradually from 0.2% for gross income equal to or in excess of $1.0 million up to 0.85% for gross income in excess of $1.5 billion. In the case of a controlled group of corporations, the tax rate for all members of the group is determined by the aggregate gross income of all members in the group. In the case of financial institutions, the Special Tax is not part of the AMT calculation thus is accounted for as other tax not subject to the provisions of ASC 740 since the same is based on gross income. The applicable Special Tax rate for financial institutions is 1% of its gross income of a taxable year, of which fifty percent (50%) may be claimed as a credit against the financial institution's applicable income tax of that year.

At March 31, 2014 and December 31, 2013, the Company's net deferred tax asset amounted to $127.7 million and $137.6 million, respectively. In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax asset are deductible, management believes it is more likely than not that the Company will realize the entire deferred tax asset, net of the existing valuation allowances recorded at March 31, 2014 and December 31, 2013. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At March 31, 2014 and December 31, 2013, Oriental International Bank Inc. ("OIB"), the Bank's international banking entity subsidiary, had $219 thousand and $356 thousand, respectively, in income tax effect of unrecognized gain on available-for-sale securities included in other comprehensive income. Following the change in OIB's applicable tax rate from 5% to 0% as a result of a Puerto Rico law adopted in 2011, this remaining tax balance will flow through income as these securities are repaid or sold in future periods. During the quarters ended March 31, 2014 and 2013, $137 thousand and $47 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income into income tax provision.

The Company classifies unrecognized tax benefits in income taxes payable. These gross unrecognized tax benefits would affect the effective tax rate if realized. The balance of unrecognized tax benefits at March 31, 2014 was $4.0 million (December 31, 2013 - $4.0 million). The Company had accrued $1.6 million at March 31, 2014 (December 31, 2013 - $1.2 million) for the payment of interest and penalties relating to unrecognized tax benefits.

Income tax expense was $11.8 million for the quarter ended March 31, 2014, compared to $7.1 million for the same period in 2013. The increase in enacted tax rate from 30% to 39% from the second quarter 2013 amendment to the Puerto Rico tax Code resulted in the increased quarterly income tax expense for this quarter as compared to the same quarter of 2013.

NOTE 14 — STOCKHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE

Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and Puerto Rico banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Pursuant to the Dodd-Frank Act, federal banking regulators have adopted new capital rules that became effective January 1, 2014 for advanced approaches banking organizations and will become effective January 1, 2015 for all other covered organizations (subject to certain phase-in periods through January 1, 2019) and that will replace their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules.

Quantitative measures established by regulation to ensure capital adequacy currently require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average total assets (as defined in the regulations). As of March 31, 2014 and December 31, 2013, the Company and the Bank met all capital adequacy requirements to which they are subject. As of March 31, 2014 and December 31, 2013, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's and the Bank's actual capital amounts and ratios as of March 31, 2014 and December 31, 2013 are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Company Ratios						
As of March 31, 2014						
Total capital to risk-weighted assets	$ 836,168	**16.56%**	$ 404,054	**8.00%**	$ 505,067	**10.00%**
Tier 1 capital to risk-weighted assets	$ 745,619	**14.76%**	$ 202,027	**4.00%**	$ 303,040	**6.00%**
Tier 1 capital to average total assets	$ 745,619	**9.51%**	$ 313,594	**4.00%**	$ 391,993	**5.00%**
As of December 31, 2013						
Total capital to risk-weighted assets	$ 827,460	**16.16%**	$ 409,514	**8.00%**	$ 511,893	**10.00%**
Tier 1 capital to risk-weighted assets	$ 736,930	**14.35%**	$ 204,757	**4.00%**	$ 307,136	**6.00%**
Tier 1 capital to average total assets	$ 736,930	**9.11%**	$ 324,910	**4.00%**	$ 406,138	**5.00%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Bank Ratios						
As of March 31, 2014						
Total capital to risk-weighted assets	$ 805,900	**16.02%**	$ 402,495	**8.00%**	$ 503,119	**10.00%**
Tier 1 capital to risk-weighted assets	$ 715,591	**14.22%**	$ 201,248	**4.00%**	$ 301,871	**6.00%**
Tier 1 capital to average total assets	$ 715,591	**9.18%**	$ 311,659	**4.00%**	$ 389,574	**5.00%**
As of December 31, 2013						

Total capital to risk-weighted assets	$	779,413		**15.30%**	$	407,637		**8.00%**	$	509,547		**10.00%**
Tier 1 capital to risk-weighted assets	$	688,350		**13.51%**	$	203,819		**4.00%**	$	305,728		**6.00%**
Tier 1 capital to average total assets	$	688,350		**8.54%**	$	322,395		**4.00%**	$	402,993		**5.00%**

Additional paid-in capital

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Earnings per Common Share

The calculation of earnings per common share for the quarters ended March 31, 2014 and 2013 is as follows:

	Quarter Ended March 31,				
	2014			2013	
	(In thousands, except per share data)				
Net income	$	23,747		$	21,192
Less: Dividends on preferred stock					
Non-Convertible Preferred Stock (Series A, B, and D)		(1,628)			(1,628)
Convertible preferred stock (Series C)		(1,837)			(1,837)
Income available to common shareholders	**$**	**20,282**		**$**	**17,727**
Effect of assumed conversion of the Convertible Preferred Stock		1,837			1,837
Income available to common shareholders assuming conversion	$	**22,119**		$	**19,564**
Weighted average common shares and share equivalents:					
Average common shares outstanding		45,329			45,595
Effect of dilutive securities:					
Average potential common shares-options		131			159
Average potential common shares-assuming conversion of convertible preferred stock		7,138			7,138
Total weighted average common shares outstanding and equivalents		**52,598**			**52,892**
Earnings per common share - basic	**$**	**0.45**		**$**	**0.39**
Earnings per common share - diluted	**$**	**0.42**		**$**	**0.37**

In computing diluted earnings per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at March 31, 2014, with a conversion rate, subject to certain conditions, of 84.9798 shares of common stock per share, were included as average potential common shares from the date they were issued and outstanding. Moreover, in computing diluted earnings per common share, the dividends declared during the quarters ended March 31, 2014 and 2013 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended March 31, 2014 and 2013, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 254,662, and 653,843, respectively.

Treasury Stock

Under the Company’s current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock, of which approximately $23.1 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. During the quarter ended March 31, 2014, the Company purchased 707,400 shares under this program for a total of $10.4 million, at an average price of $14.66 per share. There were no repurchases during 2013.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the shares repurchased for each month in the quarter ended March 31, 2014, excluding the month ended March 31, 2014, during which no shares were purchased as part of the stock repurchase program:

	Total number of shares purchased as part of stock repurchase programs		Average price paid per share		Dollar amount of shares repurchased (excluding commissions paid) (In thousands)
Period					
January 2014	57,700	$	14.73	$	850
February 2014	649,700	$	14.66	$	9,522
Quarter ended March 31, 2014	**707,400**		**14.66**		**10,372**

The number of shares that may yet be purchased under the $70 million program is estimated at 1,341,002 and was calculated by dividing the remaining balance of $23.1 million by $17.19 (closing price of the Company common stock at March 31, 2014). The Company did not purchase any shares of its common stock other than through its publicly announced stock repurchase program during the quarter ended March 31, 2014.

The activity in connection with common shares held in treasury by the Company for quarters ended March 31, 2014 and 2013 is set forth below:

	Quarter Ended March 31,					
	2014			2013		
	Shares		Dollar Amount	Shares		Dollar Amount
	(In thousands, except shares data)					
Beginning of year	7,030,101	$	80,642	7,090,597	$	81,275
Common shares used upon lapse of restricted stock units	(27,752)		(292)	(33,600)		(351)
Common shares repurchased as part of the stock repurchase program	707,400		10,393	-		-
Common shares used to match defined contribution plan, net	-		-	(7,318)		(77)
End of year	**7,709,749**	**$**	**90,743**	**7,049,679**	**$**	**80,847**

Accumulated Other Comprehensive Income

Accumulated other comprehensive income, net of income tax, as of March 31, 2014 and December 31, 2013 consisted of:

	March 31, 2014			December 31, 2013	
	(In thousands)				
Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	$	18,464		$	13,267
Income tax effect of unrealized gain on securities available-for-sale		(2,429)			(1,834)
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired		16,035			11,433
Unrealized loss on cash flow hedges		(10,529)			(10,907)
Income tax effect of unrealized loss on cash flow hedges		2,516			2,665
Net unrealized loss on cash flow hedges		(8,013)			(8,242)
Accumulated other comprehensive income, net of taxes	$	**8,022**		**$**	**3,191**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters ended March 31, 2014 and 2013:

	Quarter Ended March 31,											
	2014							2013				
	Net unrealized gains on securities available-for-sale		Net unrealized loss on cash flow hedges		Accumulated other comprehensive income			Net unrealized gains on securities available-for-sale		Net unrealized loss on cash flow hedges		Accumulated other comprehensive income
	(In thousands)							(In thousands)				
Beginning balance	$ 11,433		$ (8,242)		$ 3,191			$ 68,245		$ (12,365)		$ 55,880
Other comprehensive income before reclassifications	4,465		(1,392)		3,073			(9,899)		(313)		(10,212)
Amounts reclassified out of accumulated other comprehensive income	137		1,621		1,758			47		1,336		1,383
Other comprehensive income (loss)	4,602		229		4,831			(9,852)		1,023		(8,829)
Ending balance	**$ 16,035**		**$ (8,013)**		**$ 8,022**			**$ 58,393**		**$ (11,342)**		**$ 47,051**

The following table presents reclassifications out of accumulated other comprehensive income for the quarters ended March 31, 2014 and 2013:

	Quarter ended March 31,			Affected Line Item in Consolidated Statement of Operations
	2014		2013	
	(In thousands)			
Cash flow hedges:				
Interest-rate contracts	$ 1,621		$ 1,336	Net interest expense
Available-for-sale securities:				
Residual tax effect from OIB's change in applicable tax rate	137		47	Income tax expense
	$ 1,758		**$ 1,383**	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 – GUARANTEES

At March 31, 2014 the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $38.9 million (December 31, 2013 - $38.6 million).

The Company assumed a liability for residential mortgage loans sold by BBVAPR Bank subject to credit recourse, principally loans associated with FNMA residential mortgage loan sales and securitization programs. At March 31, 2014 and December 31, 2013, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $118.2 million and $122.3 million, respectively. In the event of any customer default, pursuant to the credit recourse provided, the Company is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Company would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter ended March 31, 2014, the Company repurchased approximately $1.6 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions. In the event of nonperformance by the borrower, the Company has rights to the underlying collateral securing the mortgage loan. The Company suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. At March 31, 2014 and December 31, 2013 the Company's liability established to cover the estimated credit loss exposure related to loans sold with credit recourse amounted to $1.5 million (December 31, 2013 – $2.0 million). The following table shows the changes in the Company's liability of estimated loss from these credit recourse agreements, included in the unaudited consolidated statements of financial condition during the quarters ended March 31, 2014 and 2013.

	Quarter Ended March 31,			
	2014		2013	
	(In thousands)			
Balance at beginning of year	$	1,955	$	-
Additions from BBVAPR Acquisition		-		2,460
Net charge-offs/terminations		(406)		-
Balance at end of year	**$**	**1,549**	**$**	**2,460**

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed, and are updated on a quarterly basis. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 120 days delinquent, in which case the Company is obligated to repurchase the loan. At March 31, 2014, $86.5 million or 73% of the recourse obligation will be extinguished during the next two years.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

When the Company sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Company's mortgage operations division groups conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under such mortgage backed securities programs, quality review procedures are performed by the Company to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Company may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. Repurchases during the quarter ended March 31, 2014 under the Company's representation and warranty arrangements, excluding mortgage loans subject to credit recourse provisions referred to above, approximated $2.8 million in unpaid principal balance (December 31, 2013 - $12.5 million). A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter ended March 31, 2014, the Company recognized $50 thousand in losses from the repurchase of residential mortgage loans sold, subject to credit recourse and $434 thousand not subject to credit recourse. In addition, during the quarter ended March 31, 2013, the Company recognized $25 thousand in losses from the repurchase of residential mortgage loans sold, subject to credit recourse and $2 thousand not subject to credit recourse.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Company to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At March 31, 2014, the Company serviced $1.1 billion in mortgage loans for third-parties. The Company generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Company must absorb the cost of the funds it advances during the time the advance is outstanding. The Company must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Company would not receive any future servicing income with respect to that loan. At March 31, 2014, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately $323 thousand (December 31, 2013 - $243 thousand). To the extent the mortgage loans underlying the Company's servicing portfolio experience increased delinquencies, the Company would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 — COMMITMENTS AND CONTINGENCIES

Loan Commitments

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

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

Summarized credit-related financial instruments at March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014			December 31, 2013	
	(In thousands)				
Commitments to extend credit	$	494,327		$	520,269
Commercial letters of credit		1,740			1,096

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

At March 31, 2014 and December 31, 2013, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused commitments does not necessarily represent future cash requirements. These lines of credit had a reserve of $900 thousand at both March 31, 2014 and December 31, 2013.

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, at March 31, 2014 and December 31, 2013, is as follows:

	March 31, 2014			December 31, 2013	
	(In thousands)				
Standby letters of credit and financial guarantees	$	38,875		$	38,577
Loans sold with recourse		118,163			122,291
Commitments to sell or securitize mortgage loans		34,220			99,307

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

Lease Commitments

The Company has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the quarters ended March 31, 2014 and 2013, amounted to $2.5 million, and $2.7 million, respectively, and is included in the "occupancy and equipment" caption in the unaudited consolidated statements of operations. Future rental commitments under leases in effect at March 31, 2014, exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

Quarter Ending March 31,	Minimum Rent	
	(In thousands)	
2014	$	6,170
2015		8,013
2016		7,388

2017		6,761
2018		5,864
Thereafter		22,004
	$	**56,200**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Contingencies

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

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

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

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value measurement framework under GAAP.

Fair Value Measurement

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

Money market investments

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

Investment securities

The fair value of investment securities is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument. The Company holds two securities categorized as other debt that are classified as Level 3. The estimated fair value of the other debt securities is determined by using a third-party model to calculate the present value of projected future cash flows. The assumptions are highly uncertain and include primarily market discount rates, current spreads, and an indicative pricing. The assumptions used are drawn from similar securities that are actively traded in the market and have similar characteristics as the collateral underlying the debt securities being evaluated. The valuation is performed on a monthly basis.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivative instruments

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

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

Servicing assets

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

Loans receivable considered impaired that are collateral dependent

The impairment is measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC 310-10-35. Currently, the associated loans considered impaired are classified as Level 3.

Foreclosed real estate

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Assets and liabilities measured at fair value on a recurring and non-recurring basis, including financial liabilities for which the Company has elected the fair value option, are summarized below:

	March 31, 2014							
	Fair Value Measurements							
	Level 1		Level 2		Level 3		Total	
	(In thousands)							
Recurring fair value measurements:								
Investment securities available-for-sale	$	-	$	1,435,632	$	20,053	$	1,455,685
Money market investments		7,652		-		-		7,652
Derivative assets		-		3,306		12,555		15,861
Servicing assets		-		-		13,970		13,970
Derivative liabilities		-		(13,830)		(12,120)		(25,950)
	$	**7,652**	**$**	**1,425,108**	**$**	**34,458**	**$**	**1,467,218**
Non-recurring fair value measurements:								
Impaired commercial loans	$	-	$	-	$	27,975	$	27,975
Foreclosed real estate		-		-		96,884		96,884
	$	**-**	**$**	**-**	**$**	**124,859**	**$**	**124,859**

	December 31, 2013							
	Fair Value Measurements							
	Level 1		Level 2		Level 3		Total	
	(In thousands)							
Recurring fair value measurements:								
Investment securities available-for-sale	$	-	$	1,568,745	$	19,680	$	1,588,425
Securities purchased under agreements to resell		-		60,000		-		60,000
Money market investments		6,967		-		-		6,967
Derivative assets		-		4,072		16,430		20,502
Servicing assets		-		-		13,801		13,801
Derivative liabilities		-		(14,937)		(15,736)		(30,673)
	$	**6,967**	**$**	**1,617,880**	**$**	**34,175**	**$**	**1,659,022**
Non-recurring fair value measurements:								

Impaired commercial loans	$	-	$	-	$	28,353	$	28,353
Foreclosed real estate		-		-		90,024		90,024
	$	**-**	**$**	**-**	**$**	**118,377**	**$**	**118,377**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters ended March 31, 2014 and 2013:

	Quarter Ended March 31, 2014				
Level 3 Instruments Only	**Other debt securities available-for-sale**	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
Balance at beginning of year	$ 19,680	$ 16,430	$ 13,801	$ (15,736)	$ 34,175
Gains (losses) included in earnings	-	(3,875)	-	3,373	(502)
Changes in fair value of investment securities available for sale included in other comprehensive income	373	-	-	-	373
New instruments acquired	-	-	563	-	563
Principal repayments	-	-	(196)	-	(196)
Amortization	-	-	-	243	243
Changes in fair value of servicing assets	-	-	(198)	-	(198)
Balance at end of year	**$ 20,053**	**$ 12,555**	**$ 13,970**	**$ (12,120)**	**$ 34,458**

	Quarter Ended March 31, 2013					
	Investment securities available-for-sale					
Level 3 Instruments Only	**CLOs**	**Other debt securities**	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**

Balance at beginning of period	$	27,280	$	10,016	$	11,367	$	10,776	$	(10,912)	$	48,527
Gains (losses) included in earnings		-		-		1,721		-		(1,707)		14
Changes in fair value of investment securities available for sale included in other comprehensive income		1,705		1		-		-		-		1,706
New instruments acquired		-		-		-		487		-		487
Principal repayments		-		-		-		(307)		-		(307)
Amortization		17		-		-		-		50		67
Changes in fair value of servicing assets		-		-		-		(314)		-		(314)
Balance at end of period	$	**29,002**	$	**10,017**	$	**13,088**	$	**10,642**	$	**(12,569)**	$	**50,180**

During the quarter ended March 31, 2014 and 2013, there were purchases and sales of assets and liabilities measured at fair value on a recurring basis. There were no transfers into and out of Level 1 and Level 2 fair value measurements during such periods.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents quantitative information for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at March 31, 2014:

	March 31, 2014			
	Fair Value	Valuation Technique	Unobservable Input	Range
	(In thousands)			
Investment securities available-for-sale:				
Other debt securities	$ 20,053	Market comparable bonds	Indicative pricing	97.125% - 98.975%
			Option adjusted spread	683.7% - 1602.0%
			Yield to maturity	7.05% - 15.89%
			Spread to maturity	689.9% - 1579.0%
Derivative assets (S&P Purchased Options)	$ 12,555	Option pricing model	Implied option volatility	22.887% - 53.615%
			Counterparty credit risk (based on 5-year credit default swap ("CDS") spread)	56.360% - 86.490%
Servicing assets	$ 13,970	Cash flow valuation	Constant prepayment rate	5.60% - 10.08%
			Discount rate	10.00% - 12.00%
Derivative liability (S&P	$ (12,120)	Option pricing model	Implied option volatility	22.887% - 53.615%

Embedded Options)								
						Counterparty credit risk (based on 5-year CDS spread)		56.360% - 86.490%
Collateral dependant impaired loans	$	27,975		Fair value of property or collateral		Appraised value less disposition costs		21.30% - 28.30%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Information about Sensitivity to Changes in Significant Unobservable Inputs

<u>Other debt securities</u> – The significant unobservable inputs used in the fair value measurement of one of the Company’s other debt securities are indicative comparable pricing, option adjusted spread (“OAS”), yield to maturity, and spread to maturity. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for indicative comparable pricing is accompanied by a directionally opposite change in the assumption used for OAS and a directionally, although not equally proportional, opposite change in the assumptions used for yield to maturity and spread to maturity.

<u>Derivative asset (S&P Purchased Options)</u> – The significant unobservable inputs used in the fair value measurement of the Company’s derivative assets related to S&P purchased options are implied option volatility and counterparty credit risk. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for implied option volatility is not necessarily accompanied by directionally similar or opposite changes in the assumption used for counterparty credit risk.

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

<u>Derivative liability (S&P Embedded Options)</u> – The significant unobservable inputs used in the fair value measurement of the Company’s derivative liability related to S&P purchased options are implied option volatility and counterparty credit risk. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for implied option volatility is not necessarily accompanied by directionally similar or opposite changes in the assumption used for counterparty credit risk.

The table below presents a detail of investment securities available-for-sale classified as Level 3 at March 31, 2014:

	March 31, 2014				
Type	**Amortized Cost**	**Unrealized Gains (Losses)**	**Fair Value**	**Weighted Average Yield**	**Principal Protection**
	(In thousands)				
Other debt securities	**$ 20,000**	**$ 53**	**$ 20,053**	**3.50%**	N/A

Fair Value of Financial Instruments

The information about the estimated fair value of financial instruments required by GAAP is presented hereunder. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Company.

The estimated fair value is subjective in nature, involves uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect these fair value estimates. The fair value estimates do not take into consideration the value of future business and the value of assets and liabilities that are not financial instruments. Other significant tangible and intangible assets that are not considered financial instruments are the value of long-term customer relationships of retail deposits, and premises and equipment.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The estimated fair value and carrying value of the Company's financial instruments at March 31, 2014 and December 31, 2013 is as follows:

	March 31, 2014				December 31, 2013			
	Fair Value		Carrying Value		Fair Value		Carrying Value	
	(In thousands)							
Level 1								
Financial Assets:								
Cash and cash equivalents	$	624,636	$	624,636	$	621,269	$	621,269
Restricted cash		15,170		15,170		82,199		82,199
Level 2								
Financial Assets:								
Securities purchased under agreements to resell		-		-		60,000		60,000
Trading securities		1,910		1,910		1,869		1,869
Investment securities available-for-sale		1,435,632		1,435,632		1,568,745		1,568,745
Federal Home Loan Bank (FHLB) stock		24,430		24,430		24,450		24,450
Derivative assets		3,306		3,306		4,072		4,072
Derivative liabilities		13,830		13,830		14,937		14,937
Level 3								
Financial Assets:								
Investment securities available-for-sale		20,053		20,053		19,680		19,680
Total loans (including loans held-for-sale)								
Non-covered loans, net		4,737,604		4,654,749		4,857,505		4,662,458
Covered loans, net		400,355		347,865		459,444		356,961
Derivative assets		12,555		12,555		16,430		16,430
FDIC shared-loss indemnification asset		106,170		166,194		152,965		189,240
Accrued interest receivable		18,969		18,969		18,734		18,734
Servicing assets		13,970		13,970		13,801		13,801
Financial Liabilities:								
Deposits		5,247,226		5,300,992		5,409,540		5,383,265
Securities sold under agreements to repurchase		1,076,000		1,012,240		1,323,903		1,267,618

Advances from FHLB		340,805			335,689			335,324			336,143
Federal funds purchased		23,712			23,712			-			-
Term notes		3,583			3,708			3,638			3,663
Subordinated capital notes		87,240			100,404			99,316			100,010
Accrued expenses and other liabilities		140,037			140,037			144,424			144,424

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following methods and assumptions were used to estimate the fair values of significant financial instruments at March 31, 2014 and December 31, 2013:

- Cash and cash equivalents (including money market investments and time deposits with other banks), restricted cash, accrued interest receivable, securities purchased under agreements to resell, securities sold but not yet delivered, accrued expenses and other liabilities have been valued at the carrying amounts reflected in the consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

- Investments in FHLB-NY stock are valued at their redemption value.

- The fair value of investment securities, including trading securities, is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument. The estimated fair value of the structured credit investments is determined by using a third-party cash flow valuation model to calculate the present value of projected future cash flows. The assumptions used which are highly uncertain and require a high degree of judgment, include primarily market discount rates, current spreads, duration, leverage, default, home price depreciation, and loss rates. The assumptions used are drawn from a wide array of data sources, including the performance of the collateral underlying each deal. The external-based valuation, which is obtained at least on a quarterly basis, is analyzed and its assumptions are evaluated and incorporated in either an internal-based valuation model when deemed necessary, or compared to counterparties' prices and agreed by management.

- The fair value of the FDIC shared-loss indemnification asset represents the present value of the net estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit assumptions on estimated cash flows for each covered asset pool and the loss sharing percentages. The ultimate collectability of the FDIC shared-loss indemnification asset is dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC which are impacted by the Bank's adherence to certain guidelines established by the FDIC.

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

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

• Fair value of derivative liabilities, which include interest rate swaps and forward-settlement swaps, are based on the net discounted value of the contractual projected cash flows of both the pay-fixed receive-variable legs of the contracts. The projected cash flows are based on the forward yield curve, and discounted using current estimated market rates.

• The fair value of the covered and non-covered loan portfolio (including loans held-for-sale) is estimated by segregating by type, such as mortgage, commercial, consumer, auto and leasing. Each loan segment is further segmented into fixed and adjustable interest rates and by performing and non-performing categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for prepayment estimates (voluntary and involuntary), if any, using estimated current market discount rates that reflect the credit and interest rate risk inherent in the loan. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate.

• The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is based on the discounted value of the contractual cash flows, using estimated current market discount rates for deposits of similar remaining maturities.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

• For short term borrowings and federal funds purchased, the carrying amount is considered a reasonable estimate of fair value. The fair value of long-term borrowings, which include securities sold under agreements to repurchase, advances from FHLB-NY, FDIC-guaranteed term notes, other term notes, and subordinated capital notes, is based on the discounted value of the contractual cash flows using current estimated market discount rates for borrowings with similar terms, remaining maturities and put dates.

• The fair value of commitments to extend credit and unused lines of credit is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

NOTE 18 – BUSINESS SEGMENTS

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

Banking includes the Bank's branches and traditional banking products such as deposits and commercial, consumer and mortgage loans. Mortgage banking activities are carried out by the Bank's mortgage banking division, whose principal activity is to originate mortgage loans for the Company's own portfolio. As part of its mortgage banking activities, the Company may sell loans directly into the secondary market or securitize conforming loans into mortgage-backed securities.

Wealth Management is comprised of the Bank's trust division, Oriental Financial Services, Oriental Insurance, and CPC. The core operations of this segment are financial planning, money management and investment banking, brokerage services, insurance sales activity, corporate and individual trust and retirement services, as well as pension plan administration services.

The Treasury segment encompasses all of the Company’s asset/liability management activities, such as purchases and sales of investment securities, interest rate risk management, derivatives, and borrowings. Intersegment sales and transfers, if any, are accounted for as if the sales or transfers were to third parties, that is, at current market prices.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Following are the results of operations and the selected financial information by operating segment as of and for the quarters ended March 31, 2014 and 2013:

	Quarter Ended March 31, 2014					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 108,631	$ 40	$ 14,403	$ 123,074	$ -	$ **123,074**
Interest expense	(7,516)	-	(12,160)	(19,676)	-	**(19,676)**
Net interest income	101,115	40	2,243	103,398	**-**	**103,398**
Provision for non-covered loan and lease losses	(10,062)	-	-	(10,062)	-	**(10,062)**
Provision for covered loan and lease losses	(1,629)	-	-	(1,629)	-	**(1,629)**
Non-interest income (loss)	(5,047)	6,522	3,803	5,278	-	**5,278**
Non-interest expenses	(53,596)	(4,779)	(3,078)	(61,453)	-	**(61,453)**
Intersegment revenue	544	-	-	544	(544)	-
Intersegment expenses	-	(432)	(112)	(544)	544	-
Income before income taxes	**$ 31,325**	**$ 1,351**	**$ 2,856**	**$ 35,532**	**$ -**	**$ 35,532**
Total assets	**$ 7,351,839**	**$ 24,345**	**$ 1,643,569**	**$ 9,019,753**	**$ (1,164,115)**	**$ 7,855,638**

	Quarter Ended March 31, 2013					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 102,068	$ 86	$ 12,018	$ 114,172	$ -	$ **114,172**

Interest expense		(6,971)		(60)		(13,525)		(20,556)		-		**(20,556)**
Net interest income		95,097		26		(1,507)		93,616		**-**		**93,616**
Provision for non-covered loan and lease losses		(7,916)		-		-		(7,916)		-		**(7,916)**
Provision for covered loan and lease losses, net		(672)		-		-		(672)		-		**(672)**
Non-interest income(loss)		2,537		7,700		(138)		10,099		-		**10,099**
Non-interest expenses		(61,932)		(4,462)		(415)		(66,809)		-		**(66,809)**
Intersegment revenue		383		-		-		383		(383)		-
Intersegment expenses		-		(302)		(81)		(383)		383		-
Income before income taxes	**$**	**27,497**	**$**	**2,962**	**$**	**(2,141)**	**$**	**28,318**	**$**	**-**	**$**	**28,318**
Total assets	**$**	**6,989,744**	**$**	**39,511**	**$**	**2,539,649**	**$**	**9,568,904**	**$**	**(866,353)**	**$**	**8,702,551**

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the Company's unaudited consolidated financial statements and related notes. This discussion and analysis contains forward-looking statements. Please see "Forward-Looking Statements" and the risk factors set forth in our 2013 Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K"), for discussion of the uncertainties, risks and assumptions associated with these statements.

The Company is a publicly-owned financial holding company that provides a full range of banking and financial services through its subsidiaries, including commercial, consumer, auto and mortgage lending; checking and savings accounts; financial planning, insurance and securities brokerage services; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Financial Services, and Treasury, and distinguishes itself based on quality service. The Company has 55 branches in Puerto Rico and a subsidiary in Boca Raton, Florida. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in "Note 1—Summary of Significant Accounting Policies" of our annual report on the 2013 Form 10-K.

In the "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" section of our 2013 Form 10-K, we identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition:

- Business combination
- Allowance for loan and lease losses
- Financial instruments

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed its judgments and assumptions with the Audit and Compliance Committee of our Board of Directors. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. As a result, the period was changed to 24 months from the previously determined 12 months. This change in the allowance for loan and lease losses' look back period for the consumer and auto and leasing portfolios is considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively. Apart from this change, there have been no other material changes in the methods used to formulate these critical accounting estimates from those discussed in our 2013 Form 10-K.

OVERVIEW OF FINANCIAL PERFORMANCE

SELECTED FINANCIAL DATA							
	Quarter Ended March 31,						
							Variance
	2014			2013			%
EARNINGS DATA:	(In thousands, except per share data)						
Interest income	$	123,074		$	114,172		7.8%
Interest expense		19,676			20,556		-4.3%
Net interest income		**103,398**			**93,616**		**10.4%**
Provision for non-covered loan and lease losses		10,062			7,916		27.1%
Provision for covered loan and lease losses, net		1,629			672		142.4%
Total provision for loan and lease losses, net		**11,691**			**8,588**		**36.1%**
Net interest income after provision for loan and lease losses		**91,707**			**85,028**		**7.9%**
Non-interest income		5,278			10,099		-47.7%
Non-interest expenses		61,453			66,809		-8.0%
Income before taxes		**35,532**			**28,318**		**25.5%**
Income tax expense (benefit)		11,785			7,126		65.4%
Net income		**23,747**			**21,192**		**12.1%**
Less: dividends on preferred stock		(3,465)			(3,465)		153.0%
Income available to common shareholders	**$**	**20,282**		**$**	**17,727**		**14.4%**
PER SHARE DATA:							
Basic	**$**	**0.45**		**$**	**0.39**		**15.4%**
Diluted	**$**	**0.42**		**$**	**0.37**		**13.5%**
Average common shares outstanding		**45,329**			**45,595**		**-0.6%**
Average common shares outstanding and equivalents		**52,598**			**52,898**		**-0.6%**
Cash dividends declared per common share	**$**	**0.08**		**$**	**0.06**		**0.0%**
Cash dividends declared on common shares	**$**	**3,657**		**$**	**2,737**		**33.6%**
PERFORMANCE RATIOS:							

Return on average assets (ROA)		**1.18%**			**0.96%**		**22.9%**
Return on average tangible common equity		**12.86%**			**11.92%**		**7.9%**
Return on average common equity (ROE)		**11.13%**			**10.20%**		**9.1%**
Equity-to-assets ratio		**11.41%**			**9.98%**		**14.4%**
Efficiency ratio		**50.03%**			**57.46%**		**-12.9%**
Interest rate spread		**5.87%**			**4.91%**		**19.6%**
Interest rate margin		**5.90%**			**4.90%**		**20.4%**

SELECTED FINANCIAL DATA - (Continued)					
	March 31,		December 31,		Variance
	2014		2013		%
PERIOD END BALANCES AND CAPITAL RATIOS:	(In thousands, except per share data)				
Investments and loans					
Investments securities	$	1,482,090	$	1,614,809	-8.2%
Loans and leases not covered under shared-loss agreements with the FDIC, net		4,654,749		4,662,458	-0.2%
Loans and leases covered under shared-loss agreements with the FDIC, net		347,865		356,961	-2.5%
Total investments and loans	**$**	**6,484,704**	**$**	**6,634,228**	**-2.3%**
Deposits and borrowings					
Deposits	$	5,300,992	$	5,383,265	-1.5%
Securities sold under agreements to repurchase		1,012,240		1,267,618	-20.1%
Other borrowings		463,513		439,816	5.4%
Total deposits and borrowings	**$**	**6,776,745**	**$**	**7,090,699**	**-4.4%**
Stockholders' equity					
Preferred stock	$	176,000	$	176,000	0.0%
Common stock		52,714		52,707	0.0%
Additional paid-in capital		538,287		538,071	0.0%
Legal surplus		64,292		61,957	3.8%
Retained earnings		147,919		133,629	10.7%
Treasury stock, at cost		(90,743)		(80,642)	-12.5%
Accumulated other comprehensive income		8,022		3,191	151.4%
Total stockholders' equity	**$**	**896,491**	**$**	**884,913**	**1.3%**
Per share data					
Book value per common share	**$**	**16.23**	**$**	**15.74**	**3.1%**
Tangible book value per common share	**$**	**14.07**	**$**	**13.60**	**3.5%**
Market price at end of period	**$**	**17.19**	**$**	**17.34**	**-0.9%**
Capital ratios					
Leverage capital		**9.51%**		**9.11%**	**4.4%**
Tier 1 risk-based capital		**14.76%**		**14.35%**	**2.9%**
Total risk-based capital		**16.56%**		**16.14%**	**2.6%**
Tier 1 common equity to risk-weighted assets		**10.79%**		**10.44%**	**3.4%**
Financial assets managed					
Trust assets managed	$	2,797,778	$	2,796,923	0.0%
Broker-dealer assets gathered	$	2,576,991	$	2,493,324	3.4%

FINANCIAL HIGHLIGHTS

Income available to common shareholders for the quarter ended March 31, 2014, increased to $20.3 million, or $0.42 per diluted share, when compared to the same period in 2013.

During the quarter ended March 31, 2014, the Company’s return on assets was 1.18% and its return on equity was 11.13%. The Company improved its efficiency ratio, which decreased to 50.03% from 57.46% when compared with the same period in 2013.

Operating revenues for the quarter ended March 31, 2014 increased 4.8%, or $5.0 million, to $108.7 million when compared to the same period in 2013.

	Quarter Ended March 31,				
	2014			2013	
	(In thousands)				
OPERATING REVENUE					
Net interest income	$	103,398		$	93,616
Non-interest income		5,278			10,099
Total operating revenue	**$**	**108,676**		**$**	**103,715**

Interest Income

Total interest income for the quarter ended March 31, 2014 increased 7.8% to $123.1 million, as compared to the same period in 2013. This was mainly related to an increase in interest income from loans of $7.6 million, or 7.5% when compared to the same period in 2013. The yield on covered loans increased from 20.98% in the quarter ended March 31, 2013 to 26.68% for the quarter ended March 31, 2014. This increase in yield is the result of higher projected cash flows on certain pools of covered loans, as credit losses have been lower than initially estimated for these pools. The covered portfolio is having cost recoveries on pools with lower carrying amounts, and these have the effect of increasing net interest income. In addition, the yield on non-covered loans increased from 6.98% in the quarter ended March 31, 2013 to 7.43% for the quarter ended March 31, 2014.

Interest income from investments reflects a 9.9% increase for the quarter ended March 31, 2014, as compared to the same period in 2013. The increase is mainly due to the increase in the investments yield to 2.79% for the quarter ended March 31, 2014 as compared to 2.0% for the same period in 2013 driven by lower premium amortization.

Interest Expense

Total interest expense for the quarter ended March 31, 2014, decreased 4.3% to $19.7 million, as compared to the quarter ended March 31, 2013. This reflects the lower cost of deposits (0.68% vs. 72%) for the quarter ended March 31, 2014, as compared to the same period in 2013. Such lower cost reflects continuing progress in the repricing of the Company's core retail deposits.

Net Interest Income

Net interest income for the quarter ended March 31, 2014, was $103.4 million, an increase of 10.4% when compared with the same period in 2013. The increase was mostly due the net effect of a 7.8% increase in total interest income and a decrease of 4.3% in interest expense due to lower cost of funds. Net interest margin of 5.90% for the quarter ended March 31, 2014, increased 100 basis points when compared to the quarter ended March 31, 2013.

Provision for Loan and Lease Losses

Provision for non-covered loans losses for the quarter ended March 31, 2014 increased $2.1 million when compared to the quarter ended March 31, 2013. Provision for covered loans losses for the quarter ended March 31, 2014 increased $957 thousand when compared to the quarter ended March 31, 2013.

Non-Interest Income

During the first quarter of 2014, core banking and financial services revenues decreased 14.3% to $19.4 million as compared to the quarter ended March 31, 2013, primarily reflecting a $1.2 million decrease in both, banking services revenue to $10.6 million and mortgage banking activities to $2.0 million for the first quarter of 2014. Decrease in banking services revenues is mostly due to the reclassification of loan late charges into interest income. Decrease in mortgage banking activities is mainly due to higher losses in repurchased loans, lower cost or market adjustment made to mortgage loans held for sale during such quarter of 2014 and decrease in sales, when compared to same period in 2013.

The FDIC shared-loss expense of $18.5 million for the first quarter of 2014 compared to $12.9 million for the first quarter of 2013, resulted from the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and the improved accretable yield on the covered loans. During the quarter ended March 31, 2014, the net amortization included $3.5 million of additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction and leasing loan pools.

Results from the quarter ended March 31, 2014 included a gain on sale of securities of $4.4 million. During the quarter ended March 31, 2013, the Company did not have any gain or loss on sale of securities. Losses from derivative activities were $478 thousand for the quarter ended March 31, 2014, compared to $788 thousand for the same period in 2013. There was no gain or loss on extinguishment of debt for the quarter ended March 31 2014, compared to a gain of $1.1 million for the same period in 2013.

Non-Interest Expense

Non-interest expense for the quarter ended March 31, 2014 decreased to $61.5 million, compared to $66.8 million for the same period in 2013. During the quarter ended March 31 2014, there were no merger and restructuring charges compared to $5.5 million for the same period in 2013. The efficiency ratio for the first quarter of 2014 was 50.03% compared to 57.46% for the same period in 2013 driven mostly by a decrease in non-interest expenses and an increase in net income.

Income Tax Expense

Income tax expense was $11.8 million for the first quarter of 2014 compared to $7.1 million for the first quarter of 2013. The increase for the first quarter of 2014 was primarily due to the recent amendments to the Puerto Rico tax code that increases the corporate income tax rate to 39% from 30%.

Income Available to Common Shareholders

For the first quarter of 2014, the Company's income available to common shareholders amounted to $20.3 million compared to $17.7 million for the first quarter of 2013. Income per basic common share and fully diluted common share was $0.45 and $0.42, respectively, for the first quarter of 2014, compared to income per basic common share and fully diluted common share of $0.39 and $0.37, respectively, for the first quarter of 2013.

Interest Earning Assets

The loan portfolio declined to $5.003 billion at March 31, 2014, compared to $5.019 billion at December 31, 2013, primarily due to the early pay down of some commercial loans. The investment portfolio of $1.482 billion at March 31, 2014 decreased 8.2% compared to $1.615 billion at December 31, 2013. During the quarter ended March 31, 2014, the Company sold $110.8 million of mortgage-backed available for sale securities taking advantage of market opportunities to realize gains and reduce some interest rate sensitivity.

Interest Bearing Liabilities

Total deposits amounted to $5.301 billion at March 31, 2014, a decrease of 1.5% compared to $5.383 billion at December 31, 2013. Non-maturing deposit balances increased 3.7%, to $3.5 billion, while higher-priced time deposits declined 10.0% as part of efforts to reduce the cost of deposits, which averaged 0.68% at March 31, 2014 compared to 0.72% at March 31, 2013. Securities sold under agreements to repurchase decreased 20.1%, or $255.3 million, as the Company used available cash to pay off $255.0 million of repurchase agreements at maturity.

Stockholders' Equity

Stockholders' equity at March 31, 2014 was $896.5 million compared to $884.9 million at December 31, 2013, an increase of 1.3%. This increase reflects the net income for the first quarter of 2014 and an increase in other comprehensive income, partially offset by treasury stock repurchases.

Book value per share was $16.23 at March 31, 2014 compared to $15.74 at December 31, 2013.

The Company maintains capital ratios in excess of regulatory requirements. At March 31, 2014, Tier 1 Leverage Capital Ratio was 9.51%, Tier 1 Risk-Based Capital Ratio was 14.76%, and Total Risk-Based Capital Ratio was 16.56%.

Return on Average Assets and Common Equity

Return on average common equity ("ROE") for the quarter ended March 31, 2014 was 11.13% compared to 10.20% for the quarter ended March 31, 2013. Return on average assets ("ROA") for the quarter ended March 31, 2014 was 1.18% compared to 0.96% for the same period in 2013. The increases in ROE and ROA are mostly due to 12.1% increase in net income from $21.2 million in the quarter ended March 31, 2013 to $23.7 million in the quarter ended March 31, 2014, and to the decrease of 8.0% in average assets and 4.8% in average common equity from the same period in 2013.

Assets under Management

At March 31, 2014, total assets managed by the Company's trust division and CPC remained leveled at $2.798 billion compared to December 31, 2013. At March 31, 2014, total assets managed by the securities broker-dealer subsidiary from its customer investment accounts increased 3.4% to $2.577 billion, compared to $2.493 billion at December 31, 2013. Changes in trust and broker-dealer related assets primarily reflect a slight increase in portfolio and differences in market values.

Lending

Total loan production of $212.0 million for the quarter ended March 31, 2014 decreased 22.8% from the quarter ended March 31, 2013. Generally, loan demand for the quarter ended March 31, 2014 was lower compared to the same period of 2013. Total commercial loan production of $39.8 million for the quarter ended March 31, 2014, decreased 46.3% from $77.1 million in the quarter ended March 31, 2013.

Mortgage loan production of $50.8 million for the quarter ended March 31, 2014 decreased 34.1% from the quarter ended March 31, 2013. The Company sells most of its conforming mortgage loans in the secondary market and retains the servicing rights.

In the aggregate, consumer loan and auto and leasing production for the quarter ended March 31, 2014, totaled $121.4 million, a slight decrease of 1.8% from the quarter ended March 31, 2013.

Total loan portfolio declined by $16.8 million from $5.019 billion at December 31, 2013 to $5.002 billion at March 31, 2014, mostly as the result of scheduled pay downs and maturities in both the non-covered and covered loan portfolios.

Credit Quality on Non-Covered Loans

Net credit losses, excluding acquired loans, increased $1.8 million to $5.2 million for the quarter ended March 31, 2014, representing 0.86% of average non-covered loans outstanding versus 1.06% for the quarter ended March 31, 2013. The allowance for loan and lease losses on non-covered loans at March 31, 2014, increased to $56.2 million compared to $54.3 million at December 31, 2013. The allowances for loan and lease losses, excluding acquired loans, increased to $49.5 million (1.95% of total non-covered loans, excluding acquired loans) at March 31, 2014, compared to $49.1 million (2.4% of total non-covered loans, excluding acquired loans) at December 31, 2013. The allowance for loan and lease losses on acquired loans accounted for under ASC 310-20 increased to $3.6 million at March 31, 2014, compared to $2.4 million at December 31, 2014.

Non-performing loans (“NPLs”), which exclude loans covered under shared-loss agreements with the FDIC and loans acquired in the BBVAPR Acquisition accounted under ASC 310-30, increased to $88.2 million at March 31, 2014 compared to $86.2 million at December 31, 2013. The increase is due mainly to increase in non-performing consumer and auto loans.

Non-GAAP Measures

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

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

During the quarter ended March 31, 2014, the Company's pre-tax pre-provision operating income was approximately $61.4 million, an increase of 11.6% from $55.0 million for the same quarter in 2013. Pre-tax pre-provision operating income is calculated as follows:

	Quarter Ended March 31,			
	2014		2013	
	(In thousands)			
PRE-TAX PRE-PROVISION OPERATING INCOME				
Net interest income	$	103,398	$	93,616
Core non-interest income:				
Banking service revenue		10,606		11,838
Financial service revenue		6,867		7,660
Mortgage banking activities		1,950		3,153
Total core non-interest income		**19,423**		**22,651**
Non-interest expenses		61,453		66,809
Less merger and restructuring charges		-		(5,534)
		61,453		61,275
	$	**61,368**	**$**	**54,992**

Total pre-tax pre-provision operating income						

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

At March 31, 2014, tangible common equity to total assets and tangible common equity to risk-weighted assets increased to 8.06% and 12.54%, respectively, from 7.61% and 12.10%, respectively, at December 31, 2013. Total equity to risk-weighted assets and Tier 1 common equity to risk-weighted assets at March 31, 2014 increased to 17.75% and 10.79%, respectively, from 17.23% and 10.44%, respectively, at December 31, 2013.

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

ANALYSIS OF RESULTS OF OPERATIONS

The following tables show major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the quarters ended March 31, 2014 and 2013:

TABLE 1 - QUARTERLY ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE
FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

	Interest		Average rate		Average balance	
	March 2014	March 2013	March 2014	March 2013	March 2014	March 2013
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	$ 123,074	$ 114,172	7.02%	5.98%	$ 7,108,864	$ 7,747,452
Tax equivalent adjustment	10,134	7,090	0.58%	0.37%	-	-
Interest-earning assets - tax equivalent	133,208	121,262	7.60%	6.35%	7,108,864	7,747,452
Interest-bearing liabilities	19,676	20,556	1.15%	1.07%	6,965,299	7,792,327
Tax equivalent net interest income / spread	113,532	100,706	6.45%	5.28%	143,565	(44,875)
Tax equivalent interest rate margin			6.48%	5.27%		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	14,122	12,809	3.54%	2.47%	1,617,135	2,107,361
Trading securities	38	19	8.18%	9.74%	1,885	791
Interest bearing cash and money market investments	283	308	0.24%	0.23%	482,497	551,242
Total investments	14,443	13,136	2.79%	2.00%	2,101,517	2,659,394

Loans not covered under shared-loss agreements with the FDIC:						
Originated						
Mortgage	**10,458**	**11,427**	**5.63%**	**6.26%**	**753,248**	**740,072**
Commercial	**14,417**	**4,890**	**5.21%**	**5.32%**	**1,121,953**	**372,941**
Consumer	**3,139**	**1,212**	**9.93%**	**8.34%**	**128,239**	**58,908**
Auto and leasing	**10,989**	**2,845**	**10.66%**	**11.65%**	**418,074**	**99,048**
Total originated non-covered loans	**39,003**	**20,374**	**6.53%**	**6.50%**	**2,421,514**	**1,270,968**
Acquired						
Mortgage	**9,369**	**11,170**	**5.33%**	**5.71%**	**713,345**	**793,274**
Commercial	**18,769**	**26,597**	**10.30%**	**7.32%**	**738,910**	**1,474,420**
Consumer	**4,089**	**5,871**	**12.79%**	**12.53%**	**129,665**	**190,013**
Auto	**14,013**	**16,795**	**8.76%**	**7.03%**	**648,382**	**968,380**
Total acquired non-covered loans	**46,240**	**60,433**	**8.41%**	**7.15%**	**2,230,301**	**3,426,087**
Total non-covered loans	**85,243**	**80,807**	**7.43%**	**6.98%**	**4,651,816**	**4,697,055**
Loans covered under shared loss agreements with the FDIC	**23,388**	**20,229**	**26.68%**	**20.98%**	**355,531**	**391,002**
Total loans	**108,631**	**101,036**	**8.80%**	**8.05%**	**5,007,347**	**5,088,057**
Total interest earning assets	**123,074**	**114,172**	**7.02%**	**5.98%**	**7,108,864**	**7,747,451**

	Interest		Average rate		Average balance	
	March 2014	March 2013	March 2014	March 2013	March 2014	March 2013
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	-	-	0.00%	0.00%	499,384	766,233
Now Accounts	2,324	3,739	0.57%	1.04%	1,661,244	1,453,622
Savings and money market	2,296	1,807	0.83%	0.85%	1,126,987	859,254
Individual retirement accounts	1,058	1,367	1.25%	1.49%	343,762	372,929
Retail certificates of deposits	1,939	3,189	1.37%	1.87%	572,054	692,899
Total core deposits	7,617	10,102	0.73%	0.99%	4,203,431	4,144,937
Institutional deposits	1,408	2,696	1.51%	1.85%	377,528	592,340
Brokered deposits	1,516	1,989	0.82%	0.94%	751,558	856,451
Total wholesale deposits	2,924	4,685	1.05%	1.31%	1,129,086	1,448,791
Deposits fair value premium amortization	(1,898)	(5,267)	0.00%	0.00%	-	-
Core deposit intangible amortization	335	415	0.00%	0.00%	-	-
Total deposits	**8,978**	**9,935**	0.68%	0.72%	**5,332,517**	**5,593,728**
Borrowings:						
Securities sold under agreements to repurchase	7,411	7,248	2.60%	1.93%	1,156,747	1,525,575
Advances from FHLB and other borrowings	2,295	1,713	2.48%	1.31%	375,862	529,365
Subordinated capital notes	992	1,660	4.02%	4.69%	100,173	143,659
Total borrowings	**10,698**	**10,621**	2.66%	1.96%	**1,632,782**	**2,198,599**
Total interest bearing liabilities	**19,676**	**20,556**	1.15%	1.07%	**6,965,299**	**7,792,327**
Net interest income / spread	**$ 103,398**	**$ 93,616**	5.87%	**4.91%**		
Interest rate margin			**5.90%**	**4.90%**		
Excess of average interest-earning assets					**$ 143,565**	**$ (44,876)**

over average interest-bearing liabilities					
Average interest-earning assets to average interest-bearing liabilities ratio				102.06%	99.42%
C - CHANGES IN NET INTEREST INCOME DUE TO:					
	Volume	**Rate**	**Total**		
	(In thousands)				