OFG BANCORP
Form 10-Q
August 08, 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 June 30, 2014

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

45,060,088 common shares ($1.00 par value per share) outstanding as of July 31, 2014

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

ITEM 1. *FINANCIAL STATEMENTS*

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2014 AND DECEMBER 31, 2013

		June 30, 2014		December 31, 2013
		(In thousands)		
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$	588,257	$	614,302
Money market investments		8,228		6,967
Total cash and cash equivalents		**596,485**		**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 $2,419 (December 31, 2013 - $2,448)		1,613		1,869
Investment securities available-for-sale, at fair value, with amortized cost of $1,385,438 (December 31, 2013 - $1,575,043)		1,418,958		1,588,425
Investment securities held-to-maturity, at amortized cost, with fair value of $26,844		26,706		-
Federal Home Loan Bank (FHLB) stock, at cost		24,381		24,450
Other investments		65		65
Total investments		**1,471,723**		**1,614,809**
Loans:				
Mortgage loans held-for-sale, at lower of cost or fair value		14,792		46,529
Non-covered loans, net of allowance for loan and lease losses of $60,360 (December 31, 2013 - $54,298)		4,586,904		4,615,929
Covered loans, net of allowance for loan and lease losses of $59,515 (December 31, 2013 - $52,729)		334,344		356,961
Total loans, net		**4,936,040**		**5,019,419**
Other assets:				
FDIC indemnification asset		143,660		189,240
Foreclosed real estate covered under shared-loss agreements with the FDIC		46,609		33,209
Foreclosed real estate not covered under shared-loss agreements with the FDIC		55,626		56,815
Accrued interest receivable		22,508		18,734

Deferred tax asset, net			123,298		137,564
Premises and equipment, net			82,167		82,903
Customers' liability on acceptances			17,581		23,042
Servicing assets			13,655		13,801
Derivative assets			9,558		20,502
Goodwill			86,069		86,069
Other assets			89,996		98,440
Total assets	$	**7,710,145**		$	**8,158,015**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Demand deposits	$	2,135,369			2,138,005
Savings accounts		1,226,749			1,194,567
Time deposits		1,779,115			2,050,693
Total deposits		**5,141,233**			**5,383,265**
Borrowings:					
Securities sold under agreements to repurchase		1,012,233			1,267,618
Advances from FHLB		360,240			336,143
Subordinated capital notes		100,797			100,010
Other borrowings		3,837			3,663
Total borrowings		**1,477,107**			**1,707,434**
Other liabilities:					
Derivative liabilities		13,617			14,937
Acceptances executed and outstanding		17,581			23,042
Accrued expenses and other liabilities		135,405			144,424
Total liabilities		**6,784,943**			**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; 52,729,772 shares issued:					
45,022,823 shares outstanding (December 31, 2013 - 52,707,023; 45,676,922)		52,730			52,707
Additional paid-in capital		538,936			538,071
Legal surplus		66,438			61,957
Retained earnings		160,055			133,629
Treasury stock, at cost, 7,706,949 shares (December 31, 2013 - 7,030,101 shares)		(90,712)			(80,642)

Accumulated other comprehensive income, net of tax of $1,134 (December 31, 2013 - -$831)			21,755		3,191
Total stockholders' equity			**925,202**		**884,913**
Total liabilities and stockholders' equity	$	**7,710,145**		$	**8,158,015**

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(In thousands, except per share data)			
Interest income:				
Non-covered loans	$ 88,064	$ 91,105	$ 173,307	$ 171,912
Covered loans	24,879	23,999	48,267	44,228
Total interest income from loans	**112,943**	**115,104**	**221,574**	**216,140**
Mortgage-backed securities	11,984	9,080	24,400	19,898
Investment securities and other	973	2,118	3,000	4,436
Total interest income	**125,900**	**126,302**	**248,974**	**240,474**
Interest expense:				
Deposits	9,165	9,487	18,143	19,423
Securities sold under agreements to repurchase	7,372	7,109	14,784	14,357
Advances from FHLB and other borrowings	2,289	2,241	4,583	3,955
Subordinated capital notes	996	1,170	1,988	2,830
Total interest expense	**19,822**	**20,007**	**39,498**	**40,565**
Net interest income	**106,078**	**106,295**	**209,476**	**199,909**
Provision for non-covered loan and lease losses	13,220	37,527	23,282	45,443
Provision for covered loan and lease losses, net	1,595	1,211	3,224	1,883
Total provision for loan and lease losses	**14,815**	**38,738**	**26,506**	**47,326**
Net interest income after provision for loan and lease losses	**91,263**	**67,557**	**182,970**	**152,583**
Non-interest income:				
Banking service revenue	9,995	12,705	20,552	24,345
Wealth management revenue	7,336	8,030	14,203	15,690
Mortgage banking activities	1,554	3,827	3,249	6,963
Total banking and financial service revenues	**18,885**	**24,562**	**38,004**	**46,998**

FDIC shared-loss expense, net:								
FDIC indemnification asset		(17,499)		(19,225)		(35,121)		(31,425)
True-up payment obligation		(856)		(740)		(1,721)		(1,411)
		(18,355)		(19,965)		(36,842)		(32,836)
Net gain (loss) on:								
Sale of securities		-		-		4,366		-
Derivatives		(247)		(164)		(470)		(934)
Early extinguishment of debt		-		-		-		1,061
Other non-interest income		224		2,302		678		2,349
Total non-interest income, net		**507**		**6,735**		**5,736**		**16,638**
Non-interest expense:								
Compensation and employee benefits		20,707		24,089		42,494		47,338
Professional and service fees		3,512		5,375		7,719		11,853
Occupancy and equipment		8,605		8,066		16,914		17,282
Insurance		2,333		2,723		4,407		5,401
Electronic banking charges		4,796		4,065		9,449		7,763
Information technology expenses		1,485		2,335		3,300		4,979
Advertising, business promotion, and strategic initiatives		1,669		1,670		3,450		3,079
Merger and restructuring charges		-		5,273		-		10,808
Foreclosure, repossession and other real estate expenses		6,554		3,717		12,941		6,900
Loan servicing and clearing expenses		1,669		1,884		3,728		3,360
Taxes, other than payroll and income taxes		3,776		5,132		7,511		7,754
Communication		813		835		1,770		1,699
Printing, postage, stationary and supplies		645		851		1,200		2,017
Director and investor relations		293		377		544		613
Other		2,991		2,295		5,825		4,452
Total non-interest expense		**59,848**		**68,687**		**121,252**		**135,298**
Income before income taxes		**31,922**		**5,605**		**67,454**		**33,923**
Income tax expense (benefit)		10,613		(31,934)		22,398		(24,808)
Net income		**21,309**		**37,539**		**45,056**		**58,731**
Less: dividends on preferred stock		(3,466)		(3,466)		(6,931)		(6,931)
Income available to common shareholders	$	**17,843**	$	**34,073**	$	**38,125**	$	**51,800**

Earnings per common share:								
Basic	$	**0.40**	$	**0.75**	$	**0.84**	$	**1.14**
Diluted	$	**0.38**	$	**0.68**	$	**0.80**	$	**1.05**
Average common shares outstanding and equivalents		**52,352**		**52,968**		**52,476**		**52,929**
Cash dividends per share of common stock	$	**0.08**	$	**0.06**	$	**0.16**	$	**0.12**
See notes to unaudited consolidated financial statements.								

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
_	2014	2013	2014	2013
	(In thousands)			
Net income	**$ 21,309**	**$ 37,539**	**$ 45,056**	**$ 58,731**
Other comprehensive income (loss) before tax:				
Unrealized gain (loss) on securities available-for-sale	14,941	(35,576)	24,504	(46,568)
Realized gain on investment securities included in net income	-	-	(4,366)	-
Unrealized gain on cash flow hedges	14	3,016	391	4,477
Other comprehensive income (loss) before taxes	**14,955**	**(32,560)**	**20,529**	**(42,091)**
Income tax effect	(1,221)	1,275	(1,965)	1,977
Other comprehensive income (loss) after taxes	**13,734**	**(31,285)**	**18,564**	**(40,114)**
Comprehensive income	**$ 35,043**	**$ 6,254**	**$ 63,620**	**$ 18,617**

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013

	Six-Month Period Ended June 30,				
	2014			**2013**	
	(In thousands)				
Preferred stock:					
Balance at beginning of period	$	176,000		$	176,000
Balance at end of period		**176,000**			**176,000**
Common stock:					
Balance at beginning of period		52,707			52,671
Exercised stock options		23			18
Balance at end of period		**52,730**			**52,689**
Additional paid-in capital:					
Balance at beginning of period		538,071			537,453
Stock-based compensation expense		946			888
Exercised stock options		242			167
Lapsed restricted stock units		(323)			(364)
Common stock issuance costs		-			(16)
Preferred stock issuance costs		-			(23)
Balance at end of period		**538,936**			**538,105**
Legal surplus:					
Balance at beginning of period		61,957			52,143
Transfer from retained earnings		4,481			5,763
Balance at end of period		**66,438**			**57,906**
Retained earnings:					
Balance at beginning of period		133,629			70,734
Net income		45,056			58,731
Cash dividends declared on common stock		(7,218)			(5,479)
Cash dividends declared on preferred stock		(6,931)			(6,931)
Transfer to legal surplus		(4,481)			(5,763)
Balance at end of period		**160,055**			**111,292**
Treasury stock:					
Balance at beginning of period		(80,642)			(81,275)
Stock repurchased		(10,393)			-
Lapsed restricted stock units		323			364
Stock used to match defined contribution plan		-			77
Balance at end of period		**(90,712)**			**(80,834)**
Accumulated other comprehensive income,					

net of tax:					
Balance at beginning of period		3,191			55,880
Other comprehensive income (loss), net of tax		18,564			(40,114)
Balance at end of period		**21,755**			**15,766**
Total stockholders' equity	**$**	**925,202**		**$**	**870,924**
See notes to unaudited consolidated financial statements.					

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013

	Six-Month Period Ended June 30,			
	2014		**2013**	
	(In thousands)			
Cash flows from operating activities:				
Net income	$	**45,056**	$	**58,731**
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred loan origination fees, net of costs		1,330		486
Amortization of fair value discounts on acquired loans		6,884		3,504
Amortization of investment securities premiums, net of accretion of discounts		203		12,624
Amortization of core deposit and customer relationship intangibles		1,085		1,288
Amortization of fair value premiums on acquired deposits		2,908		9,649
FDIC shared-loss expense, net		36,842		32,836
Depreciation and amortization of premises and equipment		4,826		5,265
Deferred income tax expense (benefit), net		13,211		(30,776)
Provision for covered and non-covered loan and lease losses, net		26,506		47,326
Stock-based compensation		946		888
(Gain) loss on:				
Sale of securities		(4,366)		-
Sale of mortgage loans held-for-sale		(2,447)		(1,771)
Derivatives		646		934
Early extinguishment of debt		-		(1,061)
Foreclosed real estate		5,052		3,109
Sale of other repossessed assets		3,305		465
Sale of premises and equipment		(10)		-
Originations of loans held-for-sale		(86,058)		(179,127)
Proceeds from sale of loans held-for-sale		47,834		68,809
Net (increase) decrease in:				
Trading securities		256		(1,714)
Accrued interest receivable		(3,774)		46
Servicing assets		146		(2,199)

Other assets		11,651			20,737
Net increase (decrease) in:					
Accrued interest on deposits and borrowings		(932)			(995)
Accrued expenses and other liabilities		(16,247)			12,093
Net cash provided by operating activities		**94,853**			**61,147**
Cash flows from investing activities:					
Purchases of:					
Investment securities available-for-sale		(217,974)			(17,802)
Investment securities held-to-maturity		(26,707)			-
FHLB stock		(76,725)			(12,465)
Maturities and redemptions of:					
Investment securities available-for-sale		295,013			313,866
FHLB stock		76,794			28,720
Proceeds from sales of:					
Investment securities available-for-sale		163,235			75,660
Foreclosed real estate and other repossessed assets		22,991			31,131
Premises and equipment		20			1,667
Origination and purchase of loans, excluding loans held-for-sale		(347,691)			(422,590)
Principal repayment of loans, including covered loans		339,102			528,274
Reimbursements from the FDIC on shared-loss agreements		18,700			18,696
Additions to premises and equipment		(4,100)			(6,237)
Net change in securities purchased under agreements to resell		60,000			80,000
Net change in restricted cash		67,029			8,990
Net cash provided by investing activities		**369,687**			**627,910**

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013 – (Continued)

	Six-Month Period Ended June 30,				
	2014			**2013**	
	(In thousands)				
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits		(235,062)			(36,125)
Short term borrowings		-			(92,210)
Securities sold under agreements to repurchase		(255,000)			(381,358)
FHLB advances, federal funds purchased, and other borrowings		24,279			(231,617)
Subordinated capital notes		787			(46,017)
Exercise of stock options and restricted units lapsed, net		265			185
Purchase of treasury stock		(10,393)			-
Termination of derivative instruments		-			(858)
Dividends paid on preferred stock		(6,931)			(6,931)
Dividends paid on common stock		(7,269)			(5,479)
Other financing activities		-			(39)
Net cash used in financing activities		**(489,324)**			**(800,449)**
Net change in cash and cash equivalents		**(24,784)**			**(111,392)**
Cash and cash equivalents at beginning of period		621,269			855,235
Cash and cash equivalents at end of period	**$**	**596,485**		**$**	**743,843**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:					
Interest paid	$	42,667		$	40,491
Income taxes paid	$	319		$	378
Mortgage loans securitized into mortgage-backed securities	$	46,505		$	89,590
Transfer from loans to foreclosed real estate and other repossessed assets	$	47,852		$	45,714
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	473		$	40,328
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	26,376		$	-
Securities sold but not yet delivered	$	-		$	16,732

See notes to unaudited consolidated financial statements.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

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

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

Recent Accounting Developments

On March 14, 2014, the FASB issued guidance that amended the Master Glossary of the Accounting Standards Codification ("ASC"), including technical corrections related to glossary links, glossary term deletions, and glossary term name changes. In addition, this guidance included more substantive, limited-scope improvements to reduce instances of the same term appearing multiple times in the Master Glossary with similar, but not entirely identical, definitions. These are items that represent narrow and incremental improvements to U.S. GAAP and are not purely technical corrections and affect a wide variety of Topics in the ASC. The amendments in this guidance apply to all reporting entities within the scope of the affected accounting guidance and are effective upon issuance for both public entities and non-public entities. The Company adopted this guidance upon issuance with no impact on our financial position and results of operations.

On June 19, 2014, the FASB issued updated guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This guidance seeks to resolve the diversity in practice that exists when accounting for share-based payments. In particular, this guidance requires a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance conditions. For all entities, this guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with earlier adoption permitted. We are currently evaluating the impact, if any, that the adoption of this guidance will have on our financial position or results of operations.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months and six months ended June 30, 2014 that could have a material impact on the Company’s financial position, operating results or financials statement disclosures.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

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

	June 30, 2014		December 31, 2013
	(In thousands)		
Cash pledged as collateral to other financial institutions to secure:			
Securities sold under agreements to repurchase	$ -		$ 67,029
Derivatives	2,980		2,980
Obligations under agreement of loans sold with recourse	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. At December 31, 2013, the Company had $67.0 million in cash pledged as collateral for securities sold under agreements to repurchase. At June 30, 2014, the Company did not have cash pledged as collateral for securities sold under agreements to repurchase.

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

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

NOTE 3 – INVESTMENT SECURITIES

Money Market Investments

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At June 30, 2014 and December 31, 2013, money market instruments included as part of cash and cash equivalents amounted to $8.2 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 June 30, 2014, there were no securities purchased under agreements to resell.

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Company at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 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	$ 1,070,034	$ 44,076	$ 1,992	$ 1,112,118	3.10%
GNMA certificates	5,560	389	21	5,928	4.92%
CMOs issued by US government-sponsored agencies	200,111	306	3,786	196,631	1.79%
Total mortgage-backed securities	**1,275,705**	**44,771**	**5,799**	**1,314,677**	2.90%
Investment securities					
US Treasury securities	9,000	-	-	9,000	0.01%
Obligations of US government-sponsored agencies	74,613	-	38	74,575	0.17%
Obligations of Puerto Rico government and political subdivisions	22,391	-	5,591	16,800	5.32%
Other debt securities	3,729	177	-	3,906	2.95%
Total investment securities	**109,733**	**177**	**5,629**	**104,281**	1.30%
Total securities available for sale	**$ 1,385,438**	**$ 44,948**	**$ 11,428**	**$ 1,418,958**	2.77%
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	26,706	138	-	26,844	2.52%
Total	**$ 1,412,144**	**$ 45,086**	**$ 11,428**	**$ 1,445,802**	2.77%

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	June 30, 2014			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)		(In thousands)	
Mortgage-backed securities				
Due after 5 to 10 years				
FNMA and FHLMC certificates	$ 24,631	$ 25,109	$ -	$ -
Total due after 5 to 10 years	**24,631**	**25,109**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	1,045,403	1,087,009	26,706	26,844
GNMA certificates	5,560	5,928	-	-
CMOs issued by US government-sponsored agencies	200,111	196,631	-	-
Total due after 10 years	**1,251,074**	**1,289,568**	**26,706**	**26,844**
Total mortgage-backed securities	**1,275,705**	**1,314,677**	**26,706**	**26,844**
Investment securities				
Due in less than one year				
US Treasury securities	9,000	9,000	-	-
Obligations of US government and sponsored agencies	66,000	66,000	-	-
Total due in less than one year	**75,000**	**75,000**	**-**	**-**
Due from 1 to 5 years				
Obligations of Puerto Rico government and political subdivisions	11,927	9,543	-	-
Total due from 1 to 5 years	**11,927**	**9,543**	**-**	**-**
Due after 5 to 10 years				
Obligations of US government and sponsored agencies	8,613	8,575	-	-
Total due after 5 to 10 years	**8,613**	**8,575**	**-**	**-**
Due after 10 years				
	10,464	7,257	-	-

Obligations of Puerto Rico government and political subdivisions								
Other debt securities		3,729		3,906		-		-
Total due after 10 years		**14,193**		**11,163**		**-**		**-**
Total investment securities		**109,733**		**104,281**		**-**		**-**
Total securities available-for-sale	**$**	**1,385,438**	**$**	**1,418,958**	**$**	**26,706**	**$**	**26,844**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the six-month period ended June 30, 2014, the Company sold $48.1 million of available-for-sale Government National Mortgage Association (“GNMA”) certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period. In addition, during the six-month period ended June 30, 2014, certain available-for-sale securities were sold to realize gains and to invest the proceeds in other investment securities with attractive yields and terms that protect the Company’s net interest margin.

For the six-month period ended June 30, 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 six-month period ended June 30, 2013.

	Six-Month Period Ended June 30, 2014							
			Book Value		Gross		Gross	
Description	Sale Price		at Sale		Gains		Losses	
	(In thousands)							
Sale of securities available-for-sale								
Mortgage-backed securities								
FNMA and FHLMC certificates	$	115,158	$	110,792	$	4,366	$	-
GNMA certificates		48,077		48,077		-		-
Total	**$**	**163,235**	**$**	**158,869**	**$**	**4,366**	**$**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following tables show the Company's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at June 30, 2014 and December 31, 2013:

	June 30, 2014					
	12 months or more					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	156,542	$	3,734	$	152,808
FNMA and FHLMC certificates		190,630		1,992		188,638
Obligations of Puerto Rico government and political subdivisions		22,391		5,591		16,800
GNMA certificates		199		21		178
	$	**369,762**	$	**11,338**	$	**358,424**
	Less than 12 months					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	16,365	$	52	$	16,313
Obligations of US government and sponsored agencies		8,613		38		8,575
	$	**24,978**	**$**	**90**	**$**	**24,888**
	Total					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	172,907	$	3,786	$	169,121
FNMA and FHLMC certificates		190,630		1,992		188,638
Obligations of Puerto Rico government and political subdivisions		22,391		5,591		16,800
Obligations of US government and sponsored agencies		8,613		38		8,575
GNMA certificates		199		21		178
	$	**394,740**	**$**	**11,428**	**$**	**383,312**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Most of the investments in an unrealized loss position at June 30, 2014 ($372.3 million or 94%) 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 June 30, 2014 ($22.4 million or 6%) consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The recent decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. Moreover, uncertainty in regards to the impact of the recently enacted Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”) and the related subsequent negative rating decisions taken by the credit rating agencies has affected the market value of these securities. As of June 30, 2014, the Company analyzed these investments and considered several factors that, in the Company’s view, support the ability of the Commonwealth and the particular political subdivisions or instrumentalities to continue servicing their 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” 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 June 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

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

	June 30,			December 31,	
	2014			2013	
	(In thousands)				
Non-covered loans:					
Originated and other loans and leases held for investment:					
Mortgage	$	788,001		$	766,265
Commercial		1,183,172			1,127,657
Consumer		161,538			127,744
Auto and leasing		508,034			379,874
		2,640,745			**2,401,540**
Acquired loans:					
Accounted for under ASC 310-20 (Loans with revolving feature and/or					
acquired at a premium)					
Commercial		38,602			77,681
Consumer		49,604			56,174
Auto		238,399			301,584
		326,605			**435,439**
Accounted for under ASC 310-30 (Loans acquired with deteriorated					
credit quality, including those by analogy)					
Mortgage		692,069			717,904
Commercial		508,530			545,117
Construction		123,743			126,427

Consumer		43,824		63,620
Auto		308,512		379,145
		1,676,678		**1,832,213**
		4,644,028		**4,669,192**
Deferred loan cost , net		3,236		1,035
Loans receivable		**4,647,264**		**4,670,227**
Allowance for loan and lease losses on non-covered loans		(60,360)		(54,298)
Loans receivable, net		**4,586,904**		**4,615,929**
Mortgage loans held-for-sale		14,792		46,529
Total non-covered loans, net		**4,601,696**		**4,662,458**
Covered loans:				
Loans secured by 1-4 family residential properties		121,416		121,748
Construction and development secured by 1-4 family residential properties		18,566		17,304
Commercial and other construction		248,700		264,249
Consumer		5,177		6,119
Leasing		-		270
Total covered loans		**393,859**		**409,690**
Allowance for loan and lease losses on covered loans		(59,515)		(52,729)
Total covered loans, net		**334,344**		**356,961**
Total loans, net	$	**4,936,040**	$	**5,019,419**

During the six-month period ended June 30, 2014, the Company reclassified $26.4 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

<u>*Originated and Other Loans and Leases Held for Investment*</u>

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 June 30, 2014 and December 31, 2013 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	June 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 5,182	$ 2,540	$ 3,225	$ 10,947	$ 59,426	$ 70,373	$ 70
Years 2003 and 2004	5,503	1,905	2,929	10,337	51,945	62,282	-
Year 2005	6,775	2,959	6,783	16,517	69,352	85,869	89
Year 2006	10,562	3,781	5,278	19,621	94,765	114,386	-
Years 2007, 2008 and 2009	3,962	2,051	5,859	11,872	82,471	94,343	-

Years 2010, 2011, 2012, 2013 and 2014	3,345	2,745	5,432	11,522	184,150	195,672	339
	35,329	15,981	29,506	80,816	542,109	622,925	498
Non-traditional	1,997	1,128	2,655	5,780	32,254	38,034	-
Loss mitigation program	8,239	7,779	12,427	28,445	59,519	87,964	4,378
	45,565	24,888	44,588	115,041	633,882	748,923	4,876
Home equity secured personal loans	-	-	138	138	611	749	-
GNMA's buy-back option program	-	-	38,329	38,329	-	38,329	-
	45,565	**24,888**	**83,055**	**153,508**	**634,493**	**788,001**	**4,876**
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	90,886	90,886	-
Institutional	-	-	-	-	30,701	30,701	-
Middle market	685	-	638	1,323	139,902	141,225	-
Retail	1,634	494	6,198	8,326	148,862	157,188	-
Floor plan	-	-	-	-	1,680	1,680	-
Real estate	-	-	-	-	11,878	11,878	-
	2,319	494	6,836	9,649	423,909	433,558	-
Other commercial and industrial:							
Corporate	-	-	-	-	61,329	61,329	-
Institutional	-	-	-	-	487,725	487,725	-
Middle market	-	760	-	760	80,034	80,794	-
Retail	536	149	1,343	2,028	75,728	77,756	-
Floor plan	-	-	-	-	42,010	42,010	-
	536	909	1,343	2,788	746,826	749,614	-
	2,855	**1,403**	**8,179**	**12,437**	**1,170,735**	**1,183,172**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	345	236	271	852	15,034	15,886	-
Overdrafts	19	3	1	23	295	318	-
Personal lines of credit	57	1	129	187	1,789	1,976	-
Personal loans	1,227	535	677	2,439	123,981	126,420	-
Cash collateral personal loans	280	94	48	422	16,516	16,938	-
	1,928	**869**	**1,126**	**3,923**	**157,615**	**161,538**	**-**
Auto and leasing	37,047	13,620	6,953	**57,620**	450,414	**508,034**	-
Total	**$ 87,395**	**$ 40,780**	**$ 99,313**	**$ 227,488**	**$ 2,413,257**	**$ 2,640,745**	**$ 4,876**

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

At June 30, 2014 and December 31, 2013, the Company had $476.3 million and $515.4 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. This entire amount was current at June 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	June 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Corporate	$ -	$ -	$ -	$ -	$ 2,999	$ 2,999	$ -
Retail	-	-	506	506	2,051	2,557	-
Floor plan	-	-	101	101	3,846	3,947	-
	-	-	607	607	8,896	9,503	-
Other commercial and industrial							

Corporate		-		-		94		94		2,916		3,010		-
Retail		254		92		556		902		10,518		11,420		-
Floor plan		51		68		119		238		14,431		14,669		-
		305		160		769		1,234		27,865		29,099		-
		305		**160**		**1,376**		**1,841**		**36,761**		**38,602**		**-**
Consumer														
Credit cards		1,520		835		1,320		3,675		42,263		45,938		-
Personal loans		218		82		32		332		3,334		3,666		-
		1,738		**917**		**1,352**		**4,007**		**45,597**		**49,604**		**-**
Auto		**11,603**		**4,325**		**1,566**		**17,494**		**220,905**		**238,399**		**-**
Total	**$**	**13,646**	**$**	**5,402**	**$**	**4,294**	**$**	**23,342**	**$**	**303,263**	**$**	**326,605**	**$**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

		June 30,		December 31,
		2014		2013
		(In thousands)		
Contractual required payments receivable		$ 2,676,008		$ 2,929,353
Less: Non-accretable discount		554,724		579,587
Cash expected to be collected		2,121,284		2,349,766
Less: Accretable yield		444,606		517,553
Carrying amount		$ 1,676,678		$ 1,832,213

At June 30, 2014 and December 31, 2013, the Company had $179.1 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. This entire amount was current at June 30, 2014.

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

	Quarter Ended June 30,					Six-Month Period Ended June 30,			
	2014			2013		2014			2013
	(In thousands)								
Accretable Yield Activity									
Balance at beginning of period	$	482,001	$	542,741		$	517,553	$	590,409
Accretion		(39,714)		(54,427)			(79,983)		(102,095)

Transfer from non-accretable discount		2,319		7,747		7,036		7,747
Balance at end of period	**$**	**444,606**	**$**	**496,061**	**$**	**444,606**	**$**	**496,061**
	Quarter Ended June 30,				**Six-Month Period Ended June 30,**			
	2014		**2013**		**2014**		**2013**	
	(In thousands)							
Non-Accretable Discount Activity								
Balance at beginning of period	$	563,294	$	733,126	$	579,587	$	741,872
Principal losses		(6,251)		(11,738)		(17,827)		(20,484)
Transfer to accretable yield		(2,319)		(7,747)		(7,036)		(7,747)
Balance at end of period	**$**	**554,724**	**$**	**713,641**	**$**	**554,724**	**$**	**713,641**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

	June 30, 2014			December 31, 2013
	(In thousands)			
Contractual required payments receivable	$	607,144	$	702,126
Less: Non-accretable discount		85,224		129,477
Cash expected to be collected		521,920		572,649
Less: Accretable yield		128,061		162,959
Carrying amount, gross		393,859		409,690
Less: Allowance for covered loan and lease losses		59,515		52,729
Carrying amount, net	**$**	**334,344**	**$**	**356,961**

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

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2014		2013		2014		2013	
	(In thousands)							
Accretable yield activity								
Balance at beginning of period	$	147,767	$	174,107	$	162,959	$	188,008
Accretion		(24,880)		(23,999)		(48,268)		(44,228)
Transfer from non-accretable discount		5,174		17,024		13,370		23,352
Balance at end of period	**$**	**128,061**	**$**	**167,132**	**$**	**128,061**	**$**	**167,132**
	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2013		2012		2014		2013	
	(In thousands)							
Non-accretable discount activity								
Balance at beginning of period	$	107,323	$	214,236	$	129,477	$	237,555

Principal losses		(16,925)			(4,953)			(30,883)		(21,944)
Transfer to accretable yield		(5,174)			(17,024)			(13,370)		(23,352)
Balance at end of period	**$**	**85,224**		**$**	**192,259**		**$**	**85,224**	**$**	**192,259**

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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 June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013
	(In thousands)		
Originated and other loans and leases held for investment			
Mortgage			
Traditional (by origination year):			
Up to the year 2002	$ 3,194		$ 3,428
Years 2003 and 2004	2,945		1,845
Year 2005	6,905		4,922
Year 2006	5,278		4,418
Years 2007, 2008 and 2009	5,860		4,511
Years 2010, 2011, 2012, 2013 and 2014	9,379		7,818
	33,561		26,942
Non-traditional	2,655		2,311
Loss mitigation program	16,084		18,792
	52,300		48,045
Home equity secured personal loans	138		138
	52,438		**48,183**
Commercial			
Commercial secured by real estate			
Middle market	10,345		11,895
Retail	9,823		7,208
	20,168		19,103
Other commercial and industrial			
Middle market	760		1,134
Retail	2,578		2,485
Floor plan	-		108
	3,338		3,727
	23,506		**22,830**
Consumer			
Credit cards	271		232
Overdrafts	1		-

Personal lines of credit		139		84
Personal loans		985		485
Cash collateral personal loans		58		4
		1,454		**805**
Auto and leasing		**7,300**		**5,089**
	$	**84,698**	$	**76,907**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	June 30, 2014	December 31, 2013
	(In thousands)	
Acquired loans accounted under ASC 310-20		
Commercial		
Commercial secured by real estate		
Retail	$ 545	$ 956
Floor plan	101	101
	646	1,057
Other commercial and industrial		
Corporate	94	97
Retail	588	1,371
Floor plan	120	18
	802	1,486
	1,448	**2,543**
Consumer		
Credit cards	1,318	2,068
Personal loans	34	151
	1,352	**2,219**
Auto	**1,680**	**1,608**
	4,480	**6,370**
Total non-accrual loans	**$ 89,178**	**$ 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 June 30, 2014 and December 31, 2013, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $75.4 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 June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014		December 31, 2013	
	(In thousands)			
Allowance for loans and lease losses on non-covered loans:				
Originated and other loans and leases held for investment:				
Mortgage	$	19,062	$	19,937
Commercial		12,423		14,897
Consumer		7,887		6,006
Auto and leasing		11,127		7,866
Unallocated		139		375
		50,638		**49,081**
Acquired loans:				
Accounted for under ASC 310-20 (Loans with revolving feature and/or				
acquired at a premium)				
Commercial		464		926
Consumer		338		-
Auto		2,642		1,428
		3,444		**2,354**
Accounted for under ASC 310-30 (Loans acquired with deteriorated				
credit quality, including those by analogy)				
Commercial		6,216		1,713
Consumer		62		418
Auto		-		732
		6,278		**2,863**
		60,360		**54,298**
Allowance for loans and lease losses on covered loans:				
Loans secured by 1-4 family residential properties		14,924		12,495
Commercial and other construction		43,976		39,619
Consumer		615		615
		59,515		**52,729**
Total allowance for loan and lease losses	$	**119,875**	$	**107,027**

Non-Covered Loans

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Originated and Other Loans and Leases Held for Investment

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

	Quarter Ended June 30, 2014											
								Auto and				
	Mortgage		Commercial		Consumer			Leasing		Unallocated		Total
_	(In thousands)											
Allowance for loan and lease losses for non-covered originated and other loans:												
Balance at beginning of period	$	19,511	$	13,994	$	7,135	$	8,731	$	136	$	49,507
Charge-offs		(987)		(543)		(1,397)		(5,956)		-		(8,883)
Recoveries		88		115		244		2,136		-		2,583
Provision (recapture) for non-covered originated and other loan and lease losses		450		(1,143)		1,905		6,216		3		7,431
Balance at end of period	**$**	**19,062**	**$**	**12,423**	**$**	**7,887**	**$**	**11,127**	**$**	**139**	**$**	**50,638**

	Six-Month Period Ended June 30, 2014											
								Auto and				
	Mortgage		Commercial		Consumer			Leasing		Unallocated		Total
_	(In thousands)											

Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 19,937	$ 14,897	$ 6,006	$ 7,866	$ 375	$ 49,081
Charge-offs	(2,201)	(962)	(2,235)	(10,601)	-	(15,999)
Recoveries	236	213	391	3,660	-	4,500
Provision (recapture) for non-covered originated and other loan and lease losses	1,090	(1,725)	3,725	10,202	(236)	13,056
Balance at end of period	**$ 19,062**	**$ 12,423**	**$ 7,887**	**$ 11,127**	**$ 139**	**$ 50,638**

	June 30, 2014					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
_	**(In thousands)**					
Allowance for loan and lease losses on non-covered originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 7,730	$ 2,114	$ -	$ -	$ -	$ 9,844
Collectively evaluated for impairment	11,332	10,309	7,887	11,127	139	40,794
Total ending allowance balance	**$ 19,062**	**$ 12,423**	**$ 7,887**	**$ 11,127**	**$ 139**	**$ 50,638**
Loans:						
Individually evaluated for impairment	$ 90,375	$ 28,910	$ -	$ -	$ -	$ 119,285
Collectively evaluated for impairment	697,626	1,154,262	161,538	508,034	-	2,521,460

Total ending loan balance	**$**	**788,001**		**$**	**1,183,172**		**$**	**161,538**		**$**	**508,034**		**$**	**-**		**$**	**2,640,745**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2013					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 22,889	$ 16,314	$ 1,313	$ 1,741	$ 77	$ 42,334
Charge-offs	(29,120)	(2,886)	(323)	(709)	-	(33,038)
Recoveries	-	234	43	209	-	486
Provision for non-covered originated and other loan and lease losses	27,606	3,961	1,309	2,400	643	35,919
Balance at end of period	**$ 21,375**	**$ 17,623**	**$ 2,342**	**$ 3,641**	**$ 720**	**$ 45,701**

	Six-Month Period Ended June 30, 2013					
	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 21,092	$ 17,072	$ 856	$ 533	$ 368	$ 39,921
Charge-offs	(31,707)	(3,444)	(569)	(800)	-	(36,520)
Recoveries	-	262	107	216	-	585
Provision for non-covered originated and other loan and lease	31,990	3,733	1,948	3,692	352	41,715

	Mortgage	Commercial	Consumer	Auto and Leasing	Unallocated	Total
losses						
Balance at end of period	**$ 21,375**	**$ 17,623**	**$ 2,342**	**$ 3,641**	**$ 720**	**$ 45,701**

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Quarter Ended June 30, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
_	(In thousands)									
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:										
Balance at beginning of period	$	867	$	504	$	2,247	$	-	$	3,618
Charge-offs		(110)		(1,952)		(1,370)		-		(3,432)
Recoveries		30		124		535		-		689
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		(323)		1,662		1,230		-		2,569
Balance at end of period	**$**	**464**	**$**	**338**	**$**	**2,642**	**$**	**-**	**$**	**3,444**
	Six-Month Period Ended June 30, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
_	(In thousands)									
Allowance for loan and lease losses										

for non-covered acquired loans accounted for under ASC 310-20:										
Balance at beginning of period	$	926	$	-	$	1,428	$	-	$	2,354
Charge-offs		(284)		(4,010)		(2,666)		-		(6,960)
Recoveries		30		224		985		-		1,239
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		(208)		4,124		2,895		-		6,811
Balance at end of period	**$**	**464**	**$**	**338**	**$**	**2,642**	**$**	**-**	**$**	**3,444**

	June 30, 2014									
	Commercial		**Consumer**		**Auto**		**Unallocated**		**Total**	
_	**(In thousands)**									
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:										
Ending allowance balance attributable to loans:										
Collectively evaluated for impairment		464		338		2,642		-		3,444
Total ending allowance balance	**$**	**464**	**$**	**338**	**$**	**2,642**	**$**	**-**	**$**	**3,444**
Loans:										
Collectively evaluated for impairment		38,602		49,604		238,399		-		326,605
Total ending loan balance	**$**	**38,602**	**$**	**49,604**	**$**	**238,399**	**$**	**-**	**$**	**326,605**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended June 30, 2013				
	Commercial	Consumer	Auto	Unallocated	Total
_	(In thousands)				
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$ 386	$ -	$ -	$ -	$ 386
Charge-offs	(25)	(1,158)	(1,410)	-	(2,593)
Recoveries	-	637	886	-	1,523
Provision (recapture)for non-covered acquired loan and lease losses accounted for under ASC 310-20	563	521	524	-	1,608
Balance at end of period	**$ 924**	**$ -**	**$ -**	**$ -**	**$ 924**

	Six-Month Period Ended June 30, 2013				
	Commercial	Consumer	Auto	Unallocated	Total
_	(In thousands)				
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$ -	$ -	$ -	$ -	$ -
Charge-offs	(25)	(2,614)	(3,125)	-	(5,764)

Recoveries		-		844		2,116		-		2,960
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		949		1,770		1,009		-		3,728
Balance at end of period	**$**	**924**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**924**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013				
	Commercial	Consumer	Auto	Unallocated	Total
	(In thousands)				
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:					
Ending allowance balance attributable to loans:					
Collectively evaluated for impairment	926	-	1428	-	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 periods indicated:

	Quarter Ended June 30, 2014					
	Mortgage	Commercial	Construction	Consumer	Auto	Total
	(In thousands)					
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:						
Balance at beginning of period	$ -	$ 2,653	$ -	$ 405	$ -	$ 3,058

	Mortgage		Commercial		Construction		Consumer		Auto		Total	
Provision(recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-30		-		3,563		-		(343)		-		3,220
Balance at end of period	**$**	**-**	**$**	**6,216**	**$**	**-**	**$**	**62**	**$**	**-**	**$**	**6,278**
	Six-Month Period Ended June 30, 2014											
	Mortgage		**Commercial**		**Construction**		**Consumer**		**Auto**		**Total**	
_	**(In thousands)**											
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:												
Balance at beginning of period	$	-	$	1,713	$	-	$	418	$	732	$	2,863
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-30		-		4,503		-		(356)		(732)		3,415
Balance at end of period	**$**	**-**	**$**	**6,216**	**$**	**-**	**$**	**62**	**$**	**-**	**$**	**6,278**

Non-covered acquired loans accounted for under ASC 310-30 were recognized at fair value as of December 18, 2012, which included the impact of expected credit losses, and therefore, no allowance for credit losses was recorded during the six-month period ended June 30, 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 $29.1 million and $28.4 million at June 30, 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 $2.1 million and $1.4 million at June 30, 2014 and December 31, 2013, respectively. The total investment in impaired mortgage loans was $90.4 million and $84.5 million at June 30, 2014 and December 31, 2013, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to approximately $7.7 million and $8.7 million at June 30, 2014 and December 31, 2013, respectively.

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

	June 30, 2014								
	Unpaid			Recorded			Related		
	Principal			Investment			Allowance		Coverage
	(In thousands)								
Impaired loans with specific allowance:									
Commercial	$	4,580		$	4,459		$	2,114	47%
Residential troubled-debt restructuring		95,652			90,375			7,730	9%
Impaired loans with no specific allowance:									
Commercial		31,599			24,451			N/A	N/A
Total investment in impaired loans	**$**	**131,831**		**$**	**119,285**		**$**	**9,844**	8%

	December 31, 2013								
	Unpaid			Recorded			Related		
	Principal			Investment			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)

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

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

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 June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014									
	Unpaid			**Recorded**						
	Principal			**Investment**			**Allowance**			**Coverage**
	(In thousands)									
Impaired non-covered loan pools:										
Mortgage	$	4,793		$	4,277		$	57		1%
Commercial		231,428			208,544			2,867		1%

Construction		45,912			40,550			3,330		8%
Consumer		51,145			43,824			24		0%
Total investment in impaired non-covered loan pools	**$**	**333,278**		**$**	**297,195**		**$**	**6,278**		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 non-covered commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30, for the quarters and six-month periods ended June 30, 2014 and 2013:

	Quarter Ended June 30,			
	2014		2013	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 39	$ 7,200	$ 255	$ 17,049
Residential troubled-debt restructuring	663	90,445	682	83,081
Impaired loans with no specific allowance				
Commercial	77	21,951	226	23,304
Total interest income from impaired loans	**$** 779	**$** 119,596	**$** 1,163	**$** 123,434

	Six-Month Period Ended Ended June 30,			
	2014		2013	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 78	$ 6,729	$ 322	$ 17,789
Residential troubled-debt restructuring	1,270	88,749	1,273	80,914
Impaired loans with no specific allowance				
Commercial	154	21,790	364	25,304
Total interest income from impaired loans	**$** 1,502	**$** 117,268	**$** 1,959	**$** 124,007

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Modifications

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

	Quarter Ended June 30, 2014						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modifi Weighte Average Ter Months
	(Dollars in thousands)						
Mortgage	33	$ 5,001	6%	353	$ 4,965	4.12%	
Commercial	1	73	7%	55	73	9.25%	
Consumer	3	24	14%	77	24	13.98%	

	Six-Month Period Ended June 30, 2014						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modifi Weighte Average Ter Months
	(Dollars in thousands)						
Mortgage	88	$ 11,813	6%	349	$ 11,446	4.26%	
Commercial	1	73	7%	55	73	9.25%	
Consumer	8	66	13%	70	68	13.31%	

	Quarter Ended June 30, 2013						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modifi Weighte Average Ter Months
	(Dollars in thousands)						
Mortgage	42	$ 5,372	6%	355	$ 5,715	4.26%	
Commercial	2	1,842	9%	87	1,842	4.00%	
Consumer	2	18	14%	41	18	13.67%	

	Six-Month Period Ended June 30, 2013						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Modifi Weighte Average Ter Months
	(Dollars in thousands)						
Mortgage	86	$ 10,555	7%	342	$ 11,288	4.59%	
Commercial	2	1,842	9%	87	1,842	4.00%	
Consumer	2	18	14%	41	18	13.67%	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents troubled-debt restructurings for which there was a payment default during the twelve-month periods ended June 30, 2014 and 2013:

	Twelve-Month Period Ended June 30,				
	2014			2013	
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment
	(Dollars in thousands)				
Mortgage	22	$ 2,703		48	$ 6,414
Consumer	5	$ 101		2	$ 29

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	June 30, 2014					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 90,886	$ 90,886	$ -	$ -	$ -	$ -
Institutional	30,701	20,581	10,120	-	-	-
Middle market	141,225	121,532	6,726	-	-	12,967
Retail	157,188	142,415	1,382	2,233	-	11,158
Floor plan	1,680	1,579	101	-	-	-
Real estate	11,878	11,878	-	-	-	-
	433,558	388,871	18,329	2,233	-	24,125
Other commercial and industrial:						
Corporate	61,329	61,329	-	-	-	-
Institutional	487,725	287,734	199,991	-	-	-
Middle market	80,794	73,967	3,428	389	-	3,010
Retail	77,756	73,753	259	1,969	-	1,775
Floor plan	42,010	40,910	299	801	-	-
	749,614	537,693	203,977	3,159	-	4,785
Total	1,183,172	926,564	222,306	5,392	-	28,910
Commercial - acquired loans (under ASC 310-20)						

Commercial secured by real estate:												
Corporate		2,999		2,999		-		-		-		-
Retail		2,557		2,091		-		466		-		-
Floor plan		3,947		3,947		-		-		-		-
		9,503		9,037		-		466		-		-
Other commercial and industrial:												
Corporate		3,010		2,916		94		-		-		-
Retail		11,420		10,871		100		449		-		-
Floor plan		14,669		14,669		-		-		-		-
		29,099		28,456		194		449		-		-
Total		38,602		37,493		194		915		-		-
Total	**$**	**1,221,774**	**$**	**964,057**	**$**	**222,500**	**$**	**6,307**	**$**	**-**	**$**	**28,910**

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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**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At June 30, 2014 and December 31, 2013, we had approximately $670.9 million and $763.4 million, respectively, of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which $655.4 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 have received appropriations or are due other payments from it. We also have loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all their general obligation bonds and notes. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

In the second quarter of 2014, the government enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”), which establishes procedures for the adjustment of certain public corporations' debts. The Recovery Act states in its preamble that it further promotes the central government's public policy objectives of no longer providing financial support to public corporations and promoting their economic independence. The Recovery Act, which is without precedent and is being challenged in federal court on constitutional grounds, has increased the level of uncertainty as to the rights of the affected public corporation's creditors. As of June 30, 2014, we had approximately $382.9 million of credit facilities granted to public corporations authorized to initiate proceedings under the Recovery Act.

Oriental Bank is part of a four bank syndicate providing a $550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of the Puerto Rico Electric Power Authority (“PREPA”), a public corporation authorized to seek relief under the Recovery Act. The Bank's participation in the line of credit has an unpaid principal balance of $200.0 million as of June 30, 2014, which matures on August 14, 2014 and is currently accruing. The bank syndicate and PREPA have executed a short term forbearance agreement that expires at the maturity of the line of credit pursuant to which the bank syndicate agreed to not exercise remedies in connection with certain defaults under the loan agreement to facilitate a dialogue with PREPA, which is actively ongoing, regarding the future of the line of credit. As of June 30, 2014, this credit facility has a rating of special mention.

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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 June 30, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of non-covered gross originated and other loans and acquired loans accounted for under ASC 310-20 not subject to risk rating by class of loans is as follows:

	June 30, 2014							
	Delinquency							
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 70,373	$ 59,428	$ 5,181	$ 2,498	$ 693	$ 649	$ 1,840	$ 84
Years 2003 and 2004	62,282	51,929	5,503	1,905	232	1,267	1,126	320
Year 2005	85,869	69,305	6,611	2,959	775	3,029	2,806	384
Year 2006	114,386	94,669	10,562	3,781	1,561	1,813	1,808	192
Years 2007, 2008 and 2009	94,343	82,470	3,962	2,051	1,130	2,186	2,143	401
Years 2010, 2011, 2012	195,672	173,113	1,979	1,515	246	1,843	1,344	15,632

2013 and 2014								
	622,925	530,914	33,798	14,709	4,637	10,787	11,067	17,013
Non-traditional	38,034	32,254	1,997	1,128	263	1,270	1,073	49
Loss mitigation program	87,964	8,100	1,255	471	223	932	691	76,292
	748,923	571,268	37,050	16,308	5,123	12,989	12,831	93,354
Home equity secured personal loans	749	611	-	-	-	126	12	-
GNMA's buy-back option program	38,329	-	-	-	7,258	16,835	14,236	-
	788,001	**571,879**	**37,050**	**16,308**	**12,381**	**29,950**	**27,079**	**93,354**
Consumer								
Credit cards	15,886	15,034	345	236	61	210	-	-
Overdrafts	318	295	19	3	-	1	-	-
Unsecured personal lines of credit	1,976	1,789	57	1	90	29	10	-
Unsecured personal loans	126,420	123,520	1,206	535	521	123	11	504
Cash collateral personal loans	16,938	16,516	280	94	48	-	-	-
	161,538	**157,154**	**1,907**	**869**	**720**	**363**	**21**	**504**
Auto and Leasing	**508,034**	450,414	37,047	13,620	4,588	2,365	-	-
	1,457,573	**1,179,447**	**76,004**	**30,797**	**17,689**	**32,678**	**27,100**	**93,858**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	45,938	42,265	1,520	835	465	853	-	-
Personal loans	3,666	3,335	218	82	10	21	-	-
	49,604	**45,600**	**1,738**	**917**	**475**	**874**	**-**	**-**
Auto	**238,399**	220,905	11,603	4,325	965	601	-	-
	288,003	**266,505**	**13,341**	**5,242**	**1,440**	**1,475**	**-**	**-**
Total	**$ 1,745,576**	**$ 1,445,952**	**$ 89,345**	**$ 36,039**	**$ 19,129**	**$ 34,153**	**$ 27,100**	**$ 93,858**

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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 and six-month periods ended June 30, 2014 and 2013 were as follows:

	Quarter Ended June 30,					Six-Month Period Ended June 30,			
_	2014			2013		2014			2013
_	(In thousands)								
Balance at beginning of the period	$	54,398	$	52,974		$	52,729	$	54,124
Provision for covered loan and lease losses, net		1,595		1,211			3,224		1,883
FDIC shared-loss portion of provision for (recapture of)									
covered loan and lease losses, net		3,522		(192)			3,562		(2,014)
Balance at end of the period	**$**	**59,515**	**$**	**53,993**		**$**	**59,515**	**$**	**53,993**

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 June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014			
	Unpaid Principal	**Recorded Investment**	**Allowance**	**Coverage**
	(In thousands)			
Impaired covered loan pools:				
Loans secured by 1-4 family residential properties	$ 141,951	$ 108,884	$ 14,923	14%
Construction and development secured by 1-4 family residential properties	63,615	18,566	7,799	42%
Commercial and other construction	124,506	77,980	36,178	46%
Consumer	9,184	4,912	615	13%
Total investment in impaired covered loan pools	**$ 339,256**	**$ 210,342**	**$ 59,515**	28%

	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 INDEMNIFICATION ASSET AND TRUE-UP PAYMENT OBLIGATION

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

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

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

	Quarter ended June 30,				Six-Month Period Ended June 30,			
	2014		2013		2014		2013	
	(In thousands)							
FDIC indemnification asset:								
Balance at beginning of period	$	166,194	$	283,124	$	189,240	$	302,295
Shared-loss agreements reimbursements from the FDIC		(10,464)		(12,046)		(18,700)		(18,696)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net		3,522		(193)		3,562		(2,015)
FDIC shared-loss expense		(17,499)		(19,225)		(35,121)		(31,425)
Incurred expenses to be reimbursed under shared-loss agreements		1,907		1,719		4,679		3,220
Balance at end of period	**$**	**143,660**	**$**	**253,379**	**$**	**143,660**	**$**	**253,379**

True-up payment obligation:				
Balance at beginning of period	$ 19,375	$ 16,167	$ 18,510	$ 15,496
FDIC shared-loss expense	856	740	1,721	1,411
Balance at end of period	**$ 20,231**	**$ 16,907**	**$ 20,231**	**$ 16,907**

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 indemnification asset.

The FDIC shared-loss expense of $18.4 million and $36.8 million for the quarter and six-month period ended June 30, 2014 compared to $20.0 million and $32.8 million for the same periods in 2013. These changes were caused by the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and the improved accretable yield on the covered loans. Forecasted losses show a decreasing trend during the six-month period ended June 30, 2014 as compared to the projections in 2013. The reduction in claimable losses amortizes the FDIC 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 and six-month period ended June 30, 2014, the net amortization included $1.6 million and $5.1 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, $98.9 million, is recorded for projected claimable losses on non-single family residential loans whose loss share period ends in the second quarter of 2015, although the period during which recoveries are shared extends for an additional three-years.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Also in connection with the FDIC assisted acquisition, the Bank agreed to make a true-up payment, also known as clawback liability or clawback provision, to the FDIC on the date that is 45 days following the last day (such day, the "True-Up Measurement Date") of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of $906.0 million (or $181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or $227.5 million); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of $20.2 million and $18.5 million, net of discount, as of June 30, 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 and six-month period ended June 30, 2014, losses of $247 thousand and $470 thousand, respectively, were recognized and reflected as "Derivative Activities" in the unaudited consolidated statements of operations. During the quarter and six-month period ended June 30, 2013, losses of $164 thousand and $934 thousand, respectively, were recognized.

The following table presents the Company's derivative assets and liabilities at June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013	
	(In thousands)				
Derivative assets:					
Options tied to S&P 500 Index	$	6,580		$	16,430
Interest rate swaps designated as cash flow hedges		-			850
Interest rate swaps not designated as hedges		2,728			2,861
Interest rate caps		249			319
Other		1			42
	$	**9,558**		**$**	**20,502**

Derivative liabilities:				
Interest rate swaps designated as cash flow hedges		10,515		11,757
Interest rate swaps not designated as hedges		2,728		2,861
Interest rate caps		249		319
Other		125		-
	$	**13,617**	**$**	**14,937**

Interest Rate Swaps

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table shows a summary of these swaps and their terms at June 30, 2014:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
Interest Rate Swaps	$ 25,000	2.4365%	1-Month LIBOR	05/05/11	05/04/12	05/04/16
	25,000	2.6200%	1-Month LIBOR	05/05/11	07/24/12	07/24/16
	25,000	2.6350%	1-Month LIBOR	05/05/11	07/30/12	07/30/16
	50,000	2.6590%	1-Month LIBOR	05/05/11	08/10/12	08/10/16
	100,000	2.6750%	1-Month LIBOR	05/05/11	08/16/12	08/16/16
	39,961	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$ 264,961					

An unrealized loss of $10.5 million was recognized in accumulated other comprehensive income related to the valuation of these swaps at June 30, 2014, and the related asset and liability are being reflected in the accompanying unaudited consolidated statements of financial condition.

At June 30, 2014 and December 31, 2013, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $2.7 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 June 30, 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 $2.7 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 June 30, 2014:

Type	Notional Amount (In thousands)	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
Interest Rate Swaps - Derivatives Offered to Clients	$ 4,049	5.1300%	1-Month LIBOR	07/03/06	07/03/16

		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,549**				
Interest Rate Swaps - Mirror Image Derivatives	$	4,049	5.1300%	1-Month LIBOR	07/03/06	07/03/16
		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,549**				

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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 June 30, 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 $6.6 million (notional amount of $14.0 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 $6.4 million (notional amount of $13.4 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, and therefore, they are marked to market through earnings. The outstanding total notional amount of interest rate caps was $110.0 million at both June 30, 2014 and December 31, 2013. At June 30, 2014 and December 31, 2013, the interest rate caps sold to clients represented a liability of $249 thousand and $319 thousand, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition. At June 30, 2014 and December 31, 2013, the interest rate caps purchased as mirror-images represented an asset of $249 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 June 30, 2014 and December 31, 2013 consists of the following:

	June 30,		**December 31,**
	2014		**2013**
	(In thousands)		

Non-covered loans	$	18,098	$	13,378
Investments		4,410		5,356
	$	**22,508**	**$**	**18,734**

Other assets at June 30, 2014 and December 31, 2013 consist of the following:

		June 30,		December 31,
	2014		2013	
	(In thousands)			
Prepaid expenses	$	17,423	$	15,439
Core deposit and customer relationship intangibles		10,829		11,912
Other repossessed assets		16,875		12,583
Mortgage tax credits		2,621		8,706
Investment in Statutory Trust		1,083		1,083
Accounts receivable and other assets		41,165		48,717
	$	**89,996**	**$**	**98,440**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Prepaid expenses amounting to $19.6 million and $15.4 million at June 30, 2014 and December 31, 2013, respectively, include prepaid municipal, property and income taxes aggregating to $14.2 million and $9.6 million, respectively.

In connection with the FDIC-assisted acquisition and the BBVAPR Acquisition, the Company recorded a core deposit intangible representing the value of checking and savings deposits acquired. At June 30, 2014 and December 31, 2013, this core deposit intangible amounted to $7.1 million and $7.8 million, respectively. In addition, the Company recorded a customer relationship intangible amounting to $5.0 million representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition as of December 31, 2012. At June 30, 2014 and December 31, 2013, this customer relationship intangible amounted to $3.7 million and $4.1million, respectively.

Other repossessed assets totaled $16.9 million and $12.6 million at June 30, 2014 and December 31, 2013, respectively, include repossessed automobiles amounting to $16.8 million and $12.3 million, respectively.

At June 30, 2014 and December 31, 2013, tax credits for the Company totaled $2.6 million and $8.7 million, respectively. These tax credits do not have an expiration date.

NOTE 9 — DEPOSITS AND RELATED INTEREST

Total deposits as of June 30, 2014 and December 31, 2013 consist of the following:

	June 30, 2014			December 31, 2013	
	(In thousands)				
Non-interest bearing demand deposits	$	731,294		$	744,327
Interest-bearing savings and demand deposits		2,540,229			2,489,971
Individual retirement accounts		323,127			347,262
Retail certificates of deposit		519,150			598,367
Institutional certificates of deposit		308,958			375,224
Total core deposits		**4,422,758**			**4,555,151**
Brokered deposits		718,475			828,114

Total deposits	$	**5,141,233**	$	**5,383,265**

Brokered deposits include $627.9 million in certificates of deposits and $90.6 million in money market accounts at June 30, 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 0.70% at June 30, 2014 and 0.73% at December 31, 2013, inclusive of non-interest bearing deposits of $731.3 million and $744.3 million, respectively. Interest expense for the quarters and six-month periods ended June 30, 2014 and 2013 was as follows:

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2014		2013		2014		2013	
	(In thousands)							
Demand and savings deposits	$	4,804	$	5,435	$	9,832	$	11,398
Certificates of deposit		4,361		4,052		8,311		8,025
	$	**9,165**	**$**	**9,487**	**$**	**18,143**	**$**	**19,423**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At June 30, 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 $101.8 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 $81.8 million and $67.5 million, respectively.

At June 30, 2014 and December 31, 2013, time deposits in denominations of $100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $719.2 million and $845.8 million, including public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of $22.1 million and $26.7 million, respectively, at a weighted average rate of 0.53% at June 30, 2014 and 0.32% at December 31, 2013.

At June 30, 2014 and December 31, 2013, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $362.8 million and $328.6 million, respectively. These public funds were collateralized with commercial loans amounting to $454.5 million at June 30, 2014, and with investment securities with a fair value of $97.8 million and commercial loans amounting to $549.0 million at December 31, 2013.

Excluding equity indexed options in the amount of $5.2 million, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interest of $2.1 million and unamortized deposit discount in the amount of $2.5 million, the scheduled maturities of certificates of deposit at June 30, 2014 are as follows:

	June 30, 2014	
	(In thousands)	
Within one year:		
Three (3) months or less	$	372,809
Over 3 months through 1 year		701,493
		1,074,302
Over 1 through 2 years		421,047
Over 2 through 3 years		200,607
Over 3 through 4 years		56,095
Over 4 through 5 years		17,202
	$	**1,769,253**

The table of scheduled maturities of certificates of deposits above includes brokered deposits.

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans amounted to $861 thousand and $1.8 million as of June 30, 2014 and December 31, 2013, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 10 — BORROWINGS

Securities Sold under Agreements to Repurchase

At June 30, 2014, securities underlying agreements to repurchase were delivered to, and are being held by, the counterparties with whom the repurchase agreements were transacted. The counterparties have agreed to resell to the Company the same or similar securities at the maturity of these agreements.

At June 30, 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:

	June 30, 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	274,471	255,000	273,250
Credit Suisse Securities (USA) LLC	755,000	859,061	755,000	864,232
Deutsche Bank	-	-	255,000	272,053
Total	**$ 1,010,000**	**$ 1,133,532**	**$ 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 June 30, 2014:

Year of Maturity	Borrowing Balance (In thousands)	Weighted-Average Coupon	Settlement Date	Maturity Date
2014	$ 85,000	0.675%	12/3/2012	12/3/2014

2015		255,000	0.840%	12/10/2012	6/13/2015
2016		170,000	1.500%	12/6/2012	12/8/2016
2017		500,000	4.78%	3/2/2007	3/2/2017
	$	**1,010,000**	**2.89%**		

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents the repurchase liability associated with the repurchase agreement transactions (excluding accrued interest) by maturity. Also, it includes the carrying value and approximate market value of collateral (excluding accrued interest) at June 30, 2014 and December 31, 2013. The information excludes repurchase agreement transactions which were collateralized with securities or cash, or securities purchased under agreements to resell.

	June 30, 2014						
							Market Value of Underlying Collateral