OFG BANCORP
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

Puerto Rico;

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

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

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

ITEM 1. *FINANCIAL STATEMENTS*

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF MARCH 31, 2014 AND DECEMBER 31, 2013

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

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

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

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

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

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

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

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

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

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

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OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Nature of Operations

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

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

Recent Accounting Developments

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

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

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

The following table includes the composition of the restricted cash:

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

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

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

NOTE 3 – SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND INVESTMENTS

Money Market Investments

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

Securities Purchased Under Agreements to Resell

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

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

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

	December 31, 2013				
		Gross	Gross		Weighted

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-covered Loans

Originated and Other Loans and Leases Held for Investment

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

Non-Covered Loans

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Originated and Other Loans and Leases Held for Investment

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

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

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

Originated and Other Loans and Leases Held for Investment

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

	December 31, 2013

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Modifications

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

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

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

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

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

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

	March 31, 2014

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

NOTE 7 — DERIVATIVE ACTIVITIES

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

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

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

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

Interest Rate Swaps

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Interest rate caps

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

NOTE 8 — ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

NOTE 9 — DEPOSITS AND RELATED INTEREST

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

NOTE 10 — BORROWINGS

Securities Sold under Agreements to Repurchase

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

Advances from the Federal Home Loan Bank of New York

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

Subordinated Capital Notes

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

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

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

Federal Funds Purchased

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other borrowings

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

NOTE 11 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

March 31, 2014						
				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Amount of Recognized Assets	**Gross Amounts Offset in the Statement of Financial Condition**	**Net Amount of Assets Presented in Statement of Financial Condition**	**Financial Instruments**	**Cash Collateral Received**	**Net Amount**
	(In thousands)					
Derivatives	$ 15,861	$ -	$ 15,861	$ 6,814	$ -	$ 9,047
Total	**$ 15,861**	**$ -**	**$ 15,861**	**$ 6,814**	**$ -**	**$ 9,047**
December 31, 2013						
				Gross Amounts Not Offset in the Statement of Financial Condition		

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12 — RELATED PARTY TRANSACTIONS

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

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

NOTE 13 — INCOME TAXES

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

NOTE 14 — STOCKHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE

Regulatory Capital Requirements

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

Additional paid-in capital

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Earnings per Common Share

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

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

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

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

Treasury Stock

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

Accumulated Other Comprehensive Income

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 – GUARANTEES

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 — COMMITMENTS AND CONTINGENCIES

Loan Commitments

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

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

Lease Commitments

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Contingencies

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

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

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

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value measurement framework under GAAP.

Fair Value Measurement

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

Money market investments

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

Investment securities

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivative instruments

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

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

Servicing assets

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

Loans receivable considered impaired that are collateral dependent

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

Foreclosed real estate

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

NOTE 18 – BUSINESS SEGMENTS

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

INTRODUCTION

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

OVERVIEW OF FINANCIAL PERFORMANCE

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

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

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

FINANCIAL HIGHLIGHTS

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

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

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

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

Interest Income

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

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

Interest Expense

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

Net Interest Income

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

Provision for Loan and Lease Losses

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

Non-Interest Income

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

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

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

Non-Interest Expense

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

Income Tax Expense

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

Income Available to Common Shareholders

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

Interest Earning Assets

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

Interest Bearing Liabilities

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

Stockholders' Equity

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

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

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

Return on Average Assets and Common Equity

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

Assets under Management

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

Lending

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

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

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

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

Credit Quality on Non-Covered Loans

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

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

Non-GAAP Measures

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

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

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

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

Total pre-tax pre-provision operating income							

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

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

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

ANALYSIS OF RESULTS OF OPERATIONS

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

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

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

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

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

over average interest-bearing liabilities		
Average interest-earning assets to average interest-bearing liabilities ratio	**102.06%**	**99.42%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

		Volume		Rate		Total
			(In thousands)			
Interest Income:						
Investments	$	(2,756)	$	4,063	$	1,307
Loans		(2,613)		10,208		7,595
Total interest income		**(5,369)**		**14,271**		**8,902**
Interest Expense:						
Deposits		(464)		(493)		(957)
Repurchase agreements		(1,752)		1,915		163
Other borrowings		(987)		901		(86)
Total interest expense		**(3,203)**		**2,323**		**(880)**
Net Interest Income	**$**	**(2,166)**	**$**	**11,948**	**$**	**9,782**

Net Interest Income

Net interest income amounted to $103.4 million for the first quarter of 2014, a 10.4% increase from $93.6 million in the first quarter of 2013. These changes reflect a decrease of 4.3% in interest expense and an increase of 7.5% in interest income from loans and of 9.9% in interest income from investment securities when comparing both quarters.

Interest rate spread for the first quarter of 2014, increased 96 basis points to 5.87% from 4.91% in the same period for 2013. This increase is mainly due to the net effect of a 104 basis point increase in the average yield of interest-earning assets from 5.98% to 7.02%, and an 8 basis point decrease in the average cost of funds from 1.07% to 1.15%.

The increase in interest income was primarily the result of an increase of $14.3 million in interest rate partially offset by a $5.4 million decrease in volume of interest-earning assets. Interest income from loans increased 7.5% to $108.6 million for the quarter ended March 31, 2014. Interest income from investments increased 9.9% to $14.4 million for the quarter ended March 31, 2014, reflecting a lower premium amortization in the investment securities portfolio as conditional prepayment rates “CPRs” on mortgage-backed securities fell.

Interest expense decreased 4.3% to $19.7 million for the quarter ended March 31, 2014. The decrease was primarily the result of a $3.2 million decrease in volume of interest-bearing liabilities, partially offset by a $2.3 million increase in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease in repurchase agreement volume of $1.8 million during the first quarter of 2014, as the Company repaid $255 million of repurchase agreements at maturity. The increase in interest rate is due to an increase in the cost of borrowings, which increased 70 basis points to 2.66% in the first quarter of 2014, compared to 1.96% for the first quarter of 2013. The cost of deposits decreased 4 basis points to 0.68% for the first quarter of 2014, compared to 0.72% for the first quarter of 2013, primarily due to continuing progress in repricing core deposits and to the maturity of higher cost brokered deposits and time deposits during the period.

For the quarter ended March 31, 2014, the average balance of total interest-earning assets was $7.109 billion, a decrease of 8.2% from the quarter ended March 31, 2013. The decrease in average balance of interest-earning assets was mainly attributable to a decrease of 21.0% in average investments for the quarter ended March 31, 2014, resulting from redemptions and maturities and to the sale of available for sale securities during the current quarter amounting to $110.8 million, and a reduction of 1.6% in the average loan portfolio for the quarter ended March 31, 2014, primarily due to the early paydown of some commercial loans. For the quarter ended March 31, 2014, the average yield on interest-earning assets was 7.02% compared to 5.98% for the same quarter in 2013. This was mainly due to higher average yields in the covered and non-covered loan portfolios, which their average yield increased to 26.68% and 7.43%, respectively, for the quarter ended March 31, 2014, compared to 20.98% and 6.98 % for the quarter ended March 31, 2013.

TABLE 2 - NON-INTEREST INCOME SUMMARY					
	Quarter Ended March 31,				
	2014		2013		Variance
	(Dollars in thousands)				
Banking service revenue	$	10,606	$	11,838	-10.4%
Financial service revenue		6,867		7,660	-10.4%
Mortgage banking activities		1,950		3,153	-38.2%
Total banking and financial service revenue		**19,423**		**22,651**	**-14.3%**
FDIC shared-loss expense, net		(18,487)		(12,871)	-43.6%
Sale of securities available for sale		4,366		-	100.0%
Derivatives		(478)		(788)	39.3%
Early extinguishment of debt		-		1,061	-100.0%
Other non-interest income		454		46	887.0%
		(14,145)		(12,552)	-12.7%
Total non-interest income, net	**$**	**5,278**	**$**	**10,099**	**-47.7%**

Non-Interest Income

Non-interest income is affected by the level of trust assets under management, transactions generated by clients' financial assets serviced by the securities broker-dealer and insurance agency subsidiaries, the level of mortgage banking activities, and the fees generated from loans and deposit accounts. It is also affected by the FDIC shared-loss expense, which varies depending on the results of the on-going evaluation of expected cash flows of the loan portfolio acquired in the FDIC-assisted acquisition. In addition, it is affected by the amount of securities, derivatives and trading transactions.

As shown in Table 2 above, the Company recorded non-interest income in the amount of $5.3 million for the quarter ended March 31, 2014, compared to $10.1 million for the quarter ended March 31, 2014, a decrease of $4.8 million.

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

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, decreased 10.4% to $10.6 million for the quarter ended March 31, 2014, from $11.8 million for the quarter ended March 31, 2013. Decrease in banking services revenues is mostly due to the reclassification of loan late charges into interest income.

Financial service revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 10.4% to $6.9 million for the quarter ended March 31, 2014, compared to $7.7 million for the quarter ended March 31, 2013. This decrease is mainly due to local market conditions.

Income generated from mortgage banking activities decreased 38.2% to $2.0 million for the quarter ended March 31, 2014 compared to $3.2 million for the quarter ended March 31, 2013. Decrease in mortgage banking activities is mainly due to higher losses in repurchased loans, lower cost or market adjustment made to mortgage loans held for sale during such quarter and a decrease in sales, when compared to same period in 2013.

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

TABLE 3 - NON-INTEREST EXPENSES SUMMARY					
	Quarter Ended March 31,				
	2014		**2013**		**Variance %**
	(Dollars in thousands)				
Compensation and employee benefits	$	21,787	$	23,249	-6.3%
Professional and service fees		4,206		6,478	-35.1%
Occupancy and equipment		8,309		9,216	-9.8%
Merger and restructuring charges		-		5,534	-100.0%
Taxes, other than payroll and income taxes		3,735		2,622	42.4%
Electronic banking charges		4,743		3,728	27.2%
Information technology expenses		1,815		2,643	-31.3%
Insurance		2,074		2,678	-22.6%
Foreclosure, repossession and other real estate expenses		6,436		3,382	90.3%
Loan servicing and clearing expenses		2,060		1,475	39.7%
Advertising, business promotion, and strategic initiatives		1,781		1,409	26.4%
Printing, postage, stationery and supplies		554		1,166	-52.5%
Communication		957		864	10.8%
Director and investor relations		251		236	6.4%
Other operating expenses		2,745		2,129	28.9%
Total non-interest expenses	**$**	**61,453**	**$**	**66,809**	**-8.0%**
Relevant ratios and data:					
Efficiency ratio		**50.03%**		**57.46%**	
Compensation and benefits to non-interest expense		**35.45%**		**34.80%**	
Compensation to average total assets owned		**0.27%**		**0.27%**	
Average number of employees		**1,546**		**1,565**	
Average compensation per employee	**$**	**14.1**	**$**	**14.9**	
Average loans per average employee	**$**	**3,239**	**$**	**3,251**	

Non-Interest Expenses

Non-interest expense for the quarter ended March 31, 2014 reached $61.5 million, representing a decrease of 8.0% compared to $66.8 million for the quarter ended March 31, 2013. The decrease is due mainly to the merger and restructuring charges incurred during the quarter ended March 31, 2013, for the BBVAPR Acquisition, compared to no charges for the quarter ended March 31, 2014.

Compensation and employee benefits decreased 6.3% to $21.8 million for the quarter ended March 31, 2014, from $23.2 million for the quarter ended March 31, 2013. The decrease is due mainly to a lower headcount related to employee consolidation.

Professional and service fees decreased 35.1% to $4.2 million for the quarter ended March 31, 2014 as compared to $6.5 million for the quarter ended March 31, 2013. Professional and service fees are primarily composed of legal expenses and consulting and outsourcing expenses. For the quarter ended March 31, 2014 these fees amounted to $1.1 million and $1.1 million, respectively, compared to $1.2 million and $1.5 million, respectively, for the quarter ended March 31, 2013. Decrease in professional and service fees is mainly related to loan servicing fees amounting to $1.8 million during the quarter ended March 31, 2013 for a third party loan servicer that was terminated during the quarter ended June 30, 2013.

Occupancy and equipment expenses decreased 9.8% to $8.3 million for the quarter ended March 31, 2014, as compared to $9.2 million for the quarter ended March 31, 2013. The decrease is mainly related to a lower rent expense due to closed branches and lower depreciation expenses for office building and leasehold improvement.

Taxes, other than payroll and income taxes, for the quarter ended March 31, 2014 increased to $3.7 million, as compared to $2.6 million for the quarter ended March 31, 2013. The increase primarily reflects a $1.3 million impact for 2014 from the application of the 1.0% tax on gross revenues which was part of the Act. No. 40-2013, known as “Ley de Redistribución y Ajuste de la Carga Contributiva”, signed into law on June 30, 2013.

Electronic banking charges increased 27.2% to $4.7 million for the quarter ended March 31,2014 as compared to $3.7 million for the quarter ended March 31, 2013, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business as a result of the BBVAPR Acquisition.

Foreclosure, repossession and other real estate expenses for the quarter ended March 31, 2014 increased 90.3% to $6.4 million, as compared to $3.4 million for the same quarter in 2013, principally due to an increase in foreclosures and decrease in fair value of real estate during the first quarter of 2014 as compared to the same quarter in 2013.

The increase in the Company’s net-interest income resulted in a decrease in the efficiency ratio to 50.03% for the quarter ended March 31, 2014 from 57.46% from the same quarter in 2013. The efficiency ratio measures how much of a company’s revenue is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investments securities, derivatives gains or losses, credit-related other-than-temporary impairment losses, FDIC shared-loss expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits greater comparability. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation amounted to losses of $14.1 million for the quarter ended March 31, 2014, compared to losses of $12.6 million for the quarter ended March 31, 2013. Revenue for purposes of the efficiency ratio for the quarter ended March 31, 2014 amounted to $122.8 million, compared to $116.3 million for the same period in 2013.

Provision for Loan and Lease Losses

The provision for non-covered loan and lease losses for the quarter ended March 31, 2014 totaled $10.1 million, an increase of 27.1% from the $7.9 million for the quarter ended March 31, 2013, mostly related to the provision recorded on non-covered loans acquired accounted for under ASC 310-20 amounting to $4.2 million during the quarter ended March 31, 2014 as compared to no provision for these loans for the same period in 2013. Provision for originated loan and lease losses for the quarter ended March 31, 2014 was $5.6 million, a 2.9 % decrease when compared to the quarter ended March 31, 2013, mainly related to decrease in the loan average balance. Based on an analysis of the credit quality and the composition of the Company’s loan portfolio, management determined that the provision for the quarter ended March 31, 2014 was adequate in order to maintain the allowance for loan and lease losses at an adequate level to provide for probable losses based upon an evaluation of known and inherent risks.

During the first quarter of 2014, net credit losses, excluding acquired loans, amounted to $5.2 million, representing an increase of 53.7%, when compared to $3.4 million reported for the same quarter in 2013.

Total charge-offs on non-covered loans, excluding acquired loans, increased 104.4% to $7.1 million in the first quarter of 2014, as compared to $3.5 million for the same quarter in 2013, and total recoveries increased from $99 thousand in the first quarter of 2013, to $1.9 million in the first quarter of 2014. As a result, the recoveries to charge-offs ratio increased from 2.84% in the first quarter of 2013 to 26.94% in the first quarter of 2014. The increase in net credit losses was primarily due to an increase of $3.0 million in the auto portfolio during the first quarter of 2014, compared to the same period in 2013.

The non-covered loans acquired accounted for under ASC 310-20 required a provision for loan and lease losses of $4.2 million for the quarter ended March 31, 2014. No provision was required for the quarter ended March 31, 2013. Non-covered loans acquired accounted for under ASC 310-30 required a provision for loan and lease losses of $195 thousand for the quarter ended March 31, 2014, reflecting the Company’s revision of the expected cash flows in the non-covered acquired loan portfolio considering actual experiences and changes in the Company’s expectations for the remaining term of the loan pools. No provision was required for the quarter ended March 31, 2013, as the portfolio was recently acquired during the fourth quarter of 2012.

Provision for covered loans and lease losses for the first quarter of 2014 was $1.6 million, reflecting the Company's revision of the expected cash flows in the covered loan portfolio considering actual experiences and changes in the Company's expectations for the remaining terms of the loan pools.

Please refer to the "Allowance for Loan and Lease Losses and Non-Performing Assets" section in this MD&A and Table 8 through Table 13 below for more detailed information concerning the allowances for loan and lease losses, net credit losses and credit quality statistics.

Income Taxes

Income tax expense increase to $11.8 million for the quarter ended March 31, 2014 compared to an income tax expense of $7.1 million for the same quarter in 2013. The increase for the first quarter of 2014 was due to the recent amendments to the Puerto Rico tax code that increases the corporate income tax rate to 39% from 30%.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At March 31, 2014, the Company's total assets amounted to $7.856 billion, a decrease of 3.7% when compared to $8.158 billion at December 31, 2013, and interest-earning assets decreased 3.1% from $6.694 billion at December 31, 2013 to $6.485 billion at March 31, 2014, mostly as a result of a decrease in investment securities.

At March 31, 2014, loans represented 77% of total interest-earning assets while investments represented 23%, compared to 75% and 25%, respectively, at December 31, 2013.

The Company's loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate located in Puerto Rico, other commercial and industrial loans, consumer loans, leases, and auto loans. Auto loans were added as part of the BBVAPR Acquisition. At March 31, 2014, the Company's loan portfolio slightly decreased by 0.3% to $5.003 billion compared to $5.019 billion at December 31, 2013. At March 31, 2014, the covered loan portfolio decreased $9.1 million, or 2.5%, from December 31, 2013 as the loans continue to pay down. At March 31, 2014, the non-covered loan portfolio decreased $7.7 million, or 0.2%, primarily due to the early pay down of some commercial loans.

The FDIC shared-loss indemnification asset amounted to $166.2 million at March 31, 2014 and $189.2 million as of December 31, 2013, representing a 12.2% reduction. The decrease in the FDIC shared-loss indemnification asset is mainly related to reimbursements of $8.2 million received from the FDIC, and the amortization of $17.6 million during the quarter ended March 31, 2014.

Investments principally consist of U.S. treasury securities, U.S. government and agency bonds, mortgage-backed securities, and Puerto Rico government and agency bonds. At March 31, 2014, the investment portfolio decreased 8.2% to $1.482 billion from $1.615 billion at December 31, 2013. This decrease is mostly due to the reduction of $96.5 million in FNMA and FHLMC certificates and $97.1 million in Puerto Rico government obligations due to redemptions and maturities. In addition, during the quarter ended March 31, 2014, the Company sold $110.8 million of mortgage-backed available for sale securities taking advantage of market opportunities to realize gains and reduce some interest rate sensitivity. During the quarter ended March 31, 2014, the Company also had normal prepayment of mortgage-backed securities of approximately $55 million. The decrease in investments was partially offset by the increase of $70.0 million in US Treasury securities.

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

Company’s Financial Assets Managed

The Company’s financial assets managed include those managed by the Company’s trust division, retirement plan administration subsidiary, and its broker-dealer subsidiary. The Company’s trust division offers various types of IRAs and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while the retirement plan administration subsidiary, CPC, manages private retirement plans. At March 31, 2014, total assets managed by the Company’s trust division and CPC amounted to $2.798 billion, compared to $2.797 billion at December 31, 2013. Oriental Financial Services offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At March 31, 2014, total assets gathered by Oriental Financial Services from its customer investment accounts increased to $2.577 billion, compared to $2.493 billion in assets gathered at December 31, 2013. Changes in trust and broker-dealer related assets primarily reflect an increase in portfolio and differences in market values.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION					
	March 31, 2014		December 31, 2013		Variance %
	(Dollars in thousands)				
Investments:					
FNMA and FHLMC certificates	$	1,120,795	$	1,217,330	-7.9%
Obligations of US Government -sponsored agencies		9,497		10,649	-10.8%
US Treasury securities		70,000		-	100.0%
CMOs issued by US Government -sponsored agencies		207,520		214,394	-3.2%
GNMA certificates		6,549		7,816	-16.2%
Puerto Rico Government and political subdivisions		17,069		114,190	-85.1%
FHLB stock		24,430		24,450	-0.1%
Other debt securities		24,255		24,047	0.9%
Other investments		1,975		1,933	2.2%
Total investments		**1,482,090**		**1,614,809**	**-8.2%**
Loans:					
Loans not covered under shared-loss agreements with the FDIC		4,691,577		4,670,227	0.5%
Allowance for loan and lease losses on non covered loans		(56,183)		(54,298)	-3.5%
Non covered loans receivable, net		**4,635,394**		**4,615,929**	**0.4%**
Mortgage loans held for sale		19,355		46,529	-58.4%
Total loans not covered under shared-loss agreements with the FDIC, net		**4,654,749**		**4,662,458**	**-0.2%**
Loans covered under shared-loss agreements with the FDIC		402,263		409,690	-1.8%
Allowance for loan and lease losses on covered loans		(54,398)		(52,729)	-3.2%
Total loans covered under shared-loss agreements with the FDIC, net		**347,865**		**356,961**	-2.5%
Total loans, net		**5,002,614**		**5,019,419**	**-0.3%**
Securities purchased under agreements to resell		-		60,000	**-100.0%**
Total securities and loans		**6,484,704**		**6,694,228**	**-3.1%**

Other assets:				
Cash and due from banks		632,154		696,501	-9.2%
Money market investments		7,652		6,967	9.8%
FDIC shared-loss indemnification asset		166,194		189,240	-12.2%
Foreclosed real estate		96,884		90,024	7.6%
Accrued interest receivable		18,969		18,734	1.3%
Deferred tax asset, net		127,657		137,564	-7.2%
Premises and equipment, net		83,029		82,903	0.2%
Servicing assets		13,970		13,801	1.2%
Derivative assets		15,861		20,502	-22.6%
Goodwill		86,069		86,069	0.0%
Other assets		122,495		121,482	0.8%
Total other assets		**1,370,934**		**1,463,787**	**-6.3%**
Total assets	**$**	**7,855,638**	**$**	**8,158,015**	**-3.7%**
Investments portfolio composition:					
FNMA and FHLMC certificates		75.6%		75.4%	
Obligations of US Government-sponsored agencies		0.6%		0.7%	
US Treasury securities		4.7%		0.0%	
CMOs issued by US Government-sponsored agencies		14.0%		13.3%	
GNMA certificates		0.4%		0.5%	
Puerto Rico Government and political subdivisions		1.2%		7.1%	
FHLB stock		1.7%		1.5%	
Other debt securities and other investments		1.8%		1.5%	
		100.0%		**100.0%**	

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TABLE 5 — LOANS RECEIVABLE COMPOSITION					
	March 31, 2014		December 31, 2013		Variance %
	(Dollars in thousands)				
Loans not covered under shared-loss agreements with FDIC:					
Originated and other loans and leases held for investment:					
Mortgage	$	782,150	$	766,265	2.1%
Commercial		1,170,145		1,127,657	3.8%
Consumer		142,492		127,744	11.5%
Auto and leasing		447,940		379,874	17.9%
Total originated and other loans and leases held for investment		**2,542,727**		**2,401,540**	**5.9%**
Acquired loans:					
Accounted for under ASC 310-20					
Commercial		71,577		77,681	-7.9%
Consumer		52,049		56,174	-7.3%
Auto		268,865		301,584	-10.8%
		392,491		**435,439**	**-9.9%**
Accounted for under ASC 310-30					
Mortgage		703,454		717,904	-2.0%
Commercial		655,388		671,544	-2.4%
Consumer		53,310		63,620	-16.2%
Auto		341,889		379,145	-9.8%
		1,754,041		**1,832,213**	**-4.3%**
		2,146,532		**2,267,652**	**-5.3%**
		4,689,259		**4,669,192**	**0.4%**
Deferred loans fees, net		2,318		1,035	124.0%
Loans receivable		4,691,577		4,670,227	**0.5%**
Allowance for loan and lease losses on non-covered loans		(56,183)		(54,298)	-3.5%
Loans receivable, net		**4,635,394**		**4,615,929**	**0.4%**
Mortgage loans held-for-sale		19,355		46,529	-58.4%
Total loans not covered under shared-loss agreements with FDIC, net		**4,654,749**		**4,662,458**	**-0.2%**
Loans covered under shared-loss agreements with FDIC:					
Loans secured by 1-4 family residential properties		124,239		121,748	2.0%

Construction and development secured by 1-4 family residential properties		18,254			17,304	5.5%
Commercial and other construction		253,804			264,249	-4.0%
Consumer		5,769			6,119	-5.7%
Leasing		197			270	-27.0%
Total loans covered under shared-loss agreements with FDIC		**402,263**			**409,690**	**-1.8%**
Allowance for loan and lease losses on covered loans		(54,398)			(52,729)	-3.2%
Total loans covered under shared-loss agreements with FDIC, net		**347,865**			**356,961**	**-2.5%**
Total loans receivable, net	**$**	**5,002,614**		**$**	**5,019,419**	**-0.3%**

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As shown in Table 5 above, total loans, net amounted to $5.002 billion at March 31, 2014 and $5.019 at December 31, 2013.

The Company's originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to $782.2 million (30.8% of the gross originated loan portfolio) compared to $766.3 million (31.9% of the gross originated loan portfolio) at December 31, 2013. Mortgage loan production totaled $50.8 million for the quarter ended March 31, 2014, which represents a decrease of 34.1% from $77.1 million for the same period in 2013. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $35.3 million and $34.9 million for the periods ended March 31, 2014 and December 31, 2013, respectively. 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.

- Commercial loan portfolio amounted to $1.170 billion (46.0% of the gross originated loan portfolio) compared to $1.128 billion (47.0% of the gross originated loan portfolio) at December 31, 2013. Commercial loan production decreased 46.3% to $39.8 million for the first quarter of 2014 from $74.1 million for the first quarter of 2013.

- Consumer loan portfolio amounted to $142.5 million (5.6% of the gross originated loan portfolio) compared to $127.7 million (5.3% of the gross originated loan portfolio) at December 31, 2013. Consumer loan production increased 22.9% to $27.8 million for the quarter ended March 31, 2014 from $22.6 million for the same period in 2013.

- Auto loans and leasing portfolio amounted to $447.9 million (17.6% of the gross originated loan portfolio) compared to $379.9 million (15.8% of the gross originated loan portfolio) at December 31, 2013. Auto production was $93.6 million for the quarter ended March 31, 2014, compared to $101.0 million for the same period in 2013.

At March 31, 2014 and December 31, 2013 the Company's non-covered acquired loan portfolio composition was as follows:

	March 31, 2014					December 31, 2013			
Portfolio Type		**Carrying Amounts**		**% of Gross Non-Covered Acquired Portfolio**			**Carrying Amounts**		**% of Gross Non-Covered Acquired Portfolio**
	(Dollars in thousands)								
Mortgage	$	703,454		32.8%		$	717,904		31.7%
Commercial		726,965		33.9%			749,225		33.0%
Consumer		105,359		4.9%			119,794		5.3%

Auto		610,754		28.5%			680,729		30.0%
	$	**2,146,532**		**100.00%**		$	**2,267,652**		**100.00%**

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TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	March 31, 2014								
	Higher-Risk Residential Mortgage Loans*								
							High Loan-to-Value Ratio Mortgages		
	Junior Lien Mortgages			Interest Only Loans			LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 12,996	$ 305	2.35%	$ 23,737	$ 1,135	4.78%	$ 84,654	$ 2,010	2.37%
90 - 119 days	72	2	2.78%	-	-	0.00%	1,340	13	0.97%
120 - 179 days	-	-	0.00%	510	76	14.90%	543	29	5.34%
180 - 364 days	153	10	6.54%	148	22	14.86%	783	50	6.39%
365+ days	386	48	12.44%	423	226	53.43%	1,169	201	17.19%
Total	$ 13,607	$ 365	2.68%	$ 24,818	$ 1,459	5.88%	$ 88,489	$ 2,303	2.60%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.46%			0.84%			2.99%		
Refinanced or Modified Loans:									
Amount	$ 2,297	$ 206	8.97%	$ -	$ -	0.00%	$ 12,888	$ 1,043	8.09%
Percentage of Higher-Risk Loan Category	16.88%			0.00%			14.56%		
Loan-to-Value Ratio:									
Under 70%	$ 9,789	$ 265	2.71%	$ 2,460	$ 249	10.12%	$ -	$ -	-
70% - 79%	2,736	74	2.70%	3,856	199	5.16%	-	-	-
80% - 89%	883	25	2.83%	7,279	400	5.50%	-	-	-
90% and over	199	1	0.50%	11,223	611	5.44%	88,489	2,303	2.60%
	$ 13,607	$ 365	2.68%	$ 24,818	$ 1,459	5.88%	$ 88,489	$ 2,303	2.60%

* Loans may be included in more than one higher-risk loan category and excludes acquired residential mortgage loans.

The following table includes the Company's lending and investment exposure to the Puerto Rico government, including its agencies, instrumentalities, municipalities and public corporations:

TABLE 7 - PUERTO RICO GOVERNMENT RELATED LOANS AND SECURITIES

	March 31, 2014							
					Maturity			
Loans and Securities:		**Carrying Value**		**Less than 1 Year**		**1 to 3 Years**		**More than 3 Years**	**Comments**
	(In thousands)								
Central government	$	146,728	$	117,982	$	-	$	28,746	Repayment sources include all available revenues of the Commonwealth
Public corporations		350,354		191,183		75,000		84,171	$84.2 million which mature in more than 3 years, with pledged securities (rating > A)
Municipalities		221,741		-		507		221,234	Repayment from property taxes
Investment securities		42,368		20,000		-		22,368	
Total	**$**	**761,191**	**$**	**329,165**	**$**	**75,507**	**$**	**356,519**	

Some highlights follow on the data included above:

- Loans to Puerto Rico central government and public corporations are collateralized or have specific repayment sources.
- Loans to municipalities are backed by their unlimited taxing power or real and personal property taxes.
- 43% of loans and securities balances mature in 12-months or less.

- Deposits from municipalities, central government and other government entities totaled $370.7 million at March 31, 2014. However, this amount may decline as a result of recently enacted legislation to improve the liquidity of the Government Development Bank for Puerto Rico ("GDB") by requiring the Commonwealth's agencies, instrumentalities and public corporations to maintain certain deposits at GDB.

Allowance for Loan and Lease Losses and Non-Performing Assets

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. Tables 8 through 12 set forth an analysis of activity in the allowance for loan and lease losses and present selected loan loss statistics. In addition, Table 5 sets forth the composition of the loan portfolio. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. As a result, the period was changed to 24 months from the previously determined 12 months. This change in the allowance for loan and lease losses' look back period for the consumer and auto and leasing portfolios is considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

Non-covered Loans

At March 31, 2014, the Company's allowance for non-covered loan and lease losses amounted to $56.2 million, $49.5 million of such allowance corresponded to originated and other loans held for investment, or 1.95% of total non-covered originated and other loans held for investment at March 31, 2014, compared to $49.1 million or 2.04% of total non-covered originated and other loans held for investment at December 31, 2013. The allowance for residential mortgage loans and commercial loans decreased by 2.1% ($426 thousand), and 6.1% (or $903 thousand), respectively, when compared with the balances recorded at December 31, 2013. The allowance for consumer loans and auto and leases increased by 18.8% (or $1.1 million) and 11.0% (or $865 thousand), respectively, when compared with balances recorded at December 31, 2013. The unallocated allowance at March 31, 2014 decreased by 63.7%, or $239 thousand, when compared with the balance recorded at December 31, 2013.

Please refer to the "Provision for Loan and Lease Losses" section in this MD&A for a more detailed analysis of provisions for loan and lease losses.

Allowance for loan and lease losses recorded for acquired loans accounted for under the provisions of ASC 310-20 at March 31, 2014 was $3.6 million compared to $2.4 million at December 31, 2013, a 53.7% increase. The allowance for commercial loans decreased by 6.4% ($59 thousand), when compared with the balance recorded at December 31, 2013. The allowance for consumer and auto loans increased by 100% (or $504 thousand) and 57.4% (or $819 thousand), respectively, when compared with balances recorded at December 31, 2013.

Allowance for loan and lease losses recorded for acquired loans accounted for under ASC-310-30 at March 31, 2014 was $3.1 million as compared to $2.9 million at December 31, 2013.

The Company's non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At March 31, 2014 and December 31, 2013, the Company had $88.2 million and $86.2 million, respectively, of non-accrual loans, including acquired loans accounted under ASC 310-20 (loans with revolving feature and/or acquired at a premium). Covered loans and loans acquired from BBVAPR with credit deterioration are considered to be performing due to the application of the accretion method under ASC 310-30. At March 31, 2014 and December 31 2013, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $70.8 million and $66.5 million, respectively.

At March 31, 2014, the Company's non-performing assets increased by 4.6% to $162.5 million (2.84% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) from $155.3 million (2.61% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) at December 31, 2013. The Company does not expect non-performing loans to result in significantly higher losses as most are well-collateralized with adequate loan-to-value ratios. At March 31, 2014, the allowance for non-covered originated loans and lease losses to non-performing loans coverage ratio was 59.90% (61.52% at December 31, 2013).

The Company follows a conservative residential mortgage lending policy, with more than 90% of its residential mortgage portfolio consisting of fixed-rate, fully amortizing, fully documented loans that do not have the level of risk associated with subprime loans offered by certain major U.S. mortgage loan originators. Furthermore, the Company has never been active in negative amortization loans or adjustable rate mortgage loans, including those with teaser rates.

The following items comprise non-performing assets:

1. Originated and other loans held for investment:

Mortgage loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 18 months or more past due. At March 31, 2014, the Company's originated non-performing mortgage loans totaled $51.7 million (58.7% of the Company's non-performing loans), a 1.3% increase from $51.1 million (59.4% of the Company's non-performing loans) at December 31, 2013. Non-performing loans in this category are primarily residential mortgage loans.

Commercial loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At March 31, 2014, the Company's originated non-performing commercial loans amounted to $23.8 million (27.0% of the Company's non-performing loans), a 4.2% increase when compared to non-performing commercial loans of $22.8 million at December 31, 2013 (26.5% of the Company's non-performing loans). Most of this portfolio is collateralized by commercial real estate properties.

Consumer loans — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days in personal loans and 180 days in credit cards and personal lines of credit. At March 31, 2014, the Company's originated non-performing consumer loans amounted to $1.1 million (1.2% of the Company's total non-performing loans), a 34.7% increase from $805 thousand at December 31, 2013 (0.9% of the Company's total non-performing loans).

Auto and leases — are placed on non-accrual status when they become 90 days past due and partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At March 31, 2014, the Company's originated non-performing auto and leases amounted to $6.0 million (6.9% of the Company's total non-performing loans), an increase of 18.8% from $5.1 million at December 31, 2013 (5.9% of the Company's total non-performing loans).

- Acquired loans accounted for under ASC 310-20 (loans with revolving features and/or acquired at premium):

Commercial revolving lines of credit and credit cards - are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At March 31, 2014, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $1.9 million (2.1% of the Company's non-performing loans), a 26.8% decrease when compared to non-performing commercial lines of credit accounted for under ASC 310-20 of $2.5 million at December 31, 2013 (3.0% of the Company’s non-performing loans).

Consumer revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 180 days. At March 31, 2014, the Company’s acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $2.1 million (2.4% of the Company’s non-performing loans), an 3.8% decrease when compared to non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 of $2.2 million at December 31, 2013 (2.6% of the Company’s non-performing loans).

Auto loans acquired at premium - are placed on non-accrual status when they become 90 days past due and partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At March 31, 2014, the Company’s acquired non-performing auto loans accounted for under ASC 310-20 totaled $1.5 million (1.7% of the Company’s non-performing loans), a 5.8% decrease when compared to non-performing auto loans accounted for under ASC 310-20 of $1.6 million at December 31, 2013 (1.9% of the Company’s non-performing loans).

- Acquired loans accounted for under ASC 310-30 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. Credit related decreases in expected cash flows, compared to those previously forecasted, are recognized by recording a provision for credit losses on non-covered loans when it is probable that all cash flows expected at acquisition will not be collected.

- Foreclosed real estate is initially recorded at the lower of the related loan balance or fair value less cost to sell as of the date of foreclosure. Any excess of the loan balance over the fair value of the property is charged against the allowance for loan and lease losses. Subsequently, any excess of the carrying value over the estimated fair value less disposition cost is charged to operations.

Net losses on foreclosed real estate and other repossessed assets for the quarter ended March 31, 2014 amounted to $3.5 million, compared to $1.9 million for the same period in 2013.

The Company has two mortgage loan modification programs. These are the Loss Mitigation Program and the Non-traditional Mortgage Loan Program. Both programs are intended to help responsible homeowners to remain in their homes and avoid foreclosure, while also reducing the Company's losses on non-performing mortgage loans.

The Loss Mitigation Program helps mortgage borrowers who are or will become financially unable to meet the current or scheduled mortgage payments. Loans that qualify under this program are those guaranteed by FHA, VA, RHS, "Banco de la Vivienda de Puerto Rico," conventional loans guaranteed by Mortgage Guaranty Insurance Corporation (MGIC), conventional loans sold to the FNMA and FHLMC, and conventional loans retained by the Company. The program offers diversified alternatives such as regular or reduced payment plans, payment moratorium, mortgage loan modification, partial claims (only FHA), short sale, and payment in lieu of foreclosure.

The Non-traditional Mortgage Loan Program is for non-traditional mortgages, including balloon payment, interest only / interest first, variable interest rate, adjustable interest rate and other qualified loans. Non-traditional mortgage loan portfolios are segregated into the following categories: performing loans that meet secondary market requirement and are refinanced by the credit underwriting guidelines of FHA/VA/FNMA/ FMAC, and performing loans not meeting secondary market guidelines, processed by the Company's current credit and underwriting guidelines. The Company achieved an affordable and sustainable monthly payment by taking specific, sequential, and necessary steps such as reducing the interest rate, extending the loan term, capitalizing arrearages, deferring the payment of principal or, if the borrower qualifies, refinancing the loan.

There may not be a foreclosure sale scheduled within 60 days prior to a loan modification under any such programs. This requirement does not apply to loans where the foreclosure process has been stopped by the Company. In order to apply for any of the loan modification programs, the borrower may not be in active bankruptcy or have been discharged from Chapter 7 bankruptcy since the loan was originated. Loans in these programs are to be evaluated by management for troubled-debt restructuring classification if the Company grants a concession for legal or economic reasons due to the debtor's financial difficulties.

Covered Loans

The allowance for loan and lease losses on covered loans acquired in the FDIC-assisted acquisition of Eurobank is accounted under the provisions of ASC 310-30. Under this accounting guidance, the allowance for loan and lease losses on covered loans is evaluated at each financial reporting period, based on forecasted cash flows. Credit related decreases in expected cash flows, compared to those previously forecasted, are recognized by recording a provision for credit losses on covered loans when it is probable that all cash flows expected at acquisition will not be collected. The portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC shared-loss indemnification asset.

For the quarter ended March 31, 2014, the net provision for covered loans amounted to $1.6 million, reflecting the Company's revision of the expected cash flows in the covered loan portfolio considering actual experiences and changes in the Company's expectations for the remaining terms of the loan pools. The allowance for covered loans increased from $52.7 million at December 31, 2013 to $54.4 million at March 31, 2014.

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY					
	Quarter Ended March 31,				Variance
	2014		2013		%
Non-covered loans					
Originated and other loans:					
Balance at beginning of period	$	49,081	$	39,921	22.9%
Provision for non-covered loan and lease losses		5,625		5,795	-2.9%
Charge-offs		(7,116)		(3,482)	104.4%
Recoveries		1,917		100	1817.0%
		49,507		42,334	16.9%
Acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$	2,354	$	-	0.0%
Provision for non-covered loan and lease losses		4,242		2,120	100.0%
Charge-offs		(3,528)		(3,171)	100.0%
Recoveries		550		1,437	100.0%
		3,618		386	100.0%
Acquired loans accounted for under ASC 310-30:					
Balance at beginning of period	$	2,863	$	-	0.0%
Provision for non-covered loan and lease losses		195		-	100.0%
		3,058		-	100.0%
Total non-covered loans balance at end of period	**$**	**56,183**	**$**	**42,720**	**31.5%**
Allowance for loans and lease losses on originated and other					

loans to:							
Total originated loans		1.95%			2.91%		-33.1%
Non-performing originated loans		59.90%			32.45%		84.6%
Allowance for loans and lease losses on acquired loans accounted for under ASC 310-20 to:							
Total acquired loans accounted for under ASC 310-20		0.92%			0.05		100.0%
Non-performing acquired loans accounted for under ASC 310-20		65.65%			21.94		100.0%
Covered loans							
Balance at beginning of period	$	52,729		$	54,124		-2.6%
Provision for covered loan and lease losses, net		1,629			672		142.4%
FDIC shared-loss portion on (provision for) recapture of loan and lease losses		40			(1,822)		-102.2%
Balance at end of period	**$**	**54,398**		**$**	**52,974**		**2.7%**

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TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN						
		March 31, 2014		**December 31, 2013**		**Variance %**
	(Dollars in thousands)					
Originated and other loans held for investment						
Allowance balance:						
Mortgage	$	19,511	$	19,937		-2.1%
Commercial		13,994		14,897		-6.1%
Consumer		7,135		6,006		18.8%
Auto and leasing		8,731		7,866		11.0%
Unallocated allowance		136		375		-63.7%
Total allowance balance	**$**	**49,507**	**$**	**49,081**		**0.9%**
Allowance composition:						
Mortgage		39.41%		40.62%		-3.0%
Commercial		28.27%		30.35%		-6.9%
Consumer		14.41%		12.24%		17.7%
Auto and leasing		17.64%		16.03%		10.0%
Unallocated allowance		0.27%		0.76%		-64.5%
		100.00%		**100.00%**		
Allowance coverage ratio at end of period applicable to:						
Mortgage		2.49%		2.60%		-4.1%
Commercial		1.20%		1.32%		-9.5%
Consumer		5.01%		4.70%		6.5%
Auto and leasing		1.95%		2.07%		-5.9%
Unallocated allowance to total originated loans		0.01%		0.02%		-65.7%
Total allowance to total originated loans		**1.95%**		**2.04%**		**-4.7%**
Allowance coverage ratio to non-performing loans:						
Mortgage		37.72%		39.05%		-3.4%
Commercial		58.82%		65.25%		-9.9%
Consumer		658.21%		746.09%		-11.8%
Auto and leasing		144.39%		154.57%		-6.6%
Total		**59.90%**		**61.52%**		**-2.6%**
Acquired loans accounted for under ASC 310-20						
Allowance balance:						
Commercial	$	867	$	926		-6.4%
Consumer		504		-		100.0%

Auto		2,247			1,428		57.4%
Total allowance balance	**$**	**3,618**		**$**	**2,354**		**53.7%**
Allowance composition:							
Commercial		23.96%			39.34%		-39.1%
Consumer		13.93%			0.00%		100.0%
Auto		62.11%			60.66%		2.4%
		100.00%			**100.00%**		
Allowance coverage ratio at end of period applicable to:							
Commercial		1.21%			1.19%		1.6%
Consumer		0.97%			0.00%		100.0%
Auto		0.84%			0.47%		76.5%
Total allowance to total acquired loans		**0.92%**			**0.54%**		**70.5%**
Allowance coverage ratio to non-performing loans:							
Commercial		46.56%			36.41%		27.9%
Consumer		23.62%			0.00%		100.0%
Auto		148.32%			88.81%		67.0%
Total		**65.65%**			**36.95%**		**77.7%**

TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN (CONTINUED)						
		March 31, 2014		**December 31, 2013**		**Variance %**
	(Dollars in thousands)					
Acquired loans accounted for under ASC 310-30						
Allowance balance:						
Commercial	$	2,653	$	1,713		54.9%
Consumer		405		418		100.0%
Auto		-		732		-100.0%
Total allowance balance	**$**	**3,058**	**$**	**2,863**		**6.8%**
Allowance composition:						
Commercial		86.76%		59.83%		45.0%
Consumer		13.24%		14.60%		100.0%
Auto		0.00%		25.57%		-100.0%
		100.00%		**100.00%**		

TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30				
	Quarter Ended March 31,			Variance
	2014		2013	%
	(Dollar in thousands)			
Originated and other loans and leases:				
Mortgage				
Charge-offs	$	(1,214)	$	(2,588)	-53.1%
Recoveries		148		-	100.0%
Total		**(1,066)**		**(2,588)**	**-58.8%**
Commercial					
Charge-offs		(419)		(557)	-24.8%
Recoveries		98		28	250.0%
Total		**(321)**		**(529)**	**-39.3%**
Consumer					
Charge-offs		(838)		(246)	240.7%
Recoveries		147		65	126.2%
Total		**(691)**		**(181)**	**281.8%**
Auto					
Charge-offs		(4,645)		(91)	5004.4%
Recoveries		1,524		6	25300.0%
Total		**(3,121)**		**(85)**	**3572%**
Net credit losses					
Total charge-offs		(7,116)		(3,482)	104.4%
Total recoveries		1,917		99	1836.4%
Total	**$**	**(5,199)**	**$**	**(3,383)**	**53.7%**
Net credit losses to average loans outstanding:					
Mortgage		0.57%		1.40%	-59.3%
Commercial		0.11%		0.57%	-80.7%
Consumer		2.16%		1.23%	75.6%
Auto		2.99%		0.34%	779.4%
Total		**0.86%**		**1.06%**	**-18.9%**
Recoveries to charge-offs		**26.94%**		**2.84%**	**847.5%**
Average originated loans:					
Mortgage	$	753,248	$	740,072	1.8%
Commercial		1,121,953		372,941	200.8%
Consumer		128,239		58,908	117.7%
Auto		418,074		99,048	322.1%

Total	**$**	**2,421,514**		**$**	**1,270,969**		**90.5%**	

TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30 (CONTINUED)						
	Quarter Ended March 31,				Variance	
	2014		2013		%	
	(Dollars in thousands)					
Acquired loans accounted for under ASC 310-20:						
Commercial						
Charge-offs	$	(174)	$	-	$	100.0%
Total		**(174)**		**-**		**100.0%**
Consumer						
Charge-offs		(2,058)		(1,456)		41.3%
Recoveries		100		207		-51.7%
Total		**(1,958)**		**(1,249)**		**56.8%**
Auto						
Charge-offs		(1,296)		(1,715)		-24.4%
Recoveries		450		1,230		-63.4%
Total		**(846)**		**(485)**		**74.4%**
Net credit losses						
Total charge-offs		(3,528)		(3,171)		11.3%
Total recoveries		550		1,437		-61.7%
Total	$	**(2,978)**	$	**(1,734)**		**71.7%**
Net credit losses to average loans outstanding:						
Commercial		0.95%		0.00%		100.0%
Consumer		11.20%		7.01%		59.7%
Auto		1.20%		0.45%		167.1%
Total		**2.80%**		**0.80%**		**252.1%**
Recoveries to charge-offs		**15.59%**		**0.00%**		**100.0%**
Average loans accounted for under ASC 310-20:						
Commercial	$	73,148	$	368,278	$	-80.1%
Consumer		69,916		71,245		-1.9%
Auto		281,703		431,348		-34.7%
Total	$	**424,767**	$	**870,871**	$	**-51.2%**

TABLE 11 — NON-PERFORMING ASSETS

	March 31, 2014	December 31, 2013	Variance (%)
	(Dollars in thousands)		
Non-performing assets:			
Non-accruing loans			
Troubled-Debt Restructuring loans	$ 25,748	$ 26,847	-4.1%
Other loans	59,902	56,430	6.2%
Accruing loans			
Troubled-Debt Restructuring loans	1,948	1,898	100.0%
Other loans	564	977	100.0%
Total non-performing loans	$ 88,162	$ 86,152	2.3%
Foreclosed real estate not covered under the shared-loss agreements with the FDIC	59,099	56,815	4.0%
Other repossessed assets	13,677	12,314	11.1%
Mortgage loans held for sale	1,554	-	100.0%
	$ 162,492	**$ 155,281**	**4.6%**
Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)	**2.84%**	**2.61%**	**8.6%**
Non-performing assets to total capital	**18.13%**	**17.55%**	**3.3%**

	Quarter Ended March 31, 2014	Quarter Ended March 31, 2013
	(In thousands)	
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	$ 655	$ 1,524

TABLE 12 — NON-PERFORMING LOANS							
	March 31, 2014			December 31, 2013		Variance %	
	(Dollars in thousands)						
Non-performing loans:							
Originated and other loans held for investment							
Mortgage	$	51,728		$	51,058		1.3%
Commercial		23,792			22,830		4.2%
Consumer		1,084			805		34.7%
Auto and leasing		6,047			5,089		18.8%
		82,651			79,782		3.6%
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)							
Commercial		1,862			2,543		-26.8%
Consumer		2,134			2,219		-3.8%
Auto		1,515			1,608		-5.8%
		5,511			6,370		-13.5%
Total	**$**	**88,162**		**$**	**86,152**		**2.3%**
Non-performing loans composition percentages:							
Originated loans							
Mortgage		58.7%			59.4%		
Commercial		27.0%			26.5%		
Consumer		1.2%			0.9%		
Auto and leasing		6.9%			5.9%		
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)							
Commercial		2.1%			3.0%		
Consumer		2.4%			2.6%		
Auto		1.7%			1.9%		
Total		**100.0%**			**100.0%**		
Non-performing loans to:							
Total loans, excluding covered loans and loans accounted for		**3.00%**			**3.04%**		**-1.3%**

under ASC 310-30 (including those by analogy)			
Total assets, excluding covered assets and loans accounted for under ASC 310-30 (including those by analogy)	**1.54%**	**1.45%**	**6.2%**
Total capital	**9.83%**	**9.74%**	**1.0%**
Non-performing loans with partial charge-offs to:			
Total loans, excluding covered loans and loans accounted for under ASC 310-30 (including those by analogy)	**0.89%**	**0.83%**	**7.2%**
Non-performing loans	**29.77%**	**27.35%**	**8.8%**
Other non-performing loans ratios:			
Charge-off rate on non-performing loans to non-performing loans on which charge-offs have been taken	**48.65%**	**56.05%**	**-13.2%**
Allowance for loan and lease losses to non-performing loans on which no charge-offs have been taken	**85.80%**	**82.18%**	**4.4%**

TABLE 13 - LIABILITIES SUMMARY AND COMPOSITION				
	March 31,		December 31,	
	2014		2013	Variance %
	(Dollars in thousands)			
Deposits:				
Non-interest bearing deposits	$	755,909	$	550,303	37.4%
NOW accounts	1,432,511		1,587,670	-9.8%
Savings and money market accounts	1,267,289		1,194,566	6.1%
Certificates of deposit	1,843,578		2,048,040	-10.0%
Total deposits	**5,299,287**		**5,380,579**	**-1.5%**
Accrued interest payable	1,705		2,686	-36.5%
Total deposits and accrued interest payable	**5,300,992**		**5,383,265**	**-1.5%**
Borrowings:				
Securities sold under agreements to repurchase	1,012,240		1,267,618	-20.1%
Advances from FHLB	335,689		336,143	-0.1%
Federal funds purchased	23,712		-	100.0%
Other term notes	3,708		3,663	1.2%
Subordinated capital notes	100,404		100,010	0.4%
Total borrowings	**1,475,753**		**1,707,434**	**-13.6%**
Total deposits and borrowings	**6,776,745**		**7,090,699**	**-4.4%**
Derivative liabilities	13,830		14,937	-7.4%
Acceptances outstanding	28,535		23,042	23.8%
Other liabilities	140,037		144,424	-3.0%
Total liabilities	**$ 6,959,147**		**$ 7,273,102**	**-4.3%**
Deposits portfolio composition percentages:				
Non-interest bearing deposits	14.3%		10.2%	
NOW accounts	27.0%		29.5%	
Savings and money market accounts	23.9%		22.2%	
Certificates of deposit	34.8%		38.1%	
	100.0%		**100.0%**	
Borrowings portfolio composition percentages:				
Securities sold under agreements to repurchase	68.6%		74.2%	
Advances from FHLB	22.7%		19.7%	
Federal funds purchased	1.6%		0.0%	

Other term notes		0.3%			0.2%		
Subordinated capital notes		6.8%			5.9%		
		100.0%			**100.0%**		
Securities sold under agreements to repurchase (excluding accrued interest)							
Amount outstanding at period-end	$	1,010,000		$	1,265,000		
Daily average outstanding balance	$	1,156,747		$	1,353,011		
Maximum outstanding balance at any month-end	$	1,149,167		$	1,552,269		

Liabilities and Funding Sources

As shown in Table 13 above, at March 31, 2014, the Company's total liabilities were $6.959 billion, 4.3% less than the $7.273 billion reported at December 31, 2013. Deposits and borrowings, the Company's funding sources, amounted to $6.777 billion at March 31, 2014 versus $7.091 billion at December 31, 2013, a 4.4% decrease.

At March 31, 2014, deposits represented 78% and borrowings represented 22% of interest-bearing liabilities, compared to 76% and 24%, respectively, at December 31, 2013. At March 31, 2014, deposits, the largest category of the Company's interest-bearing liabilities, were $5.301 billion, down 1.5% from $5.383 billion at December 31, 2013. Non-maturing deposit balances increased 3.7%, to $3.456 billion, while time deposits, higher-priced deposits, declined 10.0% as part of efforts to reduce the cost of deposits, which averaged 0.68% as of March 31, 2014 compared to 0.72% at December 31, 2013.

Borrowings consist mainly of funding sources through the use of repurchase agreements, FHLB-NY advances, subordinated capital notes, and short-term borrowings. At March 31, 2014, borrowings amounted to $1.476 billion, 13.6% lower than the $1.707 billion reported at December 31, 2013. Repurchase agreements as of March 31, 2014 decreased $255.4 million to $1.012 billion from $1.268 billion at December 31, 2013, as the Company used available cash to pay off repurchase agreements at maturity.

As a member of the FHLB-NY, the Bank can obtain advances from the FHLB-NY, secured by the FHLB-NY stock owned by the Bank, as well as by certain of the Bank's mortgage loans and investment securities. Advances from FHLB-NY amounted to $335.7 million and $336.1 million as of March 31, 2014 and December 31, 2013, respectively. These advances mature from April 2014 through July 2020.

Stockholders' Equity

At March 31, 2014, the Company's total stockholders' equity was $896.5 million, a 1.3% increase when compared to $884.9 million at December 31, 2013. Increase in stockholders' equity was mainly driven by the income for the quarter, partially offset by an increase in treasury stock. During the quarter ended March 31, 2014, the Company repurchased 707,400 of its outstanding shares of common stock.

At March 31, 2014, tangible common equity to total assets increased to 8.06% from 7.61%. Tier 1 Leverage Capital Ratio increased to 9.51% from 9.11%, Tier 1 Risk-Based Capital Ratio increased to 14.76% from 14.35%, and Total Risk-Based Capital Ratio increased to 16.56% from 16.14% on December 31, 2013.

Taking into consideration the strong capital position, in the fourth quarter of the fiscal year 2013, the Company increased the cash dividend per common share to $0.08, as compared to $0.06 in the first quarter of 2013.

The following are the consolidated capital ratios of the Company at March 31, 2014 and December 31, 2013

TABLE 14 — CAPITAL, DIVIDENDS AND STOCK DATA						
		March 31,		**December 31,**		**Variance**
		2014		**2013**		**%**
	(Dollars in thousands, except per share data)					
Capital data:						
Stockholders' equity	$	896,491	$	884,913		1.3%
Regulatory Capital Ratios data:						
Leverage capital ratio		**9.51%**		**9.11%**		4.4%
Minimum leverage capital ratio required		4.00%		4.00%		
Actual tier 1 capital	$	745,619	$	736,930		1.2%
Minimum tier 1 capital required	$	313,594	$	323,476		-3.1%
Excess over regulatory requirement	$	432,024	$	413,455		4.5%
Tier 1 risk-based capital ratio		**14.76%**		**14.35%**		2.9%
Minimum tier 1 risk-based capital ratio required		4.00%		4.00%		
Actual tier 1 risk-based capital	$	745,619	$	736,930		1.2%
Minimum tier 1 risk-based capital required	$	202,027	$	205,382		-1.6%
Excess over regulatory requirement	$	543,592	$	531,548		2.3%
Risk-weighted assets	$	5,050,672	$	5,134,538		-1.6%
Total risk-based capital ratio		**16.56%**		**16.14%**		2.6%
Minimum total risk-based capital ratio required		8.00%		8.00%		
Actual total risk-based capital	$	836,168	$	828,476		0.9%
Minimum total risk-based capital required	$	404,054	$	410,763		-1.6%
Excess over regulatory requirement	$	432,114	$	417,713		3.4%
Risk-weighted assets	$	5,050,672	$	5,134,538		-1.6%
Tangible common equity to total assets		**8.06%**		**7.61%**		5.9%
Tangible common equity to risk-weighted assets		**12.54%**		**12.10%**		3.6%
Total equity to total assets		**11.41%**		**10.85%**		5.2%
Total equity to risk-weighted assets		**17.75%**		**17.23%**		3.0%
Tier 1 common equity to risk-weighted assets		**10.79%**		**10.44%**		3.4%
Tier 1 common equity capital	$	544,749	$	536,062		1.6%
Stock data:						

Outstanding common shares		45,003,924			45,676,922	-1.5%
Book value per common share	$	16.23		$	15.74	3.1%
Tangible book value per common share	$	14.07		$	13.60	3.5%
Market price at end of period	$	17.19		$	17.34	-0.9%
Market capitalization at end of period	$	773,617		$	792,038	-2.3%

	Quarter ended March 31,						**Variance**
	2014			**2013**			**%**
	(Dollars in thousands, except per share data)						
Common dividend data:							
Cash dividends declared	$	3,657		$	2,737		33.6%
Cash dividends declared per share	$	0.08		$	0.06		33.3%
Payout ratio		17.78%			16.22%		9.6%
Dividend yield		1.86%			1.55%		20.1%

The following table presents a reconciliation of the Company's total stockholders' equity to tangible common equity and total assets to tangible assets at March 31, 2014 and December 31, 2013:

	March 31, 2014		December 31, 2013	
	(In thousands, except share or per share information)			
Total stockholders' equity	$	896,491	$	884,913
Preferred stock		(176,000)		(176,000)
Preferred stock issuance costs		10,130		10,130
Goodwill		(86,069)		(86,069)
Core deposit intangible		(7,468)		(7,804)
Customer relationship intangible		(3,902)		(4,108)
Total tangible common equity	**$**	**633,182**	**$**	**621,062**
Total assets		7,855,638		8,158,015
Goodwill		(86,069)		(86,069)
Core deposit intangible		(7,469)		(7,804)
Customer relationship intangible		(3,902)		(4,108)
Total tangible assets	**$**	**7,758,198**	**$**	**8,060,034**
Tangible common equity to tangible assets		**8.16%**		**7.71%**
Common shares outstanding at end of period		45,003,924		45,676,922
Tangible book value per common share	**$**	**14.07**	**$**	**13.60**

The tangible common equity ratio and tangible book value per common share are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Company calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

The Tier 1 common equity to risk-weighted assets ratio is another non-GAAP measure. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Company's capital position. In connection with the 2009 Supervisory Capital Assessment Program, the Federal Reserve Board supplemented its assessment of the capital adequacy of certain large bank holding companies based on a variation of Tier 1 capital, known as Tier 1 common equity.

Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Company has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

The table below presents a reconciliation of the Company's total common equity (GAAP) at March 31, 2014 and December 31, 2013 to Tier 1 common equity (non-GAAP):

	March 31, 2014		December 31, 2013	
	(Dollars in thousands)			
Common stockholders' equity	$	730,621	$	719,043
Unrealized gains on available-for-sale securities, net of income tax		(16,034)		(11,434)
Unrealized losses on cash flow hedges, net of income tax		8,013		8,243
Disallowed deferred tax assets		(79,016)		(80,430)
Disallowed servicing assets		(1,397)		(1,380)
Intangible assets:				
Goodwill		(86,069)		(86,069)
Other intangible assets		(11,370)		(11,912)
Total Tier 1 common equity	**$**	**544,748**	**$**	**536,062**
Tier 1 common equity to risk-weighted assets		**10.79%**		**10.44%**

The following table presents the Company's capital adequacy information at March 31, 2014 and December 31, 2013:

	March 31, 2014		December 31, 2013	
	(Dollars in thousands)			
Risk-based capital:				
Tier 1 capital	$	745,619	$	736,930
Supplementary (Tier 2) capital		90,549		91,546
Total risk-based capital	**$**	**836,168**	**$**	**828,476**
Risk-weighted assets:				
Balance sheet items	$	4,872,822	$	4,969,531
Off-balance sheet items		177,850		165,007
Total risk-weighted assets	**$**	**5,050,672**	**$**	**5,134,538**
Ratios:				
Tier 1 capital (minimum required - 4%)		**14.76%**		**14.35%**
Total capital (minimum required - 8%)		**16.56%**		**16.14%**
Leverage ratio		**9.51%**		**9.11%**
Equity to assets		**11.41%**		**10.85%**
Tangible common equity to assets		**8.06%**		**7.61%**

The Federal Reserve Board has risk-based capital guidelines for bank holding companies. Under the guidelines, the minimum ratio of qualifying total capital to risk-weighted assets is 8%. At least half of the total capital is to be comprised of qualifying common stockholders' equity, qualifying noncumulative perpetual preferred stock (including related surplus), minority interests related to qualifying common or noncumulative perpetual preferred stock directly issued by a consolidated U.S. depository institution or foreign bank subsidiary, and restricted core capital elements (collectively, "Tier 1 Capital"). Banking organizations are expected to maintain at least 50% of their Tier 1 Capital as common equity. Except for certain debt or equity instruments issued on or after May 19, 2010, which are excluded from Tier 1 Capital , not more than 25% of qualifying Tier 1 Capital may consist of qualifying cumulative perpetual preferred stock, trust preferred securities or other so-called restricted core capital elements. "Tier 2 Capital" may consist, subject to certain limitations, of allowance for loan and lease losses; perpetual preferred stock and related surplus; hybrid capital instruments, perpetual debt, and mandatory convertible debt securities; term subordinated debt and intermediate-term preferred stock, including related surplus; and unrealized holding gains on equity securities. "Tier 3 Capital" consists of qualifying unsecured subordinated debt. The sum of Tier 2 and Tier 3 Capital may not exceed the amount of Tier 1 Capital.

Pursuant to the Dodd-Frank Act, federal banking agencies have adopted new capital rules that became effective January 1, 2014 for advanced approaches banking organizations (i.e., those with consolidated assets greater than $250 billion or consolidated on-balance sheet foreign exposures of at least $10 billion) and January 1, 2015 for all other covered organizations (subject to certain phase-in periods through January 1, 2019) and that will replace their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules.

The new capital rules provide certain changes to the prompt corrective action regulations adopted by the agencies under Section 38 of the FDIA, as amended by FDICIA. These regulations are designed to place restrictions on U.S. insured depository institutions if their capital levels begin to show signs of weakness. The five capital categories established by the agencies under their prompt corrective action framework are: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized”. As of March 31, 2014 and December 31, 2013, the Company is “well capitalized” for regulatory purposes.

The new capital rules expand such categories by introducing a common equity tier 1 capital requirement for all depository institutions, revising the minimum risk-based capital ratios and, beginning in 2018, the proposed supplementary leverage requirement for advanced approaches banking organizations. The common equity tier 1 capital ratio is a new minimum requirement designed to ensure that banking organizations hold sufficient high-quality regulatory capital that is available to absorb losses on a going-concern basis.

The Bank is considered “well capitalized” under the regulatory framework for prompt corrective action. The table below shows the Bank’s regulatory capital ratios at March 31, 2014, and December 31 2013:

	March 31 , 2014			**December 31, 2013**		**Variance %**
	(Dollars in thousands)					
Oriental Bank Regulatory Capital Ratios:						
Total Tier 1 Capital to Total Assets		**9.18%**			**8.57%**	**7.1%**
Actual tier 1 capital	$	715,591	$	689,174		3.8%
Minimum capital requirement (4%)	$	311,659	$	321,551		-3.1%
Minimum to be well capitalized (5%)	$	389,574	$	401,939		-3.1%
Tier 1 Capital to Risk-Weighted Assets		**14.22%**			**13.47%**	**5.6%**
Actual tier 1 risk-based capital	$	715,591	$	689,174		3.8%
Minimum capital requirement (4%)	$	201,248	$	204,627		-1.7%
Minimum to be well capitalized (6%)	$	301,871	$	306,940		-1.7%
Total Capital to Risk-Weighted Assets		**16.02%**			**15.26%**	**5.0%**

Actual total risk-based capital	$	805,900		$	780,487		3.3%
Minimum capital requirement (8%)	$	402,495		$	409,253		-1.7%
Minimum to be well capitalized (10%)	$	503,119		$	511,567		-1.7%

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At March 31, 2014 and December 31, 2013, the Company's market capitalization for its outstanding common stock was $773.6 million ($17.19 per share) and $792.0 million ($17.34 per share), respectively.

The following table provides the high and low prices and dividends per share of the Company's common stock for each quarter of the last two calendar years:

	Price				Cash Dividend	
	High		Low		Per share	
2014						
March 31,2014	$	17.54	$	14.30	$	0.08
2013						
December 31, 2013	$	17.34	$	14.74	$	0.08
September 30,2013	$	18.97	$	16.13	$	0.06
June 30, 2013	$	18.11	$	14.26	$	0.06
March 31, 2013	$	15.83	$	13.85	$	0.06
2012						
December 31, 2012	$	13.35	$	9.98	$	0.06
September 30, 2012	$	11.49	$	10.02	$	0.06
June 30, 2012	$	12.37	$	9.87	$	0.06
March 31, 2012	$	12.69	$	11.25	$	0.06

Under the Company's current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by the Company as treasury shares. During the quarter ended March 31, 2014, the Company purchased 707,400 shares under this program for a total of $10.4 million, at an average price of $14.66 per share. There were no repurchases during 2013. The number of shares that may yet be purchased under the $70 million program is estimated at 1,341,002 and was calculated by dividing the remaining balance of $23.1 million by $17.19 (closing price of the Company common stock at March 31, 2014).

ITEM 3. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Background

The Company's risk management policies are established by its Board of Directors (the "Board") and implemented by management through the adoption of a risk management program, which is overseen and monitored by the Chief Risk Officer and the Risk Management and Compliance Committee. The Company has continued to refine and enhance its risk management program by strengthening policies, processes and procedures necessary to maintain effective risk management.

All aspects of the Company's business activities are susceptible to risk. Consequently, risk identification and monitoring are essential to risk management. As more fully discussed below, the Company's primary risk exposures include, market, interest rate, credit, liquidity, operational and concentration risks.

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in market rates or prices, such as interest rates or prices. The Company evaluates market risk together with interest rate risk. The Company's financial results and capital levels are constantly exposed to market risk. The Board and management are primarily responsible for ensuring that the market risk assumed by the Company complies with the guidelines established by policies approved by the Board. The Board has delegated the management of this risk to the Asset/Liability Management Committee ("ALCO") which is composed of certain executive officers from the business, treasury and finance areas. One of ALCO's primary goals is to ensure that the market risk assumed by the Company is within the parameters established in such policies.

Interest Rate Risk

Interest rate risk is the exposure of the Company's earnings or capital to adverse movements in interest rates. It is a predominant market risk in terms of its potential impact on earnings. The Company manages its asset/liability position in order to limit the effects of changes in interest rates on net interest income. ALCO oversees interest rate risk, liquidity management and other related matters.

In discharging its responsibilities, ALCO examines current and expected conditions in global financial markets, competition and prevailing rates in the local deposit market, liquidity, unrealized gains and losses in securities, recent or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps, and any tax or regulatory issues which may be pertinent to these areas.

On a monthly basis, the Company performs a net interest income simulation analysis on a consolidated basis to estimate the potential change in future earnings from projected changes in interest rates. These simulations are carried out over a one-year time horizon, assuming certain gradual upward and downward interest rate movements, achieved during a twelve-month period. Simulations are carried out in two ways:

(i) using a static balance sheet as the Company had on the simulation date, and

(ii) using a dynamic balance sheet based on recent growth patterns and business strategies.

The balance sheet is divided into groups of assets and liabilities detailed by maturity or re-pricing and their corresponding interest yields and costs. As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and costs, the possible exercise of options, changes in prepayment rates, deposits decay and other factors which may be important in projecting the future growth of net interest income.

The Company uses a software application to project future movements in the Company's balance sheet and income statement. The starting point of the projections generally corresponds to the actual values of the balance sheet on the date of the simulations.

These simulations are complex, and use many assumptions that are intended to reflect the general behavior of the Company over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates. The following table presents the results of the simulations at March 31, 2014 for the most likely scenario, assuming a one-year time horizon:

	Net Interest Income Risk (one year projection)								
	Static Balance Sheet					Growing Simulation			
	Amount Change			Percent Change		Amount Change			Percent Change
Change in interest rate	(Dollars in thousands)								
+ 200 Basis points	$	4,527		1.26%	_	$	5,209	_	1.45%
+ 100 Basis points	$	2,176		0.61%	_	$	2,516	_	0.70%
- 50 Basis points	$	(852)		-0.24%	_	$	(851)	_	-0.24%

The impact of -100 and -200 basis point reductions in interest rates is not presented in view of current level of the federal funds rate and other short-term interest rates.

Future net interest income could be affected by the Company's investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed securities, and any structured repurchase agreements and advances from the FHLB-NY in which it may enter into from time to time. As part of the strategy to limit the interest rate risk and reduce the re-pricing gaps of the Company's assets and liabilities, the Company has executed certain transactions which include extending the maturity and the re-pricing frequency of the liabilities to longer terms reducing the amounts of its structured repurchase agreements and entering into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings that only consist of advances from the FHLB-NY as of March 31, 2014.

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. Also, for some fixed-rate assets or liabilities, the effect of this variability in earnings is expected to be substantially offset by the Company's gains and losses on the derivative instruments that are linked to the forecasted cash flows of these hedged assets and liabilities. The Company considers its strategic use of derivatives to be a prudent method of managing interest-rate sensitivity as it reduces the exposure of earnings and the market value of its equity to undue risk posed by changes in interest rates. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Company's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the contractual interest income and interest expense of hedged variable-rate assets and liabilities, respectively, will increase or decrease.

Derivative instruments that are used as part of the Company's interest risk management strategy include interest rate swaps, forward-settlement swaps, futures contracts, and option contracts that have indices related to the pricing of specific balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties based on a common notional principal amount and maturity date. Interest rate futures generally involve exchanged-traded contracts to buy or sell U.S. Treasury bonds and notes in the future at specified prices. Interest rate options represent contracts that allow the holder of the option to (i) receive cash or (ii) purchase, sell, or enter into a financial instrument at a specified price within a specified period. Some purchased option contracts give the Company the right to enter into interest rate swaps and cap and floor agreements with the writer of the option. In addition, the Company enters into certain transactions that contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value. Please refer to Note 7 to the accompanying unaudited consolidated financial statements for further information concerning the Company's derivative activities.

Following is a summary of certain strategies, including derivative activities, currently used by the Company to manage interest rate risk:

Interest rate swaps — The Company entered into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings, attributable to changes in the one-month LIBOR rate. Once the forecasted wholesale borrowings transactions occurred, the interest rate swap effectively fixes the Company's interest payments on an amount of forecasted interest expense attributable to the one-month LIBOR rate corresponding to the swap notional stated rate. A derivative asset of $166 thousand (notional amount of $40.3 million) and a derivative liability of $10.7 million (notional amount of $225.0 million) were recognized at March 31, 2014, related to the valuation of these swaps. Refer to Note 7 of the unaudited consolidated financial statements for a description of these swaps.

In addition, the Company has certain derivative contracts, including interest rate swaps not designated as hedging instruments, which are utilized to convert certain variable rate loans to fixed-rate loans, and the mirror-images of these interest rate swaps in which the Company enters into to minimize its interest rate risk exposure that results from offering the derivatives to clients. These interest rate swaps are marked to market through earnings. At March 31, 2014, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of $2.8 million (notional amounts of $16.6 million), and the mirror-image interest rate swaps in which BBVAPR entered into represented a derivative liability of $2.8 million (notional amounts of $16.6 million). Refer to Note 7 of the unaudited consolidated financial statements for a description of these swaps.

S&P options — The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. At the end of five years, the depositor receives a minimum return or a specified percentage of the average increase of the month-end value of the S&P 500 Index. The Company uses option agreements with major money center banks and major broker-dealer companies to manage its exposure to changes in that index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of S&P 500 Index in exchange for a fixed premium. The changes in fair value of the options purchased and the options embedded in the certificates of deposit are recorded in earnings.

At March 31, 2014, the fair value of the purchased options used to manage the exposure to the S&P 500 Index on stock-indexed certificates of deposit represented an asset of $12.6 million (notional amounts of $23.8 million) and the options sold to customers embedded in the certificates of deposit represented a liability of $12.1 million (notional amount of $22.9 million).

Wholesale borrowings — The Company uses interest rate swaps to hedge the variability of interest cash flows of certain advances from the FHLB-NY that are tied to a variable rate index. The interest rate swaps effectively fix the Company's interest payments on these borrowings. As of March 31, 2014, the Company had $265 million in interest rate swaps at an average rate of 2.6% designated as cash flow hedges for $265 million in advances from the FHLB-NY that reprice or are being rolled over on a monthly basis.

Credit Risk

Credit risk is the possibility of loss arising from a borrower or counterparty in a credit-related contract failing to perform in accordance with its terms. The principal source of credit risk for the Company is its lending activities. In Puerto Rico, the Company's principal market, economic conditions are challenging, as they have been for the last eight years, due to a shrinking population, a protracted economic recession, a housing sector that remains under pressure, and the Puerto Rico government's large indebtedness and structural budget deficit, and the recent rating downgrades of Puerto Rico general obligations and certain other government bonds to levels that are below investment grade.

The Company manages its credit risk through a comprehensive credit policy which establishes sound underwriting standards by monitoring and evaluating loan portfolio quality, and by the constant assessment of reserves and loan concentrations. The Company also employs proactive collection and loss mitigation practices.

The Company may also encounter risk of default in relation to its securities portfolio. The securities held by the Company are principally agency mortgage-backed securities. Thus, a substantial portion of these instruments are guaranteed by mortgages, a U.S. government-sponsored entity, or the full faith and credit of the U.S. government.

The Company's Executive Credit Committee, composed of its Chief Executive Officer, Chief Credit Risk Officer and other senior executives, has primary responsibility for setting strategies to achieve the Company's credit risk goals and objectives. Those goals and objectives are set forth in the Company's Credit Policy as approved by the Board.

Liquidity Risk

Liquidity risk is the risk of the Company not being able to generate sufficient cash from either assets or liabilities to meet obligations as they become due without incurring substantial losses. The Board has established a policy to manage this risk. The Company's cash requirements principally consist of deposit withdrawals, contractual loan funding, repayment of borrowings as these mature, and funding of new and existing investments as required.

The Company's business requires continuous access to various funding sources. While the Company is able to fund its operations through deposits as well as through advances from the FHLB-NY and other alternative sources, the Company's business is dependent upon other wholesale funding sources. Although the Company has selectively reduced its use of wholesale funding sources, such as repurchase agreements and brokered deposits, it is still dependent on wholesale funding sources. As of March 31, 2014, the Company had $1.010 billion in repurchase agreements and $712.9 million in brokered deposits.

Brokered deposits are typically offered through an intermediary to small retail investors. The Company's ability to continue to attract brokered deposits is subject to variability based upon a number of factors, including volume and volatility in the global securities markets, the Company's credit rating, and the relative interest rates that it is prepared to pay for these liabilities. Brokered deposits are generally considered a less stable source of funding than core deposits obtained through retail bank branches. Investors in brokered deposits are generally more sensitive to interest rates and will generally move funds from one depository institution to another based on small differences in interest rates offered on deposits.

The Company participates in the Federal Reserve Bank's Borrower-In Custody Program which allows it to pledge certain type of loans while keeping physical control of the collateral.

Although the Company expects to have continued access to credit from the foregoing sources of funds, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In a period of financial disruption or if negative developments occur with respect to the Company, the availability and cost of the Company's funding sources could be adversely affected. In that event, the Company's cost of funds may increase, thereby reducing its net interest income, or the Company may need to dispose of a portion of its investment portfolio, which depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon any such dispositions. The Company's efforts to monitor and manage liquidity risk may not be successful to deal with dramatic or unanticipated changes in the global securities markets or other reductions in liquidity driven by the Company or market-related events. In the event that such sources of funds are reduced or eliminated and the Company is not able to replace these on a cost-effective basis, the Company may be forced to curtail or cease its loan origination business and treasury activities, which would have a material adverse effect on its operations and financial condition.

As of March 31, 2014, the Company had approximately $624.6 million in unrestricted cash and cash equivalents, $235.7 million in investment securities that are not pledged as collateral, $614 million in borrowing capacity at the FHLB-NY and $861 million in borrowing capacity at the Federal Reserve's discount window available to cover liquidity needs.

Operational Risk

Operational risk is the risk of loss from inadequate or failed internal processes, personnel and systems or from external events. All functions, products and services of the Company are susceptible to operational risk.

The Company faces ongoing and emerging risk and regulatory pressure related to the activities that surround the delivery of banking and financial products and services. Coupled with external influences such as market conditions, security risks, and legal risk, the potential for operational and reputational loss has increased. In order to mitigate and control operational risk, the Company has developed, and continues to enhance, specific internal controls, policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization. The purpose of these policies and procedures is to provide reasonable assurance that the Company’s business operations are functioning within established limits.

The Company classifies operational risk into two major categories: business specific and corporate-wide affecting all business lines. For business specific risks, a risk assessment group works with the various business units to ensure consistency in policies, processes and assessments. With respect to corporate-wide risks, such as information security, business recovery, legal and compliance, the Company has specialized groups, such as Information Security, Enterprise Risk Management, Corporate Compliance, Information Technology, Legal and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups. All these matters are reviewed and discussed in the Information Technology Steering Committee, and the Risk Management and Compliance Committee.

The Company is subject to extensive United States federal and Puerto Rico regulations, and this regulatory scrutiny has been significantly increasing over the last several years. The Company has established and continues to enhance procedures based on legal and regulatory requirements that are reasonably designed to ensure compliance with all applicable statutory and regulatory requirements. The Company has a corporate compliance function headed by a Compliance Director who reports to the Chief Risk Officer and is responsible for the oversight of regulatory compliance and implementation of a company-wide compliance program.

Concentration Risk

Substantially all of the Company’s business activities and a significant portion of its credit exposure are concentrated in Puerto Rico. As a consequence, the Company’s profitability and financial condition may be adversely affected by an extended economic slowdown, adverse political or economic developments in Puerto Rico or the effects of a natural disaster, all of which could result in a reduction in loan originations, an increase in non-performing assets, an increase in foreclosure losses on mortgage loans, and a reduction in the value of its loans and loan servicing portfolio.

ITEM 4. *CONTROLS AND PROCEDURES*

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon such evaluation, the CEO and the CFO have concluded that, as of the end of such period, the Company's disclosure controls and procedures provided reasonable assurance of effectiveness in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d -15 (f) under the Exchange Act) during the quarter ended March 31, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART - II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their business. The Company is vigorously contesting such claims. Based upon a review by legal counsel and the development of these matters to date, management is of the opinion that the ultimate aggregate liability, if any, resulting from these claims will not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 1A. *RISK FACTORS*

Except as set forth below, there have been no material changes to the risk factors previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2013. In addition to other information set forth in this report, you should carefully consider the risk factors included in the Company's annual report on Form 10-K, as updated by this report or other filings the Company makes with the SEC under the Exchange Act. Additional risks and uncertainties not presently known to the Company at this time or that the Company currently deems immaterial may also adversely affect the Company's business, financial condition or results of operations.

We rely on the services of third parties for our banking, information technology, telecommunications, and mortgage loan servicing infrastructure, and any failure, interruption or termination of such services or systems could have a material adverse affect on our financial condition and results of operations.

Our business relies on the secure, successful and uninterrupted functioning of our banking, information technology, telecommunications, and mortgage loan servicing infrastructure. We outsource some of our major systems, such as customer data and deposit processing, mortgage loan servicing, Internet and mobile banking, and electronic fund transfer systems. The failure or interruption of such systems, or the termination of a third-party software license or mortgage servicing, or any service agreement on which any of these systems or services is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such systems fail or experience interruptions.

We periodically sell or securitize our mortgage loans while retaining the obligation to perform the servicing of such loans. Although we are the master servicer of our mortgage loan portfolios, we outsource our servicing functions pursuant to a subservicing arrangement with a third party in Puerto Rico. The termination or interruption of such subservicing arrangement, without a feasible substitute or successor, could adversely affect our financial condition and results of operations. In addition, because the FDIC has the right to refuse or delay payment for loan and lease losses if the shared-loss agreements are not performed by us in accordance with their terms, any such termination or interruption of the subservicing of the covered loans that we acquired in the FDIC-assisted acquisition could adversely affect our ability to comply with such terms.

If sustained or repeated, a failure, denial or termination of such systems or services could result in a deterioration of our ability to process new loans, service existing loans, gather deposits and/or provide customer service. It could also compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability. Any of the foregoing could have a material adverse effect on our financial condition and results of operations.

A credit default or ratings downgrade on the Puerto Rico government's debt obligations could adversely affect the value of our loans to the government of Puerto Rico and our investment portfolio of Puerto Rico government bonds.

Even though the economy of Puerto Rico is closely related to the economy of the rest of the United States, prevailing economic conditions and the fiscal situation of the government of Puerto Rico led Standard & Poor's, Moody's and Fitch to downgrade general obligations and certain other bonds of the Puerto Rico government to levels below investment grade.

Despite the Commonwealth's progress in addressing its persistent budget deficits and underfunded government retirement plans, Puerto Rico continues to face significant economic and fiscal challenges, including a protracted economic recession, sizable debt-service obligations, high unemployment and a shrinking population. The recent Commonwealth credit downgrades by three leading rating agencies reflect only the views of such agencies, an explanation of which may be obtained from each such rating agency. Generally, below-investment-grade securities present greater risks and can be less liquid than investment-grade securities.

The reduction in the credit ratings of Puerto Rico government debt obligations could severely weaken the demand for such securities and the Commonwealth's access to capital markets, which may affect its ability to obtain the financing that it needs. This may in turn increase the Commonwealth's risk of default.

It is uncertain how capital markets may react to any future ratings downgrade in Puerto Rico government debt obligations. However, a further deterioration of economic or fiscal conditions in Puerto Rico, with possible negative ratings implications, could adversely affect the value of our loans to the government of Puerto Rico and the value of our investment portfolio of Puerto Rico government bonds.

At March 31, 2014, we had approximately $766.7 million of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which $718.8 million was outstanding as of such date. 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 or products, such as water and electric power utilities. Public corporations have varying degrees of independence from the central government and many receive appropriations or other payments from it. We also have loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as required for the payment of all of its 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.

Furthermore, as of March 31, 2014, we had approximately $42.4 million in obligations issued and guaranteed by the Puerto Rico government, including certain instrumentalities or public corporations, as part of our investment securities portfolio. We continue to closely monitor the economic and fiscal situation of Puerto Rico and evaluate the portfolio for any declines in value that management may consider being other-than-temporary.

Approximately 43% of our Puerto Rico government loans and obligations mature in the next 12 months or less. At March 31, 2014, we also had deposits of approximately $367.4 million from the government of Puerto Rico.

ITEM 2. ***UNREGISTERED SALES OF EQUITY SECURITES AND USE OF PROCEEDS***

On June 29, 2011, the Company announced the approval by the Board of Directors of a stock repurchase program to purchase an additional $70 million of the Company's common stock in the open market.

Any shares of common stock repurchased are held by the Company as treasury shares. The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. During the quarter ended March 31, 2014, the Company purchased approximately 707,400 additional shares under this program for a total of $10.4 million, at an average price of $14.66 per share.

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

						Total number of			**Maximum approximate**
						shares purchased			**dollar value of shares**
	Total number of		**Average price paid**						