OFG BANCORP
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

Puerto Rico;

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

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

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

ITEM 1. ***FINANCIAL STATEMENTS***

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF MARCH 31, 2014 AND DECEMBER 31, 2013

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

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

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

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

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

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

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

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

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

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)

FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013

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

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

	December 31, 2013									
				Gross		Gross				Weighted

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-covered Loans

Originated and Other Loans and Leases Held for Investment

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Non-accrual Loans

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

Non-Covered Loans

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Originated and Other Loans and Leases Held for Investment

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impaired Loans

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

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

Originated and Other Loans and Leases Held for Investment

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

	December 31, 2013

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Modifications

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	March 31, 2014							
		Delinquency						
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 72,096	$ 61,268	$ 5,230	$ 2,621	$ 382	$ 1,037	$ 1,459	$ 99
Years 2003 and 2004	63,515	53,170	5,494	2,445	484	1,246	612	64
Year 2005	87,818	72,414	6,448	2,288	1,233	3,576	1,324	535
Year 2006	116,904	97,822	10,151	4,376	1,169	2,410	850	126
Years 2007, 2008 and 2009	97,840	87,065	3,807	2,025	223	3,619	875	226
Years 2010, 2011, 2012 2013 and 2014	182,167	164,134	2,126	721	1,070	1,004	1,064	12,048

	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**							