OFG BANCORP
Form 10-Q
November 07, 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 September 30, 2014

or

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

For the transition period from ______________ to ______________

Commission File Number 001-12647

OFG Bancorp

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

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

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

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

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

Large Accelerated Filer ý Accelerated Filer o Non-Accelerated Filer ¨ (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:

44,678,475 common shares ($1.00 par value per share) outstanding as of October 31, 2014

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FORWARD-LOOKING STATEMENTS

The information included in this quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to the financial condition, results of operations, plans, objectives, future performance and business of OFG Bancorp ("we," "our," "us" or the "Company"), including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Company's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "continues," "expect," "estimate," "intend," "project" and similar 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 or potential restructuring by the Commonwealth of Puerto Rico or any of its agencies, municipalities or instrumentalities;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on the Company's businesses, business practices and cost of operations;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in Puerto Rico;
- the performance of the securities markets;
- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation ("FDIC") assessments; and
- possible legislative, tax or regulatory changes.

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

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

ITEM 1. ***FINANCIAL STATEMENTS***

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2014 AND DECEMBER 31, 2013

	September 30, 2014	December 31, 2013
	(In thousands)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 663,462	$ 614,302
Money market investments	7,777	6,967
Total cash and cash equivalents	**671,239**	**621,269**
Restricted cash	32,907	82,199
Securities purchased under agreements to resell	-	60,000
Investments:		
Trading securities, at fair value, with amortized cost of $2,419 (December 31, 2013 - $2,448)	1,687	1,869
Investment securities available-for-sale, at fair value, with amortized cost of $1,249,769 (December 31, 2013 - $1,575,043)	1,273,879	1,588,425
Investment securities held-to-maturity, at amortized cost, with fair value of $144,217	144,305	-
Federal Home Loan Bank (FHLB) stock, at cost	21,189	24,450
Other investments	65	65
Total investments	**1,441,125**	**1,614,809**
Loans:		
Mortgage loans held-for-sale, at lower of cost or fair value	16,757	46,529
Non-covered loans, net of allowance for loan and lease losses of $64,859 (December 31, 2013 - $54,298)	4,528,452	4,615,929
Covered loans, net of allowance for loan and lease losses of $62,227 (December 31, 2013 - $52,729)	311,693	356,961
Total loans, net	**4,856,902**	**5,019,419**
Other assets:		
FDIC indemnification asset	120,619	189,240
Foreclosed real estate covered under shared-loss agreements with the FDIC	49,814	33,209
Foreclosed real estate not covered under shared-loss agreements with the FDIC	50,750	56,815
Accrued interest receivable	19,665	18,734

Deferred tax asset, net			121,217			137,564
Premises and equipment, net			82,099			82,903
Customers' liability on acceptances			21,077			23,042
Servicing assets			13,986			13,801
Derivative assets			8,445			20,502
Goodwill			86,069			86,069
Other assets			97,425			98,440
Total assets		$	**7,673,339**		$	**8,158,015**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits:						
Demand deposits		$	2,132,073			2,138,005
Savings accounts			1,263,115			1,194,567
Time deposits			1,673,987			2,050,693
Total deposits			**5,069,175**			**5,383,265**
Borrowings:						
Securities sold under agreements to repurchase			1,012,228			1,267,618
Advances from FHLB			334,787			336,143
Subordinated capital notes			101,190			100,010
Other borrowings			3,872			3,663
Total borrowings			**1,452,077**			**1,707,434**
Other liabilities:						
Securities purchased but not yet received			30,057			-
Derivative liabilities			11,414			14,937
Acceptances executed and outstanding			21,077			23,042
Accrued expenses and other liabilities			159,541			144,424
Total liabilities			**6,743,341**			**7,273,102**
Commitments and contingencies (See Note 18)						
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; 52,761,295 shares issued:						
45,059,988 shares outstanding (December 31, 2013 - 52,707,023; 45,676,922)			52,761			52,707
Additional paid-in capital			539,522			538,071
Legal surplus			68,437			61,957
Retained earnings			170,519			133,629
			(90,652)			(80,642)

Treasury stock, at cost, 7,701,307 shares (December 31, 2013 - 7,030,101 shares)				
Accumulated other comprehensive income, net of tax of $1,867 (December 31, 2013 -$831)		13,411		3,191
Total stockholders' equity		**929,998**		**884,913**
Total liabilities and stockholders' equity	$	**7,673,339**	$	**8,158,015**

See notes to unaudited consolidated financial statements.

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands, except per share data)							
Interest income:								
Non-covered loans	$	87,662	$	87,655	$	260,969	$	259,567
Covered loans		20,886		21,657		69,153		65,884
Total interest income from loans		**108,548**		**109,312**		**330,122**		**325,451**
Mortgage-backed securities		10,842		9,662		35,243		29,559
Investment securities and other		911		2,127		3,910		6,564
Total interest income		**120,301**		**121,101**		**369,275**		**361,574**
Interest expense:								
Deposits		7,661		11,334		25,804		30,757
Securities sold under agreements to repurchase		7,453		7,211		22,238		21,569
Advances from FHLB and other borrowings		2,314		2,321		6,896		6,275
Subordinated capital notes		1,002		1,144		2,990		3,973
Total interest expense		**18,430**		**22,010**		**57,928**		**62,574**
Net interest income		**101,871**		**99,091**		**311,347**		**299,000**
Provision for non-covered loan and lease losses		16,142		9,900		39,424		55,343
Provision for covered loan and lease losses, net		1,115		3,074		4,339		4,957
Total provision for loan and lease losses		**17,257**		**12,974**		**43,763**		**60,300**
Net interest income after provision for loan and lease losses		**84,614**		**86,117**		**267,584**		**238,700**
Non-interest income:								
Banking service revenue		9,753		12,146		30,305		36,491
Wealth management revenue		7,113		7,394		21,316		23,084
Mortgage banking activities		2,097		2,334		5,346		9,299
Total banking and financial service revenues		**18,963**		**21,874**		**56,967**		**68,874**
FDIC shared-loss expense, net:								
		(16,059)		(15,198)		(51,180)		(46,623)

FDIC indemnification asset expense				
Change in true-up payment obligation	(875)	(767)	(2,596)	(2,178)
	(16,934)	(15,965)	(53,776)	(48,801)
Net gain (loss) on:				
Sale of securities	-	-	4,366	-
Derivatives	7	(811)	(463)	(1,746)
Early extinguishment of debt	-	-	-	1,061
Other non-interest income	455	(1,775)	1,133	575
Total non-interest income, net	**2,491**	**3,323**	**8,227**	**19,963**
Non-interest expense:				
Compensation and employee benefits	18,592	22,590	61,086	69,927
Professional and service fees	3,807	4,409	11,525	16,262
Occupancy and equipment	8,770	8,270	25,684	25,552
Insurance	2,099	1,828	6,506	7,229
Electronic banking charges	4,637	3,694	14,085	11,458
Information technology expenses	1,289	2,729	4,589	7,708
Advertising, business promotion, and strategic initiatives	1,825	1,471	5,274	4,550
Merger and restructuring charges	-	2,252	-	13,060
Foreclosure, repossession and other real estate expenses	7,842	5,703	20,783	12,603
Loan servicing and clearing expenses	1,870	2,133	5,598	5,493
Taxes, other than payroll and income taxes	3,494	4,024	11,005	11,778
Communication	820	782	2,590	2,481
Printing, postage, stationary and supplies	620	824	1,820	2,841
Director and investor relations	250	230	794	843
Other	3,660	2,295	9,488	6,749
Total non-interest expense	**59,575**	**63,234**	**180,827**	**198,534**
Income before income taxes	**27,530**	**26,206**	**94,984**	**60,129**
Income tax expense (benefit)	7,998	6,585	30,396	(18,223)
Net income	**19,532**	**19,621**	**64,588**	**78,352**
Less: dividends on preferred stock	(3,465)	(3,465)	(10,396)	(10,396)
Income available to common shareholders	**$ 16,067**	**$ 16,156**	**$ 54,192**	**$ 67,956**
Earnings per common share:				

Basic	$	**0.36**	$	0.35	$	**1.20**	$	1.49
Diluted	$	**0.34**	$	0.34	$	**1.14**	$	1.39
Average common shares outstanding and equivalents		**52,362**		53,322		**52,440**		53,053
Cash dividends per share of common stock	$	**0.08**	$	0.06	$	**0.24**	$	0.18
See notes to unaudited consolidated financial statements.								

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	**$ 19,532**	**$ 19,621**	**$ 64,588**	**$ 78,352**
Other comprehensive income (loss) before tax:				
Unrealized gain (loss) on securities available-for-sale	(9,410)	(5,779)	15,094	(52,346)
Realized gain on investment securities included in net income	-	-	(4,366)	-
Unrealized gain on cash flow hedges	1,798	233	2,189	4,711
Other comprehensive income (loss) before taxes	**(7,612)**	**(5,546)**	**12,917**	**(47,635)**
Income tax effect	(732)	611	(2,697)	2,587
Other comprehensive income (loss) after taxes	**(8,344)**	**(4,935)**	**10,220**	**(45,048)**
Comprehensive income	**$ 11,188**	**$ 14,686**	**$ 74,808**	**$ 33,304**

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Nine-Month Period Ended September 30,				
	2014			**2013**	
	(In thousands)				
Preferred stock:					
Balance at beginning of period	$	176,000		$	176,000
Balance at end of period		**176,000**			**176,000**
Common stock:					
Balance at beginning of period		52,707			52,671
Exercised stock options		54			20
Balance at end of period		**52,761**			**52,691**
Additional paid-in capital:					
Balance at beginning of period		538,071			537,453
Stock-based compensation expense		1,248			1,360
Exercised stock options		589			187
Lapsed restricted stock units		(386)			(728)
Common stock issuance costs		-			(16)
Preferred stock issuance costs		-			(25)
Balance at end of period		**539,522**			**538,231**
Legal surplus:					
Balance at beginning of period		61,957			52,143
Transfer from retained earnings		6,480			7,724
Balance at end of period		**68,437**			**59,867**
Retained earnings:					
Balance at beginning of period		133,629			70,734
Net income		64,588			78,352
Cash dividends declared on common stock		(10,822)			(8,219)
Cash dividends declared on preferred stock		(10,396)			(10,396)
Transfer to legal surplus		(6,480)			(7,724)
Balance at end of period		**170,519**			**122,747**
Treasury stock:					
Balance at beginning of period		(80,642)			(81,275)
Stock repurchased		(10,394)			-
Lapsed restricted stock units		384			556
Stock used to match defined contribution plan		-			77
Balance at end of period		**(90,652)**			**(80,642)**
Accumulated other comprehensive income,					

net of tax:					
Balance at beginning of period		3,191			55,880
Other comprehensive income (loss), net of tax		10,220			(45,048)
Balance at end of period		**13,411**			**10,832**
Total stockholders' equity	**$**	**929,998**		**$**	**879,726**
See notes to unaudited consolidated financial statements.					

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OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

	Nine-Month Period Ended September 30,			
	2014		**2013**	
	(In thousands)			
Cash flows from operating activities:				
Net income	$	**64,588**	$	**78,352**
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred loan origination fees, net of costs		2,065		733
Amortization of fair value premiums, net of discounts, on acquired loans		9,914		8,239
Amortization of investment securities premiums, net of accretion of discounts		1,048		17,116
Amortization of core deposit and customer relationship intangibles		1,627		1,932
Amortization of fair value premiums on acquired deposits		4,349		12,032
FDIC shared-loss expense, net		53,776		48,801
Depreciation and amortization of premises and equipment		7,415		7,703
Deferred income tax expense (benefit), net		20,418		(18,816)
Provision for covered and non-covered loan and lease losses, net		43,763		60,300
Stock-based compensation		1,248		1,360
(Gain) loss on:				
Sale of securities		(4,366)		-
Sale of mortgage loans held-for-sale		(3,891)		(2,009)
Derivatives		584		224
Early extinguishment of debt		-		(1,061)
Foreclosed real estate		9,185		5,321
Sale of other repossessed assets		4,506		1,813
Sale of premises and equipment		(11)		-
Originations of loans held-for-sale		(130,547)		(239,804)
Proceeds from sale of loans held-for-sale		72,211		125,245
Net (increase) decrease in:				
Trading securities		182		(1,629)
Accrued interest receivable		(931)		(4,802)

Servicing assets		(185)			(2,856)
Other assets		8,538			15,984
Net increase (decrease) in:					
Accrued interest on deposits and borrowings		(1,811)			(1,658)
Accrued expenses and other liabilities		(3,099)			13,937
Net cash provided by operating activities		**160,576**			**126,457**
Cash flows from investing activities:					
Purchases of:					
Investment securities available-for-sale		(219,027)			(32,874)
Investment securities held-to-maturity		(115,396)			-
FHLB stock		(84,375)			(32,562)
Maturities and redemptions of:					
Investment securities available-for-sale		429,939			477,610
Investment securities held-to-maturity		1,045			-
FHLB stock		87,636			46,503
Proceeds from sales of:					
Investment securities available-for-sale		189,249			120,526
Foreclosed real estate and other repossessed assets		33,915			44,754
Loans held-for-investment		9,378			-
Premises and equipment		25			896
Origination and purchase of loans, excluding loans held-for-sale		(545,776)			(911,443)
Principal repayment of loans, including covered loans		561,479			806,676
Reimbursements from the FDIC on shared-loss agreements		31,537			32,732
Additions to premises and equipment		(6,626)			(6,747)
Net change in securities purchased under agreements to resell		60,000			(5,000)
Net change in restricted cash		49,292			(2,517)
Net cash provided by investing activities		**482,295**			**538,554**

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013 – (Continued)

	Nine-Month Period Ended September 30,				
	2014			**2013**	
	(In thousands)				
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits		(306,917)			(96,552)
Short term borrowings		-			(92,210)
Securities sold under agreements to repurchase		(255,000)			(427,931)
FHLB advances, federal funds purchased, and other borrowings		(1,142)			(199,731)
Subordinated capital notes		1,180			(45,491)
Exercise of stock options and restricted units lapsed, net		641			207
Purchase of treasury stock		(10,394)			-
Termination of derivative instruments		-			1,483
Dividends paid on preferred stock		(10,396)			(10,226)
Dividends paid on common stock		(10,873)			(8,219)
Net cash used in financing activities		**(592,901)**			**(878,670)**
Net change in cash and cash equivalents		**49,970**			**(213,659)**
Cash and cash equivalents at beginning of period		621,269			855,235
Cash and cash equivalents at end of period	**$**	**671,239**		**$**	**641,576**
Supplemental Cash Flow Disclosure and Schedule of Non-cash Activities:					
Interest paid	$	63,082		$	64,272
Income taxes paid	$	1,839		$	378
Mortgage loans securitized into mortgage-backed securities	$	71,466		$	117,687
Securities purchased but not yet received	$	30,057		$	-
Transfer from loans to foreclosed real estate and other repossessed assets	$	67,296		$	65,716
Reclassification of loans held-for-investment portfolio to held-for-sale portfolio	$	5,268		$	42,289
Reclassification of loans held-for-sale portfolio to held-for-investment portfolio	$	25,801		$	-

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"). Through these subsidiaries and their respective divisions, the Company provides a wide range of banking and financial services such as commercial, consumer and mortgage lending, auto loans, financial planning, insurance sales, money management and investment banking and brokerage services, as well as corporate and individual trust services. On April 25, 2013, the Company changed its corporate name from Oriental Financial Group Inc. to OFG Bancorp.

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

Recent Accounting Developments

In August 2014, the Financial Accounting Standard Board ("FASB") issued a new going concern standard, which requires management to assess at each interim and annual reporting period whether substantial doubt exists about the company's ability to continue as a going concern. Substantial doubt exists if it is probable (the same threshold that is used for contingencies) that the company will be unable to meet its obligations as they become due within one year after the date the financial statements are issued or available to be issued (assessment date). Management needs to consider known (and reasonably knowable) events and conditions at the assessment date. For all entities, this standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, with earlier adoption permitted. The adoption of this standard will have no material impact on our financial position or results of operations.

In August 2014, FASB issued new guidance requiring creditors to classify certain foreclosed, government-guaranteed, mortgage loans as receivables. The receivable is measured at the amount expected to be recovered under the guarantee, which is not treated as a separate unit of account. For public business entities, this guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014, with earlier adoption permitted if the entity already has adopted Accounting Standards Update ("ASU") 2014-04. An entity should adopt the amendments in this update using either a prospective transition method or a modified retrospective transition method. We are currently evaluating the impact that the adoption of this guidance will have on our financial position and results of operations.

Other than the accounting pronouncements disclosed above, there was no other new accounting pronouncement issued during the third quarter of 2014 that could have a material impact on the Company's financial position, operating results or financials statement disclosures.

OFG BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 2 – RESTRICTED CASH

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

	September 30, 2014		December 31, 2013	
	(In thousands)			
Cash pledged as collateral to other financial institutions to secure:				
Securities sold under agreements to repurchase	$	24,500	$	67,029
Derivatives		2,980		2,980
Obligations under agreement of loans sold with recourse		5,427		12,190
	$	**32,907**	**$**	**82,199**

The Company delivers cash as collateral to meet margin calls for some long term securities sold under agreements to repurchase. At September 30, 2014 and December 31, 2013, the Company had cash pledged as collateral for securities sold under agreements to repurchase amounting to $24.5 million and $67.0 million, respectively.

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

As part of the BBVAPR Acquisition, the Company assumed various contracts with the Federal National Mortgage Association ("FNMA") which required collateral to guarantee the repurchase, if necessary, of certain mortgage loans sold with recourse. At September 30, 2014 and December 31, 2013, the Company had $5.4 million and $12.2 million, respectively, of cash pledged as collateral for such recourse obligations.

NOTE 3 – INVESTMENT SECURITIES

Money Market Investments

The Company considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition. At September 30, 2014 and December 31, 2013, money market instruments included as part of cash and cash equivalents amounted to $7.8 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 September 30, 2014, there were no securities purchased under agreements to resell.

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investment Securities

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

	September 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Mortgage-backed securities					
FNMA and FHLMC certificates	$ 1,023,303	$ 36,414	$ 3,082	$ 1,056,635	3.13%
GNMA certificates	5,241	348	21	5,568	4.92%
CMOs issued by US government-sponsored agencies	189,142	206	4,390	184,958	1.80%
Total mortgage-backed securities	**1,217,686**	**36,968**	**7,493**	**1,247,161**	2.93%
Investment securities					
Obligations of US government-sponsored agencies	7,795	-	34	7,761	1.32%
Obligations of Puerto Rico government and political subdivisions	20,915	-	5,469	15,446	5.41%
Other debt securities	3,373	138	-	3,511	2.91%
Total investment securities	**32,083**	**138**	**5,503**	**26,718**	4.15%
Total securities available for sale	**$ 1,249,769**	**$ 37,106**	**$ 12,996**	**$ 1,273,879**	2.96%
Held-to-maturity					
Mortgage-backed securities					
FNMA and FHLMC certificates	144,305	82	170	144,217	1.95%
Total	**$ 1,394,074**	**$ 37,188**	**$ 13,166**	**$ 1,418,096**	2.86%

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	September 30, 2014			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)		(In thousands)	
Mortgage-backed securities				
Due after 5 to 10 years				
FNMA and FHLMC certificates	$ 22,896	$ 23,243	$ -	$ -
Total due after 5 to 10 years	**22,896**	**23,243**	**-**	**-**
Due after 10 years				
FNMA and FHLMC certificates	1,000,407	1,033,392	144,305	144,217
GNMA certificates	5,241	5,568	-	-
CMOs issued by US government-sponsored agencies	189,142	184,958	-	-
Total due after 10 years	**1,194,790**	**1,223,918**	**144,305**	**144,217**
Total mortgage-backed securities	**1,217,686**	**1,247,161**	**144,305**	**144,217**
Investment securities				
Due from 1 to 5 years				
Obligations of Puerto Rico government and political subdivisions	10,450	8,628	-	-
Total due from 1 to 5 years	**10,450**	**8,628**	**-**	**-**
Due after 5 to 10 years				
Obligations of US government and sponsored agencies	7,795	7,761	-	-
Total due after 5 to 10 years	**7,795**	**7,761**	**-**	**-**
Due after 10 years				
Obligations of Puerto Rico government and political subdivisions	10,465	6,818	-	-

Other debt securities	3,373	3,511	-	-
Total due after 10 years	**13,838**	**10,329**	**-**	**-**
Total investment securities	**32,083**	**26,718**	**-**	**-**
Total securities available-for-sale	**$ 1,249,769**	**$ 1,273,879**	**$ 144,305**	**$ 144,217**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The Company, as part of its asset/liability management, may purchase U.S. Treasury securities and U.S. government-sponsored agency discount notes close to their maturities as alternatives to cash deposits at correspondent banks or as a short term vehicle to reinvest the proceeds of sale transactions until investment securities with attractive yields can be purchased. During the nine-month period ended September 30, 2014, the Company sold $74.1 million of available-for-sale Government National Mortgage Association ("GNMA") certificates that were sold as part of its recurring mortgage loan origination and securitization activities. These sales did not realize any gains or losses during such period.

In addition, during the nine-month period ended September 30, 2014, the Company sold $110.8 million of available-for-sale FNMA and FHLMC certificates 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. The Company recorded a net gain on sale of these securities of $4.4 million. The table below presents the gross realized gains by category for such period. There was no realized gain or loss for the nine-month period ended September 30, 2013.

	Nine-Month Period Ended September 30, 2014			
		Book Value	Gross	Gross
Description	**Sale Price**	**at Sale**	**Gains**	**Losses**
	(In thousands)			
Sale of securities available-for-sale				
Mortgage-backed securities				
FNMA and FHLMC certificates	$ 115,158	$ 110,792	$ 4,366	$ -
GNMA certificates	74,091	74,091	-	-
Total	**$ 189,249**	**$ 184,883**	**$ 4,366**	**$ -**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	September 30, 2014					
	12 months or more					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	149,957	$	4,242	$	145,716
FNMA and FHLMC certificates		183,479		3,049		180,430
Obligations of Puerto Rico government and political subdivisions		20,915		5,469		15,446
GNMA certificates		197		22		176
	$	**354,548**	$	**12,782**	$	**341,768**
	Less than 12 months					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	15,746	$	148	$	15,598
FNMA and FHLMC certificates		26,220		33		26,187
Obligations of US government and sponsored agencies		7,796		34		7,761
Securities held-to-maturity						
FNMA and FHLMC Certificates		95,598		170		95,428
	$	**145,359**	**$**	**385**	**$**	**144,974**
	Total					
	Amortized Cost		Unrealized Loss		Fair Value	
	(In thousands)					
Securities available-for-sale						
CMOs issued by US government-sponsored agencies	$	165,703	$	4,390	$	161,314
FNMA and FHLMC certificates		209,699		3,082		206,617
Obligations of Puerto Rico government and political subdivisions		20,915		5,469		15,446
Obligations of US government and sponsored agencies		7,796		34		7,761

GNMA certificates		197			22			176
		404,309			**12,996**			**391,314**
Securities held-to-maturity								
FNMA and FHLMC Certificates		95,598			170			95,428
	$	**499,907**		**$**	**13,166**		**$**	**486,742**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Most of the investment ($479.0 million or 96%) with an unrealized loss position at September 30, 2014 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 ($20.9 million or 4%) with an unrealized loss position at September 30, 2014 consist of obligations issued or guaranteed by the government of Puerto Rico and its political subdivisions or instrumentalities. The recent decline in the market value of these securities is mainly attributed to an increase in volatility as a result of changes in market conditions that reflect the significant economic and fiscal challenges that Puerto Rico is facing, including a protracted economic recession, sizable government debt-service obligations and structural budget deficits, high unemployment and a shrinking population. Moreover, uncertainty in regards to the impact of the recently enacted Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") and the related subsequent negative rating decisions taken by the credit rating agencies has affected the market value of these securities.

As of September 30, 2014, the Company applied a discounted cash flow analysis to the Puerto Rico government bonds to calculate the cash flows expected to be collected and determine if any portion of the decline in market value of these investments was considered an other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted future cash flows of the underlying investments, and included the following components:

- The contractual future cash flows of the bonds are projected based on the key terms as set forth in the official statements for each investment. Such key terms include among others the interest rate, amortization schedule, if any, and maturity date.

- The risk-adjusted cash flows are calculated based on monthly default probability and recovery rate assumptions based on the credit rating of each investment. Constant monthly default rates are assumed throughout the life of the bonds which are based on the respective security's credit rating as of the date of the analysis.

- The adjusted future cash flows are then discounted at the original effective yield of each investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of each investment.

The discounted cash flow analysis for the investments showed at maturity in the range of 2.509% to 15.340%, thus reflecting that it is more likely than not that the bonds will not default at all during their remaining terms (range between 84.660% and 97.491%). Based on this analysis, the Company determined that it is more likely than not that it will recover all interest and principal invested in the Puerto Rico government bonds and is therefore not required to recognize a credit loss as of September 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 4 - LOANS

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

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

	September 30,			December 31,	
	2014			2013	
	(In thousands)				
Non-covered loans:					
Originated and other loans and leases held for investment:					
Mortgage	$	791,106		$	766,265
Commercial		1,217,235			1,127,657
Consumer		175,882			127,744
Auto and leasing		542,892			379,874
		2,727,115			**2,401,540**
Acquired loans:					
Accounted for under ASC 310-20 (Loans with revolving feature and/or					
acquired at a premium)					
Commercial		26,984			77,681
Consumer		47,284			56,174
Auto		210,808			301,584
		285,076			**435,439**
Accounted for under ASC 310-30 (Loans acquired with deteriorated					
credit quality, including those by analogy)					
Mortgage		670,188			717,904
Commercial		485,444			545,117
Construction		108,694			126,427

Consumer		36,470		63,620
Auto		276,749		379,145
		1,577,545		**1,832,213**
		4,589,736		**4,669,192**
Deferred loan cost , net		3,575		1,035
Loans receivable		**4,593,311**		**4,670,227**
Allowance for loan and lease losses on non-covered loans		(64,859)		(54,298)
Loans receivable, net		**4,528,452**		**4,615,929**
Mortgage loans held-for-sale		16,757		46,529
Total non-covered loans, net		**4,545,209**		**4,662,458**
Covered loans:				
Loans secured by 1-4 family residential properties		121,658		121,748
Construction and development secured by 1-4 family residential properties		18,947		17,304
Commercial and other construction		228,410		264,249
Consumer		4,905		6,119
Leasing		-		270
Total covered loans		**373,920**		**409,690**
Allowance for loan and lease losses on covered loans		(62,227)		(52,729)
Total covered loans, net		**311,693**		**356,961**
Total loans, net	$	**4,856,902**	$	**5,019,419**

During the nine-month period ended September 30, 2014, the Company reclassified $25.8 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 September 30, 2014 and December 31, 2013 by class of loans. Mortgage loans past due included delinquent loans in the GNMA buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

	September 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Mortgage							
Traditional (by origination year):							
Up to the year 2002	$ 5,996	$ 3,283	$ 3,424	$ 12,703	$ 55,635	$ 68,338	$ 141
Years 2003 and 2004	6,679	1,730	3,471	11,880	50,464	62,344	-
Year 2005	7,368	3,295	8,258	18,921	69,510	88,431	89
Year 2006	10,274	5,678	6,041	21,993	91,218	113,211	114
Years 2007, 2008 and 2009	3,285	3,095	7,647	14,027	83,036	97,063	59

Years 2010, 2011, 2012, 2013 and 2014	4,938	1,368	5,706	12,012	181,550	193,562	509
	38,540	18,449	34,547	91,536	531,413	622,949	912
Non-traditional	1,084	783	3,022	4,889	32,886	37,775	-
Loss mitigation program	10,022	7,358	14,625	32,005	57,578	89,583	5,773
	49,646	26,590	52,194	128,430	621,877	750,307	6,685
Home equity secured personal loans	-	-	126	126	607	733	-
GNMA's buy-back option program	-	-	40,066	40,066	-	40,066	-
	49,646	**26,590**	**92,386**	**168,622**	**622,484**	**791,106**	**6,685**
Commercial							
Commercial secured by real estate:							
Corporate	-	-	-	-	113,976	113,976	-
Institutional	-	-	-	-	37,177	37,177	-
Middle market	-	1,071	638	1,709	142,830	144,539	-
Retail	1,164	129	7,258	8,551	153,091	161,642	-
Floor plan	-	-	-	-	1,666	1,666	-
Real estate	-	-	-	-	11,878	11,878	-
	1,164	1,200	7,896	10,260	460,618	470,878	-
Other commercial and industrial:							
Corporate	-	-	-	-	60,402	60,402	-
Institutional	-	-	-	-	482,277	482,277	-
Middle market	-	-	628	628	82,577	83,205	-
Retail	267	144	809	1,220	79,592	80,812	-
Floor plan	-	-	-	-	39,661	39,661	-
	267	144	1,437	1,848	744,509	746,357	-
	1,431	**1,344**	**9,333**	**12,108**	**1,205,127**	**1,217,235**	**-**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Consumer							
Credit cards	238	189	408	835	17,022	17,857	-
Overdrafts	20	2	1	23	317	340	-
Personal lines of credit	67	132	29	228	1,823	2,051	-
Personal loans	1,666	627	604	2,897	135,711	138,608	-
Cash collateral personal loans	214	132	36	382	16,644	17,026	-
	2,205	**1,082**	**1,078**	**4,365**	**171,517**	**175,882**	**-**
Auto and leasing	43,537	15,956	8,279	**67,772**	475,120	**542,892**	-
Total	**$ 96,819**	**$ 44,972**	**$ 111,076**	**$ 252,867**	**$ 2,474,248**	**$ 2,727,115**	**$ 6,685**

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

At September 30, 2014 and December 31, 2013, the Company had $458.0 million and $515.4 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of the institutional commercial loan segment. This entire amount was current at September 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	September 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Loans 90+ Days Past Due and Still Accruing
	(In thousands)						
Commercial							
Commercial secured by real estate							
Corporate	$ -	$ -	$ -	$ -	$ 3,746	$ 3,746	$ -
Retail	-	-	342	342	482	824	-
Floor plan	-	-	101	101	3,972	4,073	-
	-	-	443	443	8,200	8,643	-
Other commercial and industrial							

Corporate	-	-	-	-	2,915	2,915	-
Retail	169	73	451	693	7,328	8,021	-
Floor plan	97	40	108	245	7,160	7,405	-
	266	113	559	938	17,403	18,341	-
	266	**113**	**1,002**	**1,381**	**25,603**	**26,984**	**-**
Consumer							
Credit cards	1,625	678	1,328	3,631	40,051	43,682	-
Personal loans	160	83	66	309	3,293	3,602	-
	1,785	**761**	**1,394**	**3,940**	**43,344**	**47,284**	**-**
Auto	**11,372**	**4,137**	**1,537**	**17,046**	**193,762**	**210,808**	**-**
Total	**$ 13,423**	**$ 5,011**	**$ 3,933**	**$ 22,367**	**$ 262,709**	**$ 285,076**	**$ -**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

	September 30, 2014	December 31, 2013
	(In thousands)	
Contractual required payments receivable	$ 2,505,662	$ 2,929,353
Less: Non-accretable discount	523,987	579,587
Cash expected to be collected	1,981,675	2,349,766
Less: Accretable yield	404,130	517,553
Carrying amount, gross	1,577,545	1,832,213
Less: allowance for loan and lease losses	10,120	2,863
Carrying amount, net	$ 1,567,425	$ 1,829,350

During the quarter ended September 30, 2014, the Company sold non-performing residential mortgage loans that were accounted for under ASC 310-30 with a carrying amount of $19.7 million. No gain or loss was realized in the transaction in accordance to ASC 310-30 accounting.

At September 30, 2014 and December 31, 2013, the Company had $168.7 million and $180.5 million, respectively, in loans granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities as part of its non-covered acquired loans accounted for under ASC 310-30. This entire amount was current at September 30, 2014.

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

	Quarter Ended September 30,			Nine-Month Period Ended September 30,		
	2014		2013	2014		2013
	(In thousands)					
Accretable Yield Activity						
Balance at beginning of period	$ 444,606		$ 561,485	$ 517,553		$ 655,833
Accretion	(38,340)		(48,352)	(118,323)		(150,447)
Transfer from (to) non-accretable discount	(2,136)		6,010	4,900		13,757
Balance at end of period	**$ 404,130**		**$ 519,143**	**$ 404,130**		**$ 519,143**

	Quarter Ended September 30,			Nine-Month Period Ended September 30,		
	2014		2013	2014		2013
	(In thousands)					
Non-Accretable Discount Activity						
Balance at beginning of period	$ 554,724		$ 686,231	$ 579,587		$ 714,462
Principal losses	(32,873)		(44,301)	(50,700)		(64,785)
Transfer from (to) accretable yield	2,136		(6,010)	(4,900)		(13,757)
Balance at end of period	**$ 523,987**		**$ 635,920**	**$ 523,987**		**$ 635,920**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

	September 30, 2014	December 31, 2013
	(In thousands)	
Contractual required payments receivable	$ 561,844	$ 702,126
Less: Non-accretable discount	77,940	129,477
Cash expected to be collected	483,904	572,649
Less: Accretable yield	109,984	162,959
Carrying amount, gross	373,920	409,690
Less: Allowance for covered loan and lease losses	62,227	52,729
Carrying amount, net	**$ 311,693**	**$ 356,961**

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

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Accretable Yield Activity				
Balance at beginning of period	$ 128,061	$ 167,132	$ 162,959	$ 188,008
Accretion	(20,886)	(21,657)	(69,154)	(65,884)
Transfer from non-accretable discount	2,809	23,070	16,179	46,421
Balance at end of period	**$ 109,984**	**$ 168,545**	**$ 109,984**	**$ 168,545**
	Quarter Ended September 30,		**Nine-Month Period Ended September 30,**	
	2013	**2013**	**2014**	**2013**
	(In thousands)			
Non-Accretable Discount Activity				

Balance at beginning of period	$	85,224		$	192,259		$	129,477		$	237,555
Principal losses		(4,475)			(7,762)			(35,358)			(29,707)
Transfer to accretable yield		(2,809)			(23,070)			(16,179)			(46,421)
Balance at end of period	**$**	**77,940**		**$**	**161,427**		**$**	**77,940**		**$**	**161,427**

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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 September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	(In thousands)			
Originated and other loans and leases held for investment				
Mortgage				
Traditional (by origination year):				
Up to the year 2002	$	3,613	$	3,428
Years 2003 and 2004		3,749		1,845
Year 2005		9,117		4,922
Year 2006		7,019		4,418
Years 2007, 2008 and 2009		9,817		4,511
Years 2010, 2011, 2012, 2013 and 2014		6,244		7,818
		39,559		26,942
Non-traditional		3,022		2,311
Loss mitigation program		17,636		18,792
		60,217		48,045
Home equity secured personal loans		125		138
		60,342		**48,183**
Commercial				
Commercial secured by real estate				
Middle market		10,608		11,895
Retail		8,942		7,208
		19,550		19,103
Other commercial and industrial				
Middle market		628		1,134
Retail		2,112		2,485
Floor plan		-		108
		2,740		3,727
		22,290		**22,830**
Consumer				
Credit cards		408		232
Overdrafts		1		-

Personal lines of credit		35			84
Personal loans		761			485
Cash collateral personal loans		36			4
		1,241			**805**
Auto and leasing		**9,008**			**5,089**
	$	**92,881**		$	**76,907**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	September 30,			December 31,	
	2014			2013	
	(In thousands)				
Acquired loans accounted under ASC 310-20					
Commercial					
Commercial secured by real estate					
Retail	$	342		$	956
Floor plan		101			101
		443			1,057
Other commercial and industrial					
Corporate		-			97
Retail		455			1,371
Floor plan		121			18
		576			1,486
		1,019			**2,543**
Consumer					
Credit cards		1,326			2,068
Personal loans		76			151
		1,402			**2,219**
Auto		**1,746**			**1,608**
		4,167			**6,370**
Total non-accrual loans	**$**	**97,048**		**$**	**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.

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.

At September 30, 2014 and December 31, 2013, loans whose terms have been extended and which are classified as troubled-debt restructurings that are not included in non-accrual loans amounted to $273.6 million and $66.5 million, respectively, as they are performing under their new terms. During the quarter ended September 30, 2014, the revolving line of credit to finance the purchase of fuel for the day to day power generation activities of the Puerto Rico Electric Power Authority (“PREPA”) was classified substandard and a troubled-debt restructuring. Based on our analysis, the loan is being maintained in accrual status requiring no impairment. At September 30, 2014 this line of credit had an unpaid principal balance of $200.0 million.

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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 $226.8 million and $28.4 million at September 30, 2014 and December 31, 2013, respectively. Impaired commercial loans at September 30, 2014 included the PREPA line of credit with an unpaid principal balance of $200.0 million. 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 $1.1 million and $1.4 million at September 30, 2014 and December 31, 2013, respectively. The total investment in impaired mortgage loans was $91.7 million and $84.5 million at September 30, 2014 and December 31, 2013, respectively. Impairment on mortgage loans assessed as troubled-debt restructurings was measured using the present value of cash flows. The valuation allowance for impaired mortgage loans amounted to approximately $7.9 million and $8.7 million at September 30, 2014 and December 31, 2013, respectively.

Originated and Other Loans and Leases Held for Investment

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

	September 30, 2014								
	Unpaid			**Recorded**			**Related**		
	Principal			**Investment**			**Allowance**		**Coverage**
	(In thousands)								
Impaired loans with specific allowance:									
Commercial	$	5,297		$	4,731		$	1,108	23%
Residential troubled-debt restructuring		97,289			91,692			7,932	9%
Impaired loans with no specific allowance:									
Commercial		228,968			221,852			N/A	N/A
Total investment in impaired loans	**$**	**331,554**		**$**	**318,275**		**$**	**9,040**	3%

	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)

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

	September 30, 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%**

Non-covered 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 September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014

	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(In thousands)			
Impaired non-covered loan pools:				
Commercial	$ 294,966	$ 257,234	$ 4,613	2%
Construction	52,367	45,770	5,502	12%
Consumer	42,897	36,463	5	0%
Total investment in impaired non-covered loan pools	**$ 390,230**	**$ 339,467**	**$ 10,120**	3%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2013			
	Unpaid Principal	Recorded Investment	Allowance	Coverage to Recorded Investment
	(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%

The following table presents the interest recognized in non-covered commercial and mortgage loans that were individually evaluated for impairment, excluding loans accounted for under ASC 310-30, for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,			
	2014		2013	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(In thousands)			
Impaired loans with specific allowance				
Commercial	$ 28	$ 5,103	$ 5	$ 9,039
Residential troubled-debt restructuring	666	91,293	712	82,388
Impaired loans with no specific allowance				
Commercial	1,728	89,029	146	28,805
Total interest income from impaired loans	**$** 2,422	**$** 185,425	**$** 863	**$** 120,232

	Nine-Month Period Ended Ended September 30,							
	2014				2013			
	Interest Income Recognized		Average Recorded Investment		Interest Income Recognized		Average Recorded Investment	
	(In thousands)							
Impaired loans with specific allowance								
Commercial	$	83	$	6,187	$	16	$	14,872
Residential troubled-debt restructuring		1,876		89,597		1,942		81,406
Impaired loans with no specific allowance								
Commercial		5,185		44,203		438		26,471
Total interest income from impaired loans	**$**	7,144	**$**	139,987	**$**	2,396	**$**	122,749

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

	September 30, 2014								
		Unpaid Principal			Recorded Investment			Allowance	Coverage to Recorded Investment
	(In thousands)								
Impaired covered loan pools:									
Loans secured by 1-4 family residential properties	$	138,029		$	106,823		$	15,252	14%
Construction and development secured by 1-4 family residential properties		61,562			20,249			8,679	43%
Commercial and other construction		105,542			73,424			37,907	52%
Consumer		8,408			4,844			389	8%
Total investment in impaired covered loan pools	**$**	**313,541**		**$**	**205,340**		**$**	**62,227**	30%

	December 31, 2013								
		Unpaid Principal			Recorded Investment			Specific Allowance	Coverage to Recorded Investment
	(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)

Modifications

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

	Quarter Ended September 30, 2014						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)						
Mortgage	26	$ 3,016	5.62%	347	$ 2,965	4.22%	
Commercial	20	200,007	7.25%	3	200,007	7.25%	
Consumer	6	58	10.00%	61	68	9.66%	

	Nine-Month Period Ended September 30, 2014						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)						
Mortgage	113	$ 14,562	5.99%	349	$ 14,162	4.21%	
Commercial	21	200,080	7.25%	3	200,080	7.25%	
Consumer	13	123	11.77%	66	136	11.48%	

	Quarter Ended September 30, 2013						
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)						
Mortgage	21	$ 2,887	6.74%	352	$ 3,066	6.74%	

	Nine-Month Period Ended September 30, 2013

	Number of contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Weighted Average Rate	Pre-Modification Weighted Average Term (in Months)	Post-Modification Outstanding Recorded Investment	Post-Modification Weighted Average Rate	Post-Mod Weig Average T Mon
	(Dollars in thousands)						
Mortgage	102	$ 12,828	6.43%	334	$ 13,685	5.15%	
Commercial	2	1,842	8.99%	87	1,842	4.00%	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Twelve-Month Period Ended September 30,								
	2014					2013			
	Number of Contracts		Recorded Investment			Number of Contracts		Recorded Investment	
	(Dollars in thousands)								
Mortgage	15		$	1,739		30		$	3,097
Consumer	2		$	5		-		$	-

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	September 30, 2014					
	Risk Ratings					
	Balance Outstanding	Pass	Special Mention	Substandard	Doubtful	Individually Measured for Impairment
	(In thousands)					
Commercial - originated and other loans held for investment						
Commercial secured by real estate:						
Corporate	$ 113,976	$ 90,006	$ 23,970	$ -	$ -	$ -
Institutional	37,177	27,232	9,702	-	-	243
Middle market	144,539	127,640	3,707	-	-	13,192
Retail	161,642	147,034	3,020	2,441	-	9,147
Floor plan	1,666	594	971	101	-	-
Real estate	11,878	11,878	-	-	-	-
	470,878	404,384	41,370	2,542	-	22,582
Other commercial and industrial:						
Corporate	60,402	60,402	-	-	-	-
Institutional	482,275	282,293	-	-	-	199,982
Middle market	83,206	77,504	3,144	-	-	2,558
Retail	80,813	76,684	308	2,360	-	1,461
Floor plan	39,661	38,301	1,147	213	-	-
	746,357	535,184	4,599	2,573	-	204,001
Total	1,217,235	939,568	45,969	5,115	-	226,583
Commercial - acquired loans (under ASC 310-20)						

Commercial secured by real estate:						
Corporate	3,746	3,746	-	-	-	-
Retail	824	467	-	357	-	-
Floor plan	4,073	4,073	-	-	-	-
	8,643	8,286	-	357	-	-
Other commercial and industrial:						
Corporate	2,915	2,915	-	-	-	-
Retail	8,021	7,612	9	400	-	-
Floor plan	7,405	7,405	-	-	-	-
	18,341	17,932	9	400	-	-
Total	26,984	26,218	9	757	-	-
Total	**$ 1,244,219**	**$ 965,786**	**$ 45,978**	**$ 5,872**	**$ -**	**$ 226,583**

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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**

All loans individually measured for impairment are classified as substandard as of September 30, 2014.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2014 and December 31, 2013, we had approximately $647.9 million and $763.4 million, respectively, of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which $626.8 million and $696.0 million, respectively, were outstanding as of such dates. A substantial portion of our credit exposure to the government of Puerto Rico consists of collateralized loans or obligations that have a specific source of income or revenues identified for its repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services, such as water and electric power utilities. Public corporations have varying degrees of independence from the central government and many have received appropriations or are due other payments from it. We also have loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all their general obligation bonds and notes. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

In the second quarter of 2014, the government enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"), which establishes procedures for the adjustment of certain public corporations' debts. The Recovery Act states in its preamble that it further promotes the central government's public policy objectives of no longer providing financial support to public corporations and promoting their economic independence. The Recovery Act, which is without precedent and is being challenged in federal court on constitutional grounds, has increased the level of uncertainty as to the rights of the affected public corporation's creditors. As of September 30, 2014, we had approximately $382.1 million of credit facilities granted to public corporations authorized to initiate proceedings under the Recovery Act.

Oriental Bank is part of a four bank syndicate providing a $550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of PREPA, a public corporation authorized to seek relief under the Recovery Act. The Bank's participation in the line of credit has an unpaid principal balance of $200.0 million as of September 30, 2014. The Company, as part of the bank syndicate, agreed during the quarter to extend its credit facility with PREPA to March 31, 2015. In connection with such extension, PREPA appointed a Chief Restructuring Officer to work alongside the Executive Director to develop, organize and manage a financial and operational restructuring of PREPA subject to the approval of PREPA's Board. PREPA also committed to delivering a comprehensive business plan by December 15, 2014 and a full debt restructuring plan by March 2, 2015. After the extension, the Company classified the credit as substandard and a troubled-debt restructuring. The Company conducted an impairment analysis considering the probability of collection of principal and interest. Based on the experience and knowledge of the borrower, independent scenarios were developed to assess the collectability of the Company's current credit exposure to PREPA. Such scenarios project very probable outcomes based on a conservative set of assumptions related to PREPA's ability for future cash flow generation. The Company concluded that the loan should be maintained in accrual status requiring no impairment.

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

	September 30, 2014							
	Delinquency							
	Balance Outstanding	0-29 days	30-59 days	60-89 days	90-119 days	120-364 days	365+ days	Individually Measured for Impairment
	(In thousands)							
Originated and other loans and leases held for investment								
Mortgage								
Traditional (by origination year)								
Up to the year 2002	$ 68,338	$ 54,931	$ 5,831	$ 3,160	$ 537	$ 999	$ 1,888	$ 992
Years 2003 and 2004	62,344	49,747	6,309	1,730	221	1,623	1,489	1,225
Year 2005	88,431	66,895	6,451	3,236	831	3,768	3,659	3,591
Year 2006	113,211	90,157	9,821	5,471	1,740	2,479	1,759	1,784
Years 2007, 2008 and 2009	97,063	79,950	2,874	2,774	839	3,181	3,352	4,093
Years 2010, 2011, 2012	193,562	180,558	4,088	1,224	106	1,597	1,281	4,708

2013 and 2014								
	622,949	522,238	35,374	17,595	4,274	13,647	13,428	16,393
Non-traditional	37,775	32,886	1,084	783	259	1,047	1,667	49
Loss mitigation program	89,583	9,249	1,665	789	628	1,022	980	75,250
	750,307	564,373	38,123	19,167	5,161	15,716	16,075	91,692
Home equity secured personal loans	733	607	-	-	-	-	126	-
GNMA's buy-back option program	40,066	-	-	-	8,825	18,512	12,729	-
	791,106	**564,980**	**38,123**	**19,167**	**13,986**	**34,228**	**28,930**	**91,692**
Consumer								
Credit cards	17,857	17,022	238	189	140	268	-	-
Overdrafts	340	318	20	2	-	-	-	-
Unsecured personal lines of credit	2,051	1,823	67	132	-	26	3	-
Unsecured personal loans	138,608	135,169	1,586	614	579	22	-	638
Cash collateral personal loans	17,026	16,644	214	132	36	-	-	-
	175,882	**170,976**	**2,125**	**1,069**	**755**	**316**	**3**	**638**
Auto and Leasing	**542,892**	**475,120**	**43,537**	**15,956**	**5,662**	**2,617**	**-**	**-**
	1,509,880	**1,211,076**	**83,785**	**36,192**	**20,403**	**37,161**	**28,933**	**92,330**
Acquired loans (accounted for under ASC 310-20)								
Consumer								
Credit cards	43,682	40,053	1,625	678	483	843	-	-
Personal loans	3,602	3,293	160	83	32	34	-	-
	47,284	**43,346**	**1,785**	**761**	**515**	**877**	**-**	**-**
Auto	**210,808**	**193,762**	**11,372**	**4,137**	**1,209**	**328**	**-**	**-**
	258,092	**237,108**	**13,157**	**4,898**	**1,724**	**1,205**	**-**	**-**
Total	**$ 1,767,972**	**$ 1,448,184**	**$ 96,942**	**$ 41,090**	**$ 22,127**	**$ 38,366**	**$ 28,933**	**$ 92,330**

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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)

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the Company's allowance for loan and lease losses at September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014		December 31, 2013	
	(In thousands)			
Allowance for loans and lease losses on non-covered loans:				
Originated and other loans and leases held for investment:				
Mortgage	$	18,872	$	19,937
Commercial		9,112		14,897
Consumer		8,709		6,006
Auto and leasing		13,404		7,866
Unallocated		182		375
		50,279		**49,081**
Acquired loans:				
Accounted for under ASC 310-20 (Loans with revolving feature and/or				
acquired at a premium)				
Commercial		270		926
Consumer		1,031		-
Auto		3,159		1,428
		4,460		**2,354**
Accounted for under ASC 310-30 (Loans acquired with deteriorated				
credit quality, including those by analogy)				
Commercial		10,115		1,713
Consumer		5		418
Auto		-		732
		10,120		**2,863**
		64,859		**54,298**
Allowance for loans and lease losses on covered loans:				
Loans secured by 1-4 family residential properties		15,252		12,495
Commercial and other construction		46,586		39,619
Consumer		389		615
		62,227		**52,729**
Total allowance for loan and lease losses	**$**	**127,086**	**$**	**107,027**

Non-Covered Loans

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Originated and Other Loans and Leases Held for Investment

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

	Quarter Ended September 30, 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	$ 19,062	$ 12,423	$ 7,887	$ 11,127	$ 139	$ 50,638
Charge-offs	(1,563)	(1,081)	(1,585)	(7,393)	-	(11,622)
Recoveries	138	56	66	2,434	-	2,694
Provision (recapture) for non-covered originated and other loan and lease losses	1,235	(2,286)	2,341	7,236	43	8,569
Balance at end of period	**$ 18,872**	**$ 9,112**	**$ 8,709**	**$ 13,404**	**$ 182**	**$ 50,279**

	Nine-Month Period Ended September 30, 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	(3,764)	(2,043)	(3,820)	(17,994)	-	(27,621)
Recoveries	374	269	457	6,094	-	7,194
Provision (recapture) for non-covered originated and other loan and lease losses	2,325	(4,011)	6,066	17,438	(193)	21,625
Balance at end of period	**$ 18,872**	**$ 9,112**	**$ 8,709**	**$ 13,404**	**$ 182**	**$ 50,279**

	September 30, 2014					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
_	**(In thousands)**					
Allowance for loan and lease losses on non-covered originated and other loans:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 7,932	$ 1,108	$ -	$ -	$ -	$ 9,040
Collectively evaluated for impairment	10,940	8,004	8,709	13,404	182	41,239
Total ending allowance balance	**$ 18,872**	**$ 9,112**	**$ 8,709**	**$ 13,404**	**$ 182**	**$ 50,279**
Loans:						
Individually evaluated for impairment	$ 91,692	$ 226,583	$ -	$ -	$ -	$ 318,275
Collectively evaluated for impairment	699,414	990,652	175,882	542,892	-	2,408,840

Total ending loan balance	**$**	**791,106**		**$**	**1,217,235**		**$**	**175,882**		**$**	**542,892**		**$**	**-**		**$**	**2,727,115**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2013					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 21,375	$ 17,624	$ 2,341	$ 3,641	$ 720	$ 45,701
Charge-offs	(1,758)	(2,234)	(465)	(1,305)	-	(5,762)
Recoveries	-	28	37	639	-	704
Provision for non-covered originated and other loan and lease losses	1,374	(703)	2,915	3,143	201	6,930
Balance at end of period	**$ 20,991**	**$ 14,715**	**$ 4,828**	**$ 6,118**	**$ 921**	**$ 47,573**

	Nine-Month Period Ended September 30, 2013					
	Mortgage	**Commercial**	**Consumer**	**Auto and Leasing**	**Unallocated**	**Total**
	(In thousands)					
Allowance for loan and lease losses for non-covered originated and other loans:						
Balance at beginning of period	$ 21,092	$ 17,072	$ 856	$ 533	$ 368	$ 39,921
Charge-offs	(33,465)	(5,678)	(1,034)	(2,105)	-	(42,282)
Recoveries	-	291	143	855	-	1,289
Provision for non-covered originated and other loan and lease	33,364	3,030	4,863	6,835	553	48,645

losses												
Balance at end of period	**$**	**20,991**	**$**	**14,715**	**$**	**4,828**	**$**	**6,118**	**$**	**921**	**$**	**47,573**

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

	Quarter Ended September 30, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
_	(In thousands)									
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:										
Balance at beginning of period	$	464	$	338	$	2,642	$	-	$	3,444
Charge-offs		(228)		(1,432)		(1,748)		-		(3,408)
Recoveries		35		139		519		-		693
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		(1)		1,986		1,746		-		3,731
Balance at end of period	**$**	**270**	**$**	**1,031**	**$**	**3,159**	**$**	**-**	**$**	**4,460**

	Nine-Month Period Ended September 30, 2014									
	Commercial		Consumer		Auto		Unallocated		Total	
_	(In thousands)									
Allowance for loan and lease losses										

	Commercial	Consumer	Auto	Unallocated	Total
for non-covered acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$ 926	$ -	$ 1,428	$ -	$ 2,354
Charge-offs	(512)	(5,442)	(4,414)	-	(10,368)
Recoveries	65	363	1,504	-	1,932
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20	(209)	6,110	4,641	-	10,542
Balance at end of period	**$ 270**	**$ 1,031**	**$ 3,159**	**$ -**	**$ 4,460**

	September 30, 2014				
	Commercial	**Consumer**	**Auto**	**Unallocated**	**Total**
	(In thousands)				
Allowance for loan and lease losses on non-covered acquired loans accounted for under ASC 310-20:					
Ending allowance balance attributable to loans:					
Collectively evaluated for impairment	270	1,031	3,159	-	4,460
Total ending allowance balance	**$ 270**	**$ 1,031**	**$ 3,159**	**$ -**	**$ 4,460**
Loans:					
Collectively evaluated for impairment	26,984	47,284	210,808	-	285,076
Total ending loan balance	**$ 26,984**	**$ 47,284**	**$ 210,808**	**$ -**	**$ 285,076**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Quarter Ended September 30, 2013				
	Commercial	Consumer	Auto	Unallocated	Total
_	(In thousands)				
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$ 924	$ -	$ -	$ -	$ 924
Charge-offs	-	(1,233)	(1,598)	-	(2,831)
Recoveries	6	88	884	-	978
Provision (recapture)for non-covered acquired loan and lease losses accounted for under ASC 310-20	431	1,145	1,394	-	2,970
Balance at end of period	**$ 1,361**	**$ -**	**$ 680**	**$ -**	**$ 2,041**
	Nine-Month Period Ended September 30, 2013				
	Commercial	**Consumer**	**Auto**	**Unallocated**	**Total**
_	**(In thousands)**				
Allowance for loan and lease losses for non-covered acquired loans accounted for under ASC 310-20:					
Balance at beginning of period	$ -	$ -	$ -	$ -	$ -
Charge-offs	(25)	(3,847)	(4,723)	-	(8,595)

Recoveries		6			932			3,000			-			3,938
Provision (recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-20		1,380			2,915			2,403			-			6,698
Balance at end of period	$	**1,361**		$	**-**		$	**680**		$	**-**		$	**2,041**

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

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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)

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

	Quarter Ended September 30, 2014					
	Mortgage	Commercial	Construction	Consumer	Auto	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:						
Balance at beginning of period	$ -	$ 6,216	$ -	$ 62	$ -	$ 6,278
Provision(recapture) for non-covered acquired loan and lease losses accounted for under ASC 310-30	-	3,899	-	(57)	-	3,842
Balance at end of period	**$ -**	**$ 10,115**	**$ -**	**$ 5**	**$ -**	**$ 10,120**
	Nine-Month Period Ended September 30, 2014					
	Mortgage	Commercial	Construction	Consumer	Auto	Total
_	(In thousands)					
Allowance for loan and lease losses for non-covered loans accounted for under ASC 310-30:						
Balance at beginning of period	$ -	$ 1,713	$ -	$ 418	$ 732	$ 2,863
Provision (recapture) for non-covered acquired	-	8,402	-	(413)	(732)	7,257

loan and lease losses accounted for under ASC 310-30						
Balance at end of period	**$ -**	**$ 10,115**	**$ -**	**$ 5**	**$ -**	**$ 10,120**

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Covered Loans

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

The changes in the allowance for loan and lease losses on covered loans for the quarters and nine-month periods ended September 30, 2014 and 2013 were as follows:

	Quarter Ended September 30,					Nine-Month Period Ended September 30,			
_	2014			2013		2014			2013
_	(In thousands)								
Balance at beginning of the period	$	59,515	$	53,992		$	52,729	$	54,124
Provision for covered loan and lease losses, net		1,115		3,074			4,339		4,956
FDIC shared-loss portion of provision for (recapture of)									
covered loan and lease losses, net		1,597		(511)			5,159		(2,525)
Balance at end of the period	**$**	**62,227**	**$**	**56,555**		**$**	**62,227**	**$**	**56,555**

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.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6- FDIC INDEMNIFICATION ASSET AND TRUE-UP PAYMENT OBLIGATION

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

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

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

	Quarter Ended September 30,					Nine-Month Period Ended September 30,			
	2014		2013			2014		2013	
	(In thousands)								
FDIC indemnification asset:									
Balance at beginning of period	$	143,660	$	253,379		$	189,240	$	302,295
Shared-loss agreements reimbursements from the FDIC		(12,837)		(14,036)			(31,537)		(32,732)
Increase (decrease) in expected credit losses to be covered under shared-loss agreements, net		1,597		(510)			5,159		(2,525)
FDIC indemnification asset expense		(16,059)		(15,198)			(51,180)		(46,623)
Incurred expenses to be reimbursed under shared-loss agreements		4,258		1,947			8,937		5,167
Balance at end of period	**$**	**120,619**	**$**	**225,582**		**$**	**120,619**	**$**	**225,582**

True-up payment obligation:											
Balance at beginning of period	$	20,231	$	16,907			$	18,510	$	15,496	
Change in true-up payment obligation		875		767				2,596		2,178	
Balance at end of period	**$**	**21,106**	**$**	**17,674**			**$**	**21,106**	**$**	**17,674**	

The FDIC shared- loss expense bears an inverse relationship with a change in the yield of covered pools in accordance with ASC 310-30. ASC 310-30 dictates that such pools should be subject to increases in their yield when the present value of the expected cash flows is higher than the pool's carrying balance. When the increases in cash flow expectations are driven by reductions in the expected credit losses, the Bank recognizes that such losses are no longer expected to be collected from the FDIC. Accordingly, the Bank reduces the FDIC indemnification asset by amortizing the reduction in expected collections throughout the remaining life of the underlying pools. This amortization is recognized in the FDIC shared-loss expense.

The underlying factors that caused an increase in the expected cash flows and resulting reduction in projected losses are derived from the pool-level cash flow forecasts. Credit loss assumptions used to develop each pool-level cash flow forecast are based on the behavior of defaults, recoveries and losses of the corresponding pool of covered loans.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The FDIC indemnification asset expense of $16.1 million and $51.2 million for the quarter and nine-month period ended September 30, 2014 increased when compared to $15.2 million and $46.6 million for the same periods in 2013. These changes were caused by the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and the improved accretable yield on the covered loans. Forecasted losses show a decreasing trend during the nine-month period ended September 30, 2014 as compared to the projections in 2013. The reduction in claimable losses amortizes the FDIC indemnification asset through the shorter of the life of the shared loss agreement or the loan holding period. This amortization is net of the accretion of the discount recorded to reflect the expected claimable loss at its net present value. During the quarter and nine-month period ended September 30, 2014, the net amortization included $2.6 million and $7.7 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, $84.3 million, is recorded for projected claimable losses on non-single family residential loans whose loss share period ends in the second quarter of 2015, although the period during which recoveries are shared extends for an additional three-years.

Also in connection with the FDIC assisted acquisition, the Bank agreed to make a true-up payment, also known as clawback liability or clawback provision, to the FDIC on the date that is 45 days following the last day (such day, the "True-Up Measurement Date") of the final shared-loss month, or upon the final disposition of all covered assets under the shared-loss agreements in the event losses thereunder fail to reach expected levels. Under the shared-loss agreements, the Bank will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of $906.0 million (or $181.2 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or $227.5 million); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to the Bank minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the shared-loss agreements during which the shared-loss provisions of the applicable shared-loss agreement is in effect (defined as the product of the simple average of the principal amount of shared-loss loans and shared-loss assets at the beginning and end of such period times 1%). The true-up payment represents an estimated liability of $21.1 million and $18.5 million, net of discount, as of September 30, 2014 and December 31, 2013, respectively. The estimated liability is included within accrued expenses and other liabilities in the unaudited consolidated statements of financial condition.

The true-up payment obligation, also known as clawback liability, may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value. During the quarter and nine-month period ended September 30, 2014, the fair value of the true-up payment obligation increased by $875 thousand and $2.6 million, respectively, compared to increases of $767 thousand and $2.2 million for the same periods in 2013. These changes in fair value are included as change in true-up payment obligation within FDIC shared-loss expense, net in the unaudited consolidated statements of operations.

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at September 30, 2014 and December 31, 2013:

	September 30, 2014			December 31, 2013	
	(In thousands)				
Carrying amount (fair value)	$	21,106		$	18,510
Undiscounted amount	$	40,638		$	40,199

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7 — DERIVATIVES

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

	September 30, 2014			December 31, 2013	
	(In thousands)				
Derivative assets:					
Options tied to S&P 500 Index	$	5,762		$	16,430
Interest rate swaps designated as cash flow hedges		-			850
Interest rate swaps not designated as hedges		2,451			2,861
Interest rate caps		224			319
Other		8			42
	$	**8,445**		**$**	**20,502**
Derivative liabilities:					
Interest rate swaps designated as cash flow hedges		8,717			11,757
Interest rate swaps not designated as hedges		2,451			2,861
Interest rate caps		224			319
Other		22			-
	$	**11,414**		**$**	**14,937**

Interest Rate Swaps

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Type	Notional Amount	Fixed Rate	Variable Rate Index	Trade Date	Settlement Date	Maturity Date
	(In thousands)					
Interest Rate Swaps	$ 25,000	2.4365%	1-Month LIBOR	05/05/11	05/04/12	05/04/16
	25,000	2.6200%	1-Month LIBOR	05/05/11	07/24/12	07/24/16
	25,000	2.6350%	1-Month LIBOR	05/05/11	07/30/12	07/30/16
	50,000	2.6590%	1-Month LIBOR	05/05/11	08/10/12	08/10/16
	100,000	2.6750%	1-Month LIBOR	05/05/11	08/16/12	08/16/16
	39,641	2.4210%	1-Month LIBOR	07/03/13	07/03/13	08/01/23
	$ 264,641					

An unrealized loss of $8.7 million was recognized in accumulated other comprehensive income related to the valuation of these swaps at September 30, 2014, and the related asset and liability are being reflected in the accompanying unaudited consolidated statements of financial condition.

At September 30, 2014 and December 31, 2013, interest rate swaps not designated as hedging instruments that were offered to clients represented an asset of $2.5 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 September 30, 2014 and December 31, 2013, interest rate swaps not designated as hedging instruments that are the mirror-images of the derivatives offered to clients represented a liability of $2.5 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 September 30, 2014:

Type	Notional Amount	Fixed Rate	Variable Rate Index	Settlement Date	Maturity Date
	(In thousands)				
Interest Rate Swaps - Derivatives Offered to Clients	$ 4,003	5.1300%	1-Month LIBOR	07/03/06	07/03/16

		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,503**				
Interest Rate Swaps - Mirror Image Derivatives	$	4,003	5.1300%	1-Month LIBOR	07/03/06	07/03/16
		12,500	5.5050%	1-Month LIBOR	04/11/09	04/11/19
	$	**16,503**				

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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 September 30, 2014 and December 31, 2013, the purchased options used to manage exposure to the S&P 500 Index on stock indexed deposits represented an asset of $5.8 million (notional amount of $12.0 million) and $16.4 million (notional amount of $28.0 million), respectively, and the options sold to customers embedded in the certificates of deposit and recorded as deposits in the unaudited consolidated statements of financial condition, represented a liability of $5.6 million (notional amount of $11.6 million) and $15.7 million (notional amount of $26.9 million), respectively.

Interest rate caps

The Company has entered into interest rate cap transactions with various clients with floating-rate debt who wish to protect their financial results against increases in interest rates. In these cases, the Company simultaneously enters into mirror-image interest rate cap transactions with financial counterparties. None of these cap transactions qualify for hedge accounting, and therefore, they are marked to market through earnings. The outstanding total notional amount of interest rate caps was $110.0 million at September 30, 2014 and $94.0 million at December 31, 2013. At September 30, 2014 and December 31, 2013, the interest rate caps sold to clients represented a liability of $224 thousand and $319 thousand, respectively, and were included as part of derivative liabilities in the unaudited consolidated statements of financial condition. At September 30, 2014 and December 31, 2013, the interest rate caps purchased as mirror-images represented an asset of $224 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 September 30, 2014 and December 31, 2013 consists of the following:

	September 30,		December 31,
	2014		2013
	(In thousands)		

Non-covered loans	$	15,260	$	13,378
Investments		4,405		5,356
	$	**19,665**	**$**	**18,734**

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

		September 30,		December 31,
		2014		2013
		(In thousands)		
Prepaid expenses	$	18,375	$	15,439
Core deposit and customer relationship intangibles		10,285		11,912
Other repossessed assets		21,733		12,583
Mortgage tax credits		8,706		8,706
Investment in Statutory Trust		1,083		1,083
Accounts receivable and other assets		37,243		48,717
	$	**97,425**	**$**	**98,440**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Prepaid expenses amounting to $18.4 million and $15.4 million at September 30, 2014 and December 31, 2013, respectively, include prepaid municipal, property and income taxes aggregating to $12.8 million and $8.6 million, respectively.

In connection with the FDIC-assisted acquisition and the BBVAPR Acquisition, the Company recorded a core deposit intangible representing the value of checking and savings deposits acquired. At September 30, 2014 and December 31, 2013, this core deposit intangible amounted to $6.8 million and $7.8 million, respectively. In addition, the Company recorded a customer relationship intangible amounting to $5.0 million representing the value of customer relationships acquired with the acquisition of the securities broker-dealer and insurance agency in the BBVAPR Acquisition as of December 31, 2012. At September 30, 2014 and December 31, 2013, this customer relationship intangible amounted to $3.5 million and $4.1 million, respectively.

Other repossessed assets totaled $21.7 million and $12.6 million at September 30, 2014 and December 31, 2013, respectively, include repossessed automobiles amounting to $21.0 million and $12.3 million, respectively, which are recorded at their net realizable value.

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

NOTE 9— DEPOSITS AND RELATED INTEREST

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

	September 30,			December 31,	
	2014			2013	
	(In thousands)				
Non-interest bearing demand deposits	$	734,449		$	744,327
Interest-bearing savings and demand deposits		2,566,952			2,489,971
Individual retirement accounts		314,813			347,262
Retail certificates of deposit		455,286			568,367
Institutional certificates of deposit		328,031			405,224
Total core deposits		**4,399,531**			**4,555,151**
Brokered deposits		669,644			828,114

Total deposits	$	**5,069,175**	$	**5,383,265**

Brokered deposits include $575.8 million in certificates of deposits and $93.7 million in money market accounts at September 30, 2014, and $729.8 million in certificates of deposits and $98.3 million in money market accounts at December 31, 2013.

The weighted average interest rate of the Company's deposits was 0.75% at September 30, 2014 and 0.73% at December 31, 2013, inclusive of non-interest bearing deposits of $734.4 million and $744.3 million, respectively. Interest expense for the quarters and nine-month periods ended September 30, 2014 and 2013 was as follows:

	Quarter Ended September 30,				**Nine-Month Period Ended September 30,**			
	2014		**2013**		**2014**		**2013**	
	(In thousands)							
Demand and savings deposits	$	4,003	$	5,596	$	13,834	$	16,994
Certificates of deposit		3,658		5,738		11,970		13,763
	$	**7,661**	**$**	**11,334**	**$**	**25,804**	**$**	**30,757**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At September 30, 2014 and December 31, 2013, demand and interest-bearing deposits and certificates of deposit included deposits of Puerto Rico Cash & Money Market Fund, Inc., which amounted to $108.9 million and $93.1 million, respectively, with a weighted average rate of 0.78% in both years, and were collateralized with investment securities with a fair value of $83.4 million and $67.5 million, respectively.

At September 30, 2014 and December 31, 2013, time deposits in denominations of $100 thousand or higher, excluding accrued interest and unamortized discounts, amounted to $681.6 million and $845.8 million, including public fund time deposits from various Puerto Rico government municipalities, agencies, and corporations of $20.8 million and $26.7 million, respectively, at a weighted average rate of 0.53% at September 30, 2014 and 0.32% at December 31, 2013.

At September 30, 2014 and December 31, 2013, total public fund deposits from various Puerto Rico government municipalities, agencies, and corporations amounted to $359.2 million and $328.6 million, respectively. These public funds were collateralized with commercial loans amounting to $416.0 million at September 30, 2014, and with investment securities with a fair value of $97.8 million and commercial loans amounting to $549.0 million at December 31, 2013.

Excluding equity indexed options in the amount of $4.4 million, which are used by the Company to manage its exposure to the S&P 500 Index, and also excluding accrued interest of $1.3 million and unamortized deposit discount in the amount of $1.1 million, the scheduled maturities of certificates of deposit at September 30, 2014 are as follows:

	September 30, 2014	
	(In thousands)	
Within one year:		
Three (3) months or less	$	342,429
Over 3 months through 1 year		590,965
		933,394
Over 1 through 2 years		454,186
Over 2 through 3 years		210,567
Over 3 through 4 years		50,067
Over 4 through 5 years		18,926
	$	**1,667,140**

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

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans amounted to $890 thousand and $1.8 million as of September 30, 2014 and December 31, 2013, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 10 — BORROWINGS

Securities Sold under Agreements to Repurchase

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

At September 30, 2014 and December 31, 2013, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $2.2 million and $2.6 million, respectively, were as follows:

	September 30, 2014				December 31, 2013			
		Borrowing Balance		Fair Value of Underlying Collateral		Borrowing Balance		Fair Value of Underlying Collateral
	(In thousands)							
JP Morgan Chase Bank NA		255,000		259,039		255,000		273,250
Credit Suisse Securities (USA) LLC		755,000		842,183		755,000		864,232
Deutsche Bank		-		-		255,000		272,053
Total	$	**1,010,000**	$	**1,101,222**	$	**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 September 30, 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
2015		255,000	0.840%	12/10/2012		6/13/2015
2016		170,000	1.500%	12/6/2012		12/8/2016
2017		500,000	4.780%	3/2/2007		3/2/2017
	$	**1,010,000**	**2.831%**			

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	September 30, 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)						
Less than 90 days	85,000	0.68%	95,420	2,061	-	-	97,481
Over 90 days	925,000	2.83%	1,003,070	671	-	-	1,003,741
Total	**$ 1,010,000**	**2.89%**	**$ 1,098,490**	**$ 2,732**	**$ -**	**$ -**	**$ 1,101,222**

	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 Federal Home Loan Bank of New York (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 September 30, 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 September 30, 2014 and December 31, 2013, the Company had an additional borrowing capacity with the FHLB-NY of $653.5 million and $674.2 million, respectively. At September 30, 2014 and December 31, 2013, the weighted average remaining maturity of FHLB's advances was 9.4 months and 11.3 months, respectively. The original terms of these advances range between one day and seven years, and the FHLB-NY does not have the right to exercise put options at par on any advances outstanding as of September 30, 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 $330 thousand, at September 30, 2014:

Year of Maturity		Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date
		(In thousands)			
2014	$	25,000	0.36%	9/4/2014	10/6/2014
		50,000	0.37%	9/10/2014	10/10/2014
		100,000	0.36%	9/16/2014	10/16/2014
		25,000	0.32%	9/24/2014	10/24/2014
		25,000	0.30%	9/30/2014	10/30/2014
		39,641	0.37%	9/2/2014	10/1/2014
		264,641			
2017		4,558	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		10,259	2.59%	7/19/2013	7/20/2020
	$	**334,458**	**0.74%**		

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 $101.2 million at September 30, 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 - September 30, 2014	$	53,600
2014		1,675
2015		6,700
2016		5,025
	$	**67,000**

Other borrowings

Other borrowings, presented in the unaudited consolidated statement of financial condition amounted to $3.9 million and $3.7 million at September 30, 2014 and December 31, 2013, respectively, 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 both September 30, 2014 and December 31, 2013 with an index appreciation of $1.1 million and $957 thousand, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 11 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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 an account control agreement.

The following table presents the potential effect of rights of set-off associated with the Company's recognized financial assets and liabilities at September 30, 2014 and December 31, 2013:

	September 30, 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	$ 8,445	$ -	$ 8,445	$ 2,003	$ -	$ 6,442
Total	**$ 8,445**	**$ -**	**$ 8,445**	**$ 2,003**	**$ -**	**$ 6,442**
	December 31, 2013					
				Gross Amounts Not Offset in the Statement of Financial Condition		
		Gross Amounts	Net amount of			

	Gross Amount of Recognized Assets	Offset in the Statement of Financial Condition	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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September 30, 2014	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Condition: Cash Collateral Provided	Net Amount
	(In thousands)					
Derivatives	$ 17,001	$ -	$ 17,001	$ -	$ 2,980	$ 14,021
Securities sold under agreements to repurchase	1,010,000	-	1,010,000	1,101,222	24,500	(115,722)
Total	**$ 1,027,001**	**$ -**	**$ 1,027,001**	**$ 1,101,222**	**$ 27,480**	**$ (101,701)**

December 31, 2013	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amount of Liabilities Presented in Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Condition: 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)**

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 September 30, 2014 and December 31, 2013, these loan balances amounted to $25.6 million and $19.0 million, respectively. The activity and balance of these loans for the quarters and nine-month periods ended September 30, 2014 and 2013 were as follows:

	Quarter Ended September 30,					**Nine-Month Period Ended September 30,**			
	2014		**2013**			**2014**		**2013**	
	(In thousands)								
Balance at the beginning of year	$	24,151	$	8,031		$	18,963	$	6,055
New loans		319		14,264			14,166		18,498
Repayments and sales		1,174		(3,289)			(7,485)		(5,315)
Credits of persons no longer considered related parties		-		-			-		(232)
Balance at the end of year	**$**	**25,644**	**$**	**19,006**		**$**	**25,644**	**$**	**19,006**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 13 — INCOME TAXES

On July 1st, 2014 the Governor signed Act No. 77-2014, known as "Ley de Ajustes al Sistema Contributivo" (Act of Adjustments to the Tax System). 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 transactions held after June 30, 2014 are as follows: (1) the capital tax rate was increased from 15% to 20% and (2) for an asset to be considered long term capital asset, the holding period must be over a year, which before was defined with a holding period of over six months.

Other provisions applicable to tax years commencing after December 31, 2013 is the additional tax on gross income ("patente nacional") is defined as a separate tax, rather than a component of the Alternative Minimum Tax (AMT) for non-financial institutions and, therefore is not longer accounted for under the provisions of ASC 740. For financial institutions, the additional tax on gross income remained mostly unaltered at a tax rate of 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 September 30, 2014 and December 31, 2013, the Company's net deferred tax asset amounted to $121.2 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 September 30, 2014 and December 31, 2013. The amount of the deferred tax asset that is considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

At September 30, 2014 and December 31, 2013, Oriental International Bank Inc. ("OIB"), the Bank's international banking entity subsidiary, had $198 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 September 30, 2014 and 2013, $11 thousand and $36 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income into income tax provision. During the nine-month periods ended September 30, 2014 and 2013, $158 thousand and $126 thousand, respectively, related to the residual effect from OIB was reclassified from accumulated other comprehensive income to 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 September 30, 2014 was $2.6 million (December 31, 2013 - $4.0 million). The Company had accrued $430 thousand at September 30, 2014 (December 31, 2013 - $1.2 million) for the payment of interest and penalties relating to unrecognized tax benefits. Also, during this quarter the Company recorded a reversal of an income tax contingency of $1.0 million as a result of reviewing the positions of certain unrecognized tax benefits at the Bank.

Income tax expense was $8.0 million for the quarter ended September 30, 2014, compared to $6.6 million for the same period in 2013. Effective July 1, 2014, capital gains tax rate was increased from 15% to 20% as explained above.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 — STOCKHOLDERS' EQUITY

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 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 September 30, 2014 and December 31, 2013, the Company and the Bank met all capital adequacy requirements to which they are subject. As of September 30, 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 tables presented below.

The Company's and the Bank's actual capital amounts and ratios as of September 30, 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						
<u>As of September 30, 2014</u>						
Total capital to risk-weighted assets	$ 858,356	**17.50%**	$ 392,465	**8.00%**	$ 490,581	**10.00%**
	$ 782,797	**15.96%**	$ 196,233	**4.00%**	$ 294,349	**6.00%**

Tier 1 capital to risk-weighted assets											
Tier 1 capital to average total assets	$	782,797	**10.51%**	$	297,984	**4.00%**	$	372,480	**5.00%**
As of December 31, 2013									
Total capital to risk-weighted assets	$	827,459	**16.16%**	$	409,514	**8.00%**	$	511,893	**10.00%**
Tier 1 capital to risk-weighted assets	$	736,106	**14.38%**	$	204,757	**4.00%**	$	307,136	**6.00%**
Tier 1 capital to average total assets	$	736,106	**9.06%**	$	324,910	**4.00%**	$	406,138	**5.00%**

				Minimum Capital			**Minimum to be Well**		
	Actual			**Requirement**			**Capitalized**		
	Amount		**Ratio**	**Amount**		**Ratio**	**Amount**		**Ratio**
	(Dollars in thousands)								
Bank Ratios									
As of September 30, 2014									
Total capital to risk-weighted assets	$	813,760	**16.66%**	$	390,644	**8.00%**	$	488,305	**10.00%**
Tier 1 capital to risk-weighted assets	$	738,482	**15.12%**	$	195,322	**4.00%**	$	292,983	**6.00%**
Tier 1 capital to average total assets	$	738,482	**9.99%**	$	295,673	**4.00%**	$	369,592	**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%**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Additional Paid-in Capital

Additional paid-in capital represents contributed capital in excess of par value of common and preferred stock net of the costs of issuance. As of September 30, 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.

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 $23.2 million of authority remains. The shares of common stock repurchased are to be held by the Company as treasury shares. During the nine-month period ended September 30, 2014, the Company purchased 707,500 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 following table presents the shares repurchased for each month in the nine-month period ended September 30, 2014, excluding the months of March, April, May, June, July and September of 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
August 2014	100	15.50	2
Nine-Month Period Ended September 30, 2014	**707,500**	**$ 14.66**	**$ 10,374**

The number of shares that may yet be purchased under the $70 million program is estimated at 1,548,481 and was calculated by dividing the remaining balance of $23.2 million by $14.98 (closing price of the Company common stock at September 30, 2014). The Company did not purchase any shares of its common stock other than through its publicly announced stock repurchase program during the nine-months ended September 30, 2014.

The activity in connection with common shares held in treasury by the Company for the nine-month periods ended September 30, 2014 and 2013 is set forth below:

	Nine-Month Period Ended September 30,								
	2014					2013			
			Dollar					Dollar	
	Shares		Amount			Shares		Amount	
	(In thousands, except shares data)								
Beginning of period	7,030,101		$	80,642		7,090,597		$	81,275
Common shares used upon lapse of restricted stock units	(36,294)			(384)		(53,178)			(556)
Common shares repurchased as part of the stock repurchase program	707,500			10,394		-			-
Common shares used to match defined contribution plan, net	-			-		(7,318)			(77)
End of period	**7,701,307**		**$**	**90,652**		**7,030,101**		**$**	**80,642**

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NOTE 15 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of income tax, as of September 30, 2014 and December 31, 2013 consisted of:

	September 30, 2014			December 31, 2013	
	(In thousands)				
Unrealized gain on securities available-for-sale which are not other-than-temporarily impaired	$	23,995		$	13,267
Income tax effect of unrealized gain on securities available-for-sale		(3,677)			(1,834)
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired		20,318			11,433
Unrealized loss on cash flow hedges		(8,717)			(10,907)
Income tax effect of unrealized loss on cash flow hedges		1,810			2,665
Net unrealized loss on cash flow hedges		(6,907)			(8,242)
Accumulated other comprehensive income, net of taxes	$	**13,411**		**$**	**3,191**

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30,																
	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)																
Beginning balance	$	29,759		$	(8,004)		$	21,755		$	25,400		$	(9,634)		$	15,766
Other		(9,452)			(559)			(10,011)			(5,113)			(1,509)			(6,622)

comprehensive income (loss) before reclassifications						
Amounts reclassified out of accumulated other comprehensive income	11	1,656	1,667	37	1,651	1,688
Other comprehensive income (loss)	(9,441)	1,097	(8,344)	(5,076)	142	(4,934)
Ending balance	**$ 20,318**	**$ (6,907)**	**$ 13,411**	**$ 20,324**	**$ (9,492)**	**$ 10,832**

	Nine-Month Period Ended September 30,					
	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)					
Beginning balance	$ 11,433	$ (8,242)	$ 3,191	$ 68,245	$ (12,365)	$ 55,880
Other comprehensive income before reclassifications	8,727	(3,584)	5,143	(48,047)	(1,530)	(49,577)
Amounts reclassified out of accumulated other comprehensive income	158	4,919	5,077	126	4,403	4,529
Other comprehensive income (loss)	8,885	1,335	10,220	(47,921)	2,873	(45,048)
Ending balance	**$ 20,318**	**$ (6,907)**	**$ 13,411**	**20,324**	**$ (9,492)**	**$ 10,832**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents reclassifications out of accumulated other comprehensive income for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Amount reclassified out of accumulated other comprehensive income				
		Quarter Ended September 30, 2014		Nine-Month Period Ended September 30, 2014	Affected Line Item in Consolidated Statement of Operations
	(In thousands)				
Cash flow hedges:					
Interest-rate contracts	$	1,656	$	4,919	Net interest expense
Available-for-sale securities:					
Residual tax effect from OIB's change in applicable tax rate		11		158	Income tax expense
	$	**1,667**	**$**	**5,077**	

	Amount reclassified out of accumulated other comprehensive income				
		Quarter Ended September 30, 2013		Nine-Month Period Ended September 30, 2013	Affected Line Item in Consolidated Statement of Operations
	(In thousands)				
Cash flow hedges:					
Interest-rate contracts	$	1,651	$	4,403	Net interest expense
Available-for-sale securities:					
Residual tax effect from OIB's change in applicable tax rate		37		126	Income tax expense
	$	**1,688**	**$**	**4,529**	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 16 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for the quarters and nine-month periods ended September 30, 2014 and 2013 is as follows:

	Quarter ended September 30 ,					Nine-Month Period Ended September 30,			
	2014			2013		2014			2013
	(In thousands, except per share data)								
Net income	$	19,532	$	19,621	$	64,588	$	78,352	
Less: Dividends on preferred stock									
Non-convertible preferred stock (Series A, B, and D)		(1,627)		(1,628)		(4,882)		(4,884)	
Convertible preferred stock (Series C)		(1,838)		(1,837)		(5,514)		(5,512)	
Income available to common shareholders	**$**	**16,067**	**$**	**16,156**	**$**	**54,192**	**$**	**67,956**	
Effect of assumed conversion of the convertible preferred stock		1,838		1,837		5,514		5,512	
Income available to common shareholders assuming conversion	$	**17,905**	$	**17,993**	$	**59,706**	$	**73,468**	
Weighted average common shares and share equivalents:									
Average common shares outstanding		45,055		45,927		45,131		45,717	
Effect of dilutive securities:									
Average potential common shares-options		160		257		162		198	
Average potential common shares-assuming conversion of convertible preferred stock		7,147		7,138		7,147		7,138	
Total weighted average common shares		**52,362**		**53,322**		**52,440**		**53,053**	

outstanding and equivalents								
Earnings per common share - basic	**$**	**0.36**	**$**	**0.35**	**$**	**1.20**	**$**	**1.49**
Earnings per common share - diluted	**$**	**0.34**	**$**	**0.34**	**$**	**1.14**	**$**	**1.39**

In computing diluted earnings per common share, the 84,000 shares of convertible preferred stock, which remain outstanding at September 30, 2014, with a conversion rate, subject to certain conditions, of 85.2719 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 September 30, 2014 and 2013 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended September 30, 2014 and 2013, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 397,766 and 196,425, respectively. For the nine-month periods ended September 30, 2014 and 2013, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 325,994 and 233,775, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 17 – GUARANTEES

At September 30, 2014, the unamortized balance of the obligations undertaken in issuing the guarantees under standby letters of credit represented a liability of $37.1 million (December 31, 2013 - $38.6 million).

As a result of the BBVAPR Acquisition, the Company assumed a liability for residential mortgage loans sold subject to credit recourse, pursuant to FNMA's residential mortgage loan sales and securitization programs. At September 30, 2014 and December 31, 2013, the unpaid principal balance of residential mortgage loans sold subject to credit recourse was $98.4 million and $122.3 million, respectively.

The following table shows the changes in the Company's liability for estimated losses from these credit recourse agreements, included in the unaudited consolidated statements of financial condition during the quarters and nine-month periods ended September 30, 2014 and 2013.

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)							
Balance at beginning of period	$	1,310	$	2,460	$	1,955	$	2,460
Net charge-offs/terminations		(232)		-		(877)		-
Balance at end of period	**$**	**1,078**	**$**	**2,460**	**$**	**1,078**	**$**	**2,460**

The estimated losses to be absorbed under the credit recourse arrangements were recorded as a liability when the credit recourse was 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 September 30, 2014, $68.4 million or 70% of the recourse obligation will be extinguished during the next two years.

If a borrower defaults, 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 is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and nine-month period ended September 30, 2014, the Company repurchased approximately $1.9 million and $5.6 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions. If a borrower defaults, the Company has rights to the underlying collateral securing the mortgage loan. The Company suffers losses on these mortgage loans when the proceeds from a foreclosure sale of the collateral property are less than the outstanding principal balance of the loan, any uncollected interest advanced, and the costs of holding and disposing the related property. At September 30, 2014 and December 31, 2013, the Company's liability for estimated credit losses related to loans sold with credit recourse amounted to $1.1 million (December 31, 2013 – $2.0 million).

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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 and nine-month period ended September 30, 2014 under the Company's representation and warranty arrangements, excluding mortgage loans subject to credit recourse provisions referred to above, approximated \$4.1 million and \$9.2 million, respectively, in unpaid principal balance. A substantial amount of these loans are reinstated to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter and nine-month period ended September 30, 2014, the Company recognized \$115 thousand and \$261 thousand in losses from the repurchase of residential mortgage loans sold subject to credit recourse, and \$979 thousand and \$1.9 million in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties. During the quarter and nine-month period ended September 30, 2013, the Company did not recognized any losses from the repurchase of residential mortgage loans sold subject to credit recourse, but for the nine-month period ended September 30, 2013, recognized \$477 thousand in losses from the repurchase of residential mortgage loans as a result of breaches of the customary representations and warranties.

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 the Federal Home Loan Mortgage Corporation ("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 September 30, 2014, the Company serviced \$1.2 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 September 30, 2014, the outstanding balance of funds advanced by the Company under such mortgage loan servicing agreements was approximately \$319 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 18 — 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.

Credit-related financial instruments at September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014			December 31, 2013	
	(In thousands)				
Commitments to extend credit	$	476,523		$	520,269
Commercial letters of credit		1,193			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 September 30, 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 September 30, 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 September 30, 2014 and December 31, 2013, is as follows:

	September 30, 2014			December 31, 2013	
	(In thousands)				
Standby letters of credit and financial guarantees	$	37,145		$	38,577
Loans sold with recourse		98,433			122,291
Commitments to sell or securitize mortgage loans		34,650			80,307

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 September 30, 2014 and 2013 amounted to $2.4 million and $2.5 million, respectively, and is included in the "occupancy and equipment" caption in the unaudited consolidated statements of operations. For the nine-month periods ended September 30, 2014 and 2013, rent expense amounted to $7.3 million and $7.7 million, respectively. Future rental commitments under leases in effect at September 30, 2014, exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

Year Ending December 31,	Minimum Rent	
	(In thousands)	
2014 (October 1 to December 31)	$	2,221
2015		8,026

2016		7,435
2017		6,807
2018		5,928
Thereafter		22,239
	$	**52,656**

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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 19 - 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. Such securities are classified as level 1 or level 2 depending on the basis for determining fair value. 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, and such securities are classified as level 3. At December 31, 2013, the Company held two securities categorized as other debt that are classified as Level 3. At September 30, 2014, the Company did not have securities classified as Level 3. The estimated fair value of the other debt securities was 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.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Securities purchased under agreements to resell

The fair value of securities purchased under agreements to resell 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.

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

Other repossessed assets

Other repossessed assets include repossessed automobile loans and leases. The fair value of the repossessed automobiles may be determined using internal valuation and an external appraisal. These repossessed 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:

	September 30, 2014			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 1,273,879	$ -	$ 1,273,879
Money market investments	7,777	-	-	7,777
Derivative assets	-	2,683	5,762	8,445
Servicing assets	-	-	13,986	13,986
Derivative liabilities	-	(11,414)	(5,588)	(17,002)
	$ 7,777	**$ 1,265,148**	**$ 14,160**	**$ 1,287,085**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 226,791	$ 226,791
Foreclosed real estate	-	-	100,564	100,564
Other repossessed assets	-	-	21,733	21,733
	$ -	**$ -**	**$ 349,088**	**$ 349,088**

	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
Other repossessed assets		-		-		12,583		12,583
	$	**-**	**$**	**-**	**$**	**130,960**	**$**	**130,960**

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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 and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30, 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 period	$ -	$ 6,580	$ 13,970	$ (6,368)	$ 14,182
Gains (losses) included in earnings	-	(818)	-	675	(143)
New instruments acquired	-	-	554	-	554
Principal repayments	-	-	(427)	-	(427)
Amortization	-	-	-	105	105
Changes in fair value of servicing assets	-	-	(111)	-	(111)
Balance at end of period	**$ -**	**$ 5,762**	**$ 13,986**	**$ (5,588)**	**$ 14,160**

	Nine-Month Period Ended September 30, 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 period	$ 19,680	$ 16,430	$ 13,801	$ (15,736)	$ 34,175
Gains (losses) included in earnings	-	(10,668)	-	9,639	(1,029)
Changes in fair value of investment	320	-	-	-	320

securities available for sale included in other comprehensive income										
New instruments acquired		-		-		1,608		-		1,608
Principal repayments		(20,000)		-		(799)		-		(20,799)
Amortization		-		-		-		509		509
Changes in fair value of servicing assets		-		-		(624)		-		(624)
Balance at end of period	**$**	**-**	**$**	**5,762**	**$**	**13,986**	**$**	**(5,588)**	**$**	**14,160**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Level 3 Instruments Only	Quarter Ended September 30, 2013				
	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 period	$ 20,058	$ 16,020	$ 12,994	$ (15,315)	$ 33,757
Gains (losses) included in earnings	-	1,921	-	(1,994)	(73)
Changes in fair value of investment securities available for sale included in other comprehensive income	(552)	-	-	-	(552)
New instruments acquired	-	-	704	-	704
Principal repayments	-	-	(309)	-	(309)
Amortization	-	-	-	110	110
Changes in fair value of servicing assets	-	-	262	-	262
Balance at end of period	**$ 19,506**	**$ 17,941**	**$ 13,651**	**$ (17,199)**	**$ 33,899**

	Nine-Month Period Ended September 30, 2013			
	Other debt securities	Derivative asset (S&P Purchased	Servicing	Derivative liability (S&P Embedded

Level 3 Instruments Only	available-for-sale	Options)	assets	Options)	Total
Balance at beginning of period	$ 20,012	$ 13,233	$ 10,795	$ (12,707)	$ 31,333
Gains (losses) included in earnings	-	4,708	-	(4,807)	(99)
Changes in fair value of investment securities available for sale included in other comprehensive income	(506)	-	-	-	(506)
New instruments acquired	-	-	2,659	-	2,659
Principal repayments	-	-	(855)	-	(855)
Amortization	-	-	-	315	315
Changes in fair value of servicing assets	-	-	1,052	-	1,052
Balance at end of period	**$ 19,506**	**$ 17,941**	**$ 13,651**	**$ (17,199)**	**$ 33,899**

During the quarters and the nine-month periods ended September 30, 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 and non-recurring basis using significant unobservable inputs (Level 3) at September 30, 2014:

	September 30, 2014				
	Fair Value		Valuation Technique	Unobservable Input	Range
	(In thousands)				
Derivative assets (S&P Purchased Options)	$	5,762	Option pricing model	Implied option volatility	25.75%-36.88%
				Counterparty credit risk (based on 5-year credit default swap ("CDS") spread)	66.90% - 69.11%
Servicing assets	$	13,986	Cash flow valuation	Constant prepayment rate	5.60% - 13.28%
				Discount rate	10.00% - 12.00%
Derivative liability (S&P Embedded Options)	$	(5,588)	Option pricing model	Implied option volatility	25.75%-36.88%
				Counterparty credit risk (based on 5-year CDS spread)	66.90% - 69.11%
Collateral dependant impaired loans	$	26,809	Fair value of property or collateral	Appraised value less disposition costs	20.20% - 29.20%
Puerto Rico Electric Power	$	199,982	Cash flow valuation	Discount rate	7.25

Authority line of credit							
Foreclosed real estate	$	100,564	Fair value of property or collateral		Appraised value less disposition costs		20.20% - 29.20%
Other repossessed assets	$	21,733	Fair value of property or collateral		Appraised value less disposition costs		20.20% - 29.20%

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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.

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 September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014		December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Level 1				
Financial Assets:				
Cash and cash equivalents	$ 671,239	$ 671,239	$ 621,269	$ 621,269
Restricted cash	32,907	32,907	82,199	82,199
Level 2				
Financial Assets:				
Securities purchased under agreements to resell	-	-	60,000	60,000
Trading securities	1,687	1,687	1,869	1,869
Investment securities available-for-sale	1,273,879	1,273,879	1,568,745	1,568,745
Investment securities held-to-maturity	144,217	144,305	-	-
Federal Home Loan Bank (FHLB) stock	21,189	21,189	24,450	24,450
Other investments	65	65	65	65
Derivative assets	2,683	2,683	4,072	4,072
Financial Liabilities:				
Securities purchased but not yet received	30,057	30,057	-	-
Derivative liabilities	11,414	11,414	14,937	14,937
Level 3				
Financial Assets:				
Investment securities available-for-sale	-	-	19,680	19,680
Total loans (including loans held-for-sale)				
Non-covered loans, net	4,486,738	4,545,209	4,857,505	4,662,458
Covered loans, net	365,503	311,693	459,444	356,961
Derivative assets	5,762	5,762	16,430	16,430
FDIC indemnification asset	83,995	120,619	152,965	189,240
Accrued interest receivable	19,665	19,665	18,734	18,734

Servicing assets	13,986	13,986	13,801	13,801
Financial Liabilities:				
Deposits	5,053,119	5,069,175	5,409,540	5,383,265
Securities sold under agreements to repurchase	1,058,042	1,012,228	1,323,903	1,267,618
Advances from FHLB	340,043	334,787	335,324	336,143
Other borrowings	3,865	3,872	3,638	3,663
Subordinated capital notes	91,061	101,190	99,316	100,010
Accrued expenses and other liabilities	159,541	159,541	144,424	144,424
Derivative liabilities	5,588	5,588	15,736	15,736

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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 September 30, 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 purchased but not yet received, and 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 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 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.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- 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.

- The fair value of long-term borrowings, which include securities sold under agreements to repurchase, advances from FHLB-NY, 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 20 – 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 for the quarters and nine-month periods ended September 30, 2014 and 2013:

	Quarter Ended September 30, 2014					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 108,548	$ 44	$ 11,709	$ 120,301	$ -	$ **120,301**
Interest expense	(7,892)	-	(10,538)	(18,430)	-	**(18,430)**
Net interest income	100,656	44	1,171	101,871	**-**	**101,871**
Provision for non-covered loan and lease losses	(16,142)	-	-	(16,142)	-	**(16,142)**
Provision for covered loan and lease losses	(1,115)	-	-	(1,115)	-	**(1,115)**
Non-interest income (loss)	(3,242)	6,208	(475)	2,491	-	**2,491**
Non-interest expenses	(53,669)	(4,483)	(1,423)	(59,575)	-	**(59,575)**
Intersegment revenue	431	-	290	721	(721)	-
Intersegment expenses	(290)	(330)	(101)	(721)	721	-
Income before income taxes	**$ 26,629**	**$ 1,439**	**$ (538)**	**$ 27,530**	**$ -**	**$ 27,530**
Total assets	**$ 6,494,141**	**$ 26,800**	**$ 2,098,341**	**$ 8,619,282**	**(945,943)**	**$ 7,673,339**

	Quarter Ended September 30, 2013					
	Banking	Wealth Management	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 109,311	$ 95	$ 11,695	$ 121,101	$ -	$ **121,101**

Interest expense		(10,994)		-		(11,016)		(22,010)		-		**(22,010)**
Net interest income		98,317		95		679		99,091		**-**		**99,091**
Provision for non-covered loan and lease losses		(9,900)		-		-		(9,900)		-		**(9,900)**
Provision for covered loan and lease losses		(3,074)		-		-		(3,074)		-		**(3,074)**
Non-interest income (loss)		(3,960)		7,114		169		3,323		-		**3,323**
Non-interest expenses		(52,615)		(6,168)		(4,451)		(63,234)		-		**(63,234)**
Intersegment revenue		562		-		-		562		(562)		-
Intersegment expenses		-		(461)		(101)		(562)		562		-
Income before income taxes	**$**	**29,330**	**$**	**580**	**$**	**(3,704)**	**$**	**26,206**	**$**	**-**	**$**	**26,206**
Total assets	**$**	**6,542,840**	**$**	**40,994**	**$**	**2,691,621**	**$**	**9,275,455**	**$**	**(895,230)**	**$**	**8,380,225**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Nine-Month Period Ended September 30, 2014					
	Banking	**Wealth Management**	**Treasury**	**Total Major Segments**	**Eliminations**	**Consolidated Total**
	(In thousands)					
Interest income	$ 330,148	$ 132	$ 38,995	$ 369,275	$ -	$ **369,275**
Interest expense	(26,235)	-	(31,693)	(57,928)	-	**(57,928)**
Net interest income	303,913	132	7,302	311,347	**-**	**311,347**
Provision for non-covered loan and lease losses	(39,424)	-	-	(39,424)	-	**(39,424)**
Provision for covered loan and lease losses, net	(4,339)	-	-	(4,339)	-	**(4,339)**
Non-interest income(loss)	(14,845)	20,232	2,840	8,227	-	**8,227**
Non-interest expenses	(156,867)	(15,629)	(8,331)	(180,827)	-	**(180,827)**
Intersegment revenue	1,410	-	290	1,700	(1,700)	-
Intersegment expenses	(290)	(1,089)	$ (321)	(1,700)	1,700	-
Income before income taxes	**$ 89,558**	**$ 3,646**	**1,780**	**$ 94,984**	**$ -**	**$ 94,984**

	Nine-Month Period Ended September 30, 2013					
	Banking	**Wealth Management**	**Treasury**	**Total Major Segments**	**Eliminations**	**Consolidated Total**
	(In thousands)					
Interest income	$ 325,432	$ 277	$ 35,865	$ 361,574	$ -	$ **361,574**
Interest expense	(31,490)	-	(31,084)	(62,574)	-	**(62,574)**
Net interest income	293,942	277	4,781	299,000	**-**	**299,000**
Provision for non-covered loan and lease losses	(55,343)	-	-	(55,343)	-	**(55,343)**
Provision for covered loan and lease losses, net	(4,957)	-	-	(4,957)	-	**(4,957)**
Non-interest income(loss)	(7,151)	22,915	4,199	19,963	-	**19,963**

Non-interest expenses	(168,119)	(18,945)	(11,470)	(198,534)	-	**(198,534)**
Intersegment revenue	1,524	-	-	1,524	(1,524)	-
Intersegment expenses	-	(1,247)	(277)	(1,524)	1,524	-
Income (loss) before income taxes	**$ 59,896**	**$ 3,000**	**$ (2,767)**	**$ 60,129**	**$ -**	**$ 60,129**

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, Wealth Management, 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. Same analysis was performed for the commercial portfolio during the quarter ended June 30, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months for auto and leasing and consumer. For the commercial portfolio, a look-back period of 12 months was maintained. In addition, during the quarter ended June 30, 2014, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral, and delinquencies, among others. These changes in the allowance for loan and lease losses' look back period for the consumer and auto and leasing portfolios, and economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively. Apart from these changes, 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 September 30,							Nine-Month Period Ended September 30,				
						Variance						Variance
		2014		2013		%		2014		2013		%
EARNINGS DATA:	(In thousands, except per share data)											
Interest income	$	120,301	$	121,101		-0.7%	$	369,275	$	361,574		2.1%
Interest expense		18,430		22,010		-16.3%		57,928		62,574		-7.4%
Net interest income		**101,871**		**99,091**		**2.8%**		**311,347**		**299,000**		4.1%
Provision for non-covered loan and lease losses		16,142		9,900		63.1%		39,424		55,343		-28.8%
Provision for covered loan and lease losses, net		1,115		3,074		-63.7%		4,339		4,957		-12.5%
Total provision for loan and lease losses, net		**17,257**		**12,974**		**33.0%**		**43,763**		**60,300**		-27.4%
Net interest income after provision for loan and lease losses		**84,614**		**86,117**		**-1.7%**		**267,584**		**238,700**		12.1%
Non-interest income		2,491		3,323		-25.0%		8,227		19,963		-58.8%
Non-interest expenses		59,575		63,234		-5.8%		180,827		198,534		-8.9%
Income before taxes		**27,530**		**26,206**		**5.1%**		**94,984**		**60,129**		58.0%
Income tax expense (benefit)		7,998		6,585		21.5%		30,396		(18,223)		266.8%
Net income		**19,532**		**19,621**		**-0.5%**		**64,588**		**78,352**		-17.6%
Less: dividends on preferred stock		(3,465)		(3,465)		153.0%		(10,396)		(10,396)		153.0%
Income available to common shareholders	**$**	**16,067**	**$**	**16,156**		**-0.6%**	**$**	**54,192**	**$**	**67,956**		-20.3%
PER SHARE DATA:												
Basic	**$**	**0.36**	**$**	**0.35**		**2.9%**	**$**	**1.20**	**$**	**1.49**		**-19.5%**
Diluted	**$**	**0.34**	**$**	**0.34**		**0.0%**	**$**	**1.14**	**$**	**1.39**		**-18.0%**
Average common shares outstanding		**45,054**		**45,927**		**-1.9%**		**45,170**		**45,613**		**-1.0%**
Average common shares outstanding and equivalents		**52,362**		**53,322**		**-1.8%**		**52,440**		**53,053**		**-1.2%**
	$	**0.08**	**$**	**0.06**		**33.3%**	**$**	**0.24**	**$**	**0.18**		**33.3%**

Cash dividends declared per common share							
Cash dividends declared on common shares	**$ 3,605**	**$ 2,740**	**31.6%**	**$ 10,822**	**$ 8,219**	**31.7%**
PERFORMANCE RATIOS:						
Return on average assets (ROA)	**1.02%**	**0.93%**	**9.7%**	**1.10%**	**1.22%**	**-9.8%**
Return on average tangible common equity	**9.78%**	**10.71%**	**-8.7%**	**11.17%**	**15.12%**	**-26.1%**
Return on average common equity (ROE)	**8.52%**	**9.20%**	**-7.4%**	**9.71%**	**12.96%**	**-25.1%**
Equity-to-assets ratio	**12.12%**	**10.48%**	**15.6%**	**12.13%**	**10.48%**	**15.8%**
Efficiency ratio	**49.30%**	**52.27%**	**-5.7%**	**49.10%**	**53.97%**	**-9.0%**
Interest rate spread	**5.78%**	**5.28%**	**9.5%**	**5.85%**	**5.28%**	**10.8%**
Interest rate margin	**5.84%**	**5.28%**	**10.6%**	**5.90%**	**5.28%**	**11.7%**

SELECTED FINANCIAL DATA - (Continued)					
		September 30,		December 31,	Variance
		2014		2013	%
PERIOD END BALANCES AND CAPITAL RATIOS:	(In thousands, except per share data)				
Investments and loans					
Investment securities	$	1,441,125	$	1,614,809	-10.8%
Loans and leases not covered under shared-loss agreements with the FDIC, net		4,545,209		4,662,458	-2.5%
Loans and leases covered under shared-loss agreements with the FDIC, net		311,693		356,961	-12.7%
Total investments and loans	**$**	**6,298,027**	**$**	**6,634,228**	**-5.1%**
Deposits and borrowings					
Deposits	$	5,069,175	$	5,383,265	-5.8%
Securities sold under agreements to repurchase		1,012,228		1,267,618	-20.1%
Other borrowings		439,849		439,816	0.0%
Total deposits and borrowings	**$**	**6,521,252**	**$**	**7,090,699**	**-8.0%**
Stockholders' equity					
Preferred stock	$	176,000	$	176,000	0.0%
Common stock		52,761		52,707	0.1%
Additional paid-in capital		539,522		538,071	0.3%
Legal surplus		68,437		61,957	10.5%
Retained earnings		170,519		133,629	27.6%
Treasury stock, at cost		(90,652)		(80,642)	-12.4%
Accumulated other comprehensive income		13,411		3,191	320.3%
Total stockholders' equity	**$**	**929,998**	**$**	**884,913**	**5.1%**
Per share data					
Book value per common share	**$**	**16.96**	**$**	**15.74**	**7.8%**
Tangible book value per common share	**$**	**14.82**	**$**	**13.60**	**9.0%**
Market price at end of period	**$**	**14.98**	**$**	**17.34**	**-13.6%**
Capital ratios					
Leverage capital		**10.51%**		**9.06%**	**16.0%**
Tier 1 risk-based capital		**15.96%**		**14.38%**	**11.0%**
Total risk-based capital		**17.50%**		**16.16%**	**8.3%**
Tier 1 common equity to risk-weighted assets		**11.86%**		**10.46%**	**13.4%**
Financial assets managed					
Trust assets managed	$	2,851,815	$	2,796,923	2.0%
Broker-dealer assets gathered	$	2,483,611	$	2,493,324	-0.4%

FINANCIAL HIGHLIGHTS OF THE THIRD QUARTER OF 2014

The Company achieved performance equal to the year ago quarter despite weaker economic conditions in Puerto Rico. As such, the increase in the Company's provision for loan and leases and its decreases in interest and non-interest income were substantially offset by decreases in the Company's interest and non-interest expenses. Income available to common shareholders for the quarter ended September 30, 2014 was $16.1 million, or $0.34 per diluted share, compared to $16.2 million, or $0.34 per diluted share, in the third quarter of 2013.

Net interest margin expanded to 5.84% from 5.28% primarily as a result of an increase in the yield of the Company's interest earning assets.

The Company's return on assets increased to 1.02% from 0.93%, and its return on equity decreased to 8.52% from 9.20%, from the third quarter of 2013. The Company improved its efficiency ratio, which decreased to 49.30% from 52.27% when compared with the same quarter in 2013, primarily as a result of a decrease in the Company's non-interest expenses.

Interest Income

Total interest income remained level at $120.3 million, compared to $121.1 million in the third quarter of 2013. The yield on interest-earning assets increased to 6.89% from 6.46%. This was offset by a decrease in earning asset volume.

Interest Expense

Total interest expense decreased 16.3% as compared to the same period in 2013. Such decrease reflects the lower cost of deposits before fair value premium amortization and core deposit intangible amortization (0.68% vs. 0.93%). Such lower cost reflects continuing progress in the repricing of the Company's core retail deposits and other reductions in its cost of funds.

Net Interest Income

Net interest income increased $2.8 million for the third quarter of 2014. Such increase reflects an increase in net interest margin of 56 basis points to 5.84% when compared to the third quarter of 2013.

Provision for Loan and Lease Losses

Provision for non-covered loan losses increased $6.2 million when compared to $9.9 million for the third quarter of 2013, while provision for covered loan losses decreased $2.0 million when compared to $3.1 million for the same period in 2013.

Non-Interest Income

Core banking and financial services revenues decreased 13.3% to $19.0 million as compared to the same period in 2013, primarily reflecting a decrease of $2.4 million in banking services revenue to $9.8 million. Decrease in banking services revenues is mostly due to the reclassification of loan late charges into interest income during the last quarter of 2013. For the quarter ended September 30, 2013 these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013.

The FDIC shared-loss expense of $16.9 million, compared to $16.0 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.

Non-Interest Expense

Non-interest expense of $59.6 million, decreased $3.7 million compared to the same period in 2013, mainly because during the third quarter of 2014, there were no merger and restructuring charges compared to $2.3 million for the same period in 2013. As a result of such decrease, the Company’s efficiency ratio improved to 49.30%, compared to 52.27% for the same period in 2013.

Income Tax Expense

Income tax expense was $8.0 million, compared to an income tax expense of $6.6 million for the same period in 2013.

Income Available to Common Shareholders

The Company’s income available to common shareholders amounted to $16.1 million, compared to $16.2 million for the same period in 2013. Income per basic common share and fully diluted common share was $0.36 and $0.34, respectively, compared to income per basic common share and fully diluted common share of $0.35 and $0.34, respectively, for the third quarter of 2013.

Interest Earning Assets

The loan portfolio declined to $4.857 billion at September 30, 2014, compared to $4.936 billion at June 30, 2014, primarily due to repayments and maturities, including the strategic reduction of Puerto Rico government related debt. The investment portfolio of $1.441 billion at September 30, 2014 decreased 2.2% compared to $1.472 billion at June 30, 2014.

Interest Bearing Liabilities

Total deposits amounted to $5.069 billion at September 30, 2014, a decrease of 1.4% compared to $5.141 billion at June 30, 2014. Securities sold under agreements to repurchase remained at $1.012 billion.

Stockholders’ Equity