FIRST BANCORP /PR/
Form 10-Q
August 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

[ ] 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 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico **(State or other jurisdiction of** **incorporation or organization)**	**66-0561882** **(I.R.S. employer** **identification number)**
1519 Ponce de León Avenue, Stop 23 **Santurce, Puerto Rico** **(Address of principal executive offices)**	**00908** **(Zip Code)**

(787) 729-8200
(Registrant's telephone number, including area code)
Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨   Accelerated filer x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock: 212,764,795 shares outstanding as of July 31, 2014.

FIRST BANCORP.

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Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the safe harbor created by such sections. When used in this Form 10-Q or future filings by First BanCorp. (the "Corporation") with the U.S. Securities and Exchange Commission ("SEC"), in the Corporation's press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the word or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "should," "anticipate" and simila expressions are meant to identify "forward-looking statements."

First BanCorp. wishes to caution readers not to place undue reliance on any such "forward-looking statements," which speak only as of the date made, and to advise readers that various factors, including, but not limited to, the following, could cause actual results to differ materially from those expressed in, or implied by, such "forward-looking statements":

- uncertainty about whether the Corporation and FirstBank Puerto Rico ("FirstBank" or "the Bank") will be able to fully comply with the written agreement dated June 3, 2010 (the "Written Agreement") that the Corporation entered into with the Federal Reserve Bank of New York (the "New York FED" or "Federal Reserve") and the consent order dated June 2, 2010 (the "FDIC Order") and together with the Written Agreement, (the "Agreements") that the Corporation's banking subsidiary, FirstBank, entered into with the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico ("OCIF") that, among other things, require the Bank to maintain certain capital levels and reduce its special mention, classified, delinquent and non-performing assets;

- the risk of being subject to possible additional regulatory actions;

- uncertainty as to the availability of certain funding sources, such as retail brokered certificates of deposit ("brokered CDs");

- the Corporation's reliance on brokered CDs and its ability to obtain, on a periodic basis, approval from the FDIC to issue brokered CDs to fund operations and provide liquidity in accordance with the terms of the FDIC Order;

- the risk of not being able to fulfill the Corporation's cash obligations or resume paying dividends to the Corporation's stockholders in the future due to the Corporation's inability to receive approval from the New York FED and the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) to receive dividends from FirstBank or FirstBank’s failure to generate sufficient cash flow to make a dividend payment to the Corporation;

- the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and their impact on the credit quality of the Corporation’s loans and other assets, which has contributed and may continue to contribute to, among other things, high levels of non-performing assets, charge-offs and provisions and may subject the Corporation to further risk from loan defaults and foreclosures;

- the ability of FirstBank to realize the benefit of its deferred tax asset;

- adverse changes in general economic conditions in Puerto Rico, the United States ("U.S.") and the U.S. Virgin Islands ("USVI"), and British Virgin Islands ("BVI"), including the interest rate environment, market liquidity, housing absorption rates, real estate prices, and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources, and affect demand for all of the Corporation's products and services and reduce the Corporation's revenues, earnings, and the value of the Corporation's assets;

- a credit default by the Puerto Rico government or any of its public corporations or other instrumentalities, and recent and any future downgrades of the long-term and short-term debt ratings of the Puerto Rico government, which could exacerbate Puerto Rico's adverse economic conditions;

- an adverse change in the Corporation's ability to attract new clients and retain existing ones;

- a decrease in demand for the Corporation's products and services and lower revenues and earnings because of the continued recession in Puerto Rico, the current fiscal problems of the Puerto Rico government and recent credit downgrades of the Puerto Rico government's debt;

- the risk that any portion of the unrealized losses in the Corporation's investment portfolio is determined to be other-than-temporary, including unrealized losses on the Puerto Rico government's obligations;

- uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the U.S., the USVI, and the BVI, which could affect the Corporation's financial condition or performance and could cause the Corporation's actual results for future periods to differ materially from prior results and anticipated or projected results;

- changes in the fiscal and monetary policies and regulations of the U.S. federal government, including those determined by the Federal Reserve Board, the New York FED, the FDIC, government-sponsored housing agencies, and regulators in Puerto Rico, the USVI and the BVI;

- the risk of possible failure or circumvention of controls and procedures and the risk that the Corporation's risk management policies may not be adequate;

- the risk that the FDIC may further increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in the Corporation's non-interest expenses;

- the impact on the Corporation's results of operations and financial condition of acquisitions and dispositions;

- a need to recognize additional impairments on financial instruments, goodwill or other intangible assets relating to acquisitions;

- the risk that downgrades in the credit ratings of the Corporation's long-term senior debt will adversely affect the Corporation's ability to access necessary external funds;

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on the Corporation's businesses, business practices and cost of operations; and

- general competitive factors and industry consolidation.

The Corporation does not undertake, and specifically disclaims any obligation, to update any "forward-looking statements" to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by the federal securities laws.

Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2013, as well as "Part II, Item 1A, Risk Factors" in this quarterly report on Form 10-Q, for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	June 30, 2014			December 31, 2013	
(In thousands, except for share information)					
ASSETS					
Cash and due from banks	$	660,709		$	454,302
Money market investments:					
Time deposits with other financial institutions		300			300
Other short-term investments		16,653			201,069
Total money market investments		16,953			201,369
Investment securities available for sale, at fair value:					
Securities pledged that can be repledged		1,038,071			1,042,482
Other investment securities		959,337			935,800
Total investment securities available for sale		1,997,408			1,978,282
Other equity securities		29,141			28,691
Investment in unconsolidated entity		-			7,279
Loans, net of allowance for loan and lease losses of $241,177					
(2013 - $285,858)		9,225,924			9,350,312
Loans held for sale, at lower of cost or market		72,105			75,969
Total loans, net		9,298,029			9,426,281
Premises and equipment, net		170,056			166,946
Other real estate owned		121,842			160,193
Accrued interest receivable on loans and investments		52,092			54,012
Other assets		177,021			179,570
Total assets	$	12,523,251		$	12,656,925
LIABILITIES					
Non-interest-bearing deposits	$	851,038		$	851,212
Interest-bearing deposits		8,779,750			9,028,712
Total deposits		9,630,788			9,879,924
Securities sold under agreements to repurchase		900,000			900,000
Advances from the Federal Home Loan Bank (FHLB)		320,000			300,000
Other borrowings		231,959			231,959
Accounts payable and other liabilities		134,503			129,184
Total liabilities		11,217,250			11,441,067

STOCKHOLDERS' EQUITY					
Preferred stock, authorized, 50,000,000 shares:					
Non-cumulative Perpetual Monthly Income Preferred Stock: issued 22,004,000 shares,					
outstanding 1,444,146 shares (2013 - 2,521,872 shares outstanding), aggregate liquidation					
value of $36,104 (2013 - $63,047)		36,104			63,047
Common stock, $0.10 par value, authorized, 2,000,000,000 shares; issued, 213,399,037 shares					
(2013 - 207,635,157 shares issued)		21,340			20,764
Less: Treasury stock (at par value)		(64)			(57)
Common stock outstanding, 212,760,158 shares outstanding (2013 - 207,068,978 shares					
outstanding)		21,276			20,707
Additional paid-in capital		914,382			888,161
Retained earnings		362,646			322,679
Accumulated other comprehensive loss, net of tax of $7,752 (2013 - $7,755)		(28,407)			(78,736)
Total stockholders' equity		1,306,001			1,215,858
Total liabilities and stockholders' equity	$	12,523,251		$	12,656,925
The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2014		2013		2014		2013	
(In thousands, except per share information)								
Interest and dividend income:								
Loans	$	144,241	$	147,986	$	289,084	$	296,629
Investment securities		13,728		12,185		28,956		23,228
Money market investments		454		499		954		1,038
Total interest income		158,423		160,670		318,994		320,895
Interest expense:								
Deposits		19,466		23,918		39,765		49,462
Securities sold under agreements to repurchase		6,430		6,470		12,798		12,887
Advances from FHLB		833		1,631		1,657		3,656
Notes payable and other borrowings		1,787		1,763		3,547		3,509
Total interest expense		28,516		33,782		57,767		69,514
Net interest income		129,907		126,888		261,227		251,381
Provision for loan and lease losses		26,744		87,464		58,659		198,587
Net interest income after provision for loan and lease losses		103,163		39,424		202,568		52,794
Non-interest income (loss):								
Service charges on deposit accounts		3,290		3,098		6,493		6,478
Mortgage banking activities		3,036		4,823		6,404		9,403
Net gain (loss) on sale of investments (includes $42 accumulated other								
comprehensive income reclassification for other-than-temporary								
impairment on equity securities for the quarter and six-month								
period ended June 30, 2013)		291		(42)		291		(42)
Other-than-temporary impairment losses on available-for-sale debt securities:								
Total other-than-temporary impairment losses		-		-		-		-

Portion of other-than-temporary impairment losses recognized in other								
comprehensive income		-		-		-		(117)
Net impairment losses on available-for-sale debt securities		-		-		-		(117)
Equity in (loss) earnings of unconsolidated entity		(670)		648		(7,280)		(4,890)
Impairment of collateral pledged to Lehman		-		(66,574)		-		(66,574)
Insurance commission income		1,467		1,508		4,038		3,528
Other non-interest income		8,517		4,876		17,335		14,180
Total non-interest income (loss)		15,931		(51,663)		27,281		(38,034)
Non-interest expenses:								
Employees' compensation and benefits		35,023		33,116		67,965		66,670
Occupancy and equipment		14,509		14,946		28,855		30,016
Business promotion		4,142		3,831		8,115		7,188
Professional fees		11,371		13,735		21,411		24,867
Taxes, other than income taxes		4,477		6,239		9,024		9,228
Insurance and supervisory fees		10,784		12,699		21,774		25,505
Net loss on other real estate owned (OREO) and OREO operations		6,778		14,829		12,615		22,139
Credit and debit card processing expenses		3,882		2,281		7,706		5,358
Communications		1,894		1,885		3,773		3,699
Other non-interest expenses		5,285		7,762		9,692		14,663
Total non-interest expenses		98,145		111,323		190,930		209,333
Income (loss) before income taxes		20,949		(123,562)		38,919		(194,573)
Income tax benefit (expense)		276		979		(611)		(643)
Net income (loss)	$	21,225	$	(122,583)	$	38,308	$	(195,216)
Net income (loss) attributable to common stockholders	$	22,505	$	(122,583)	$	39,967	$	(195,216)
Net earnings (loss) per common share:								
Basic	$	0.11	$	(0.60)	$	0.19	$	(0.95)
Diluted	$	0.11	$	(0.60)	$	0.19	$	(0.95)
Dividends declared per common share	$	-	$	-	$	-	$	-

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Quarter Ended		Six-Month Period Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
(In thousands)				
Net income (loss)	$ 21,225	$ (122,583)	$ 38,308	$ (195,216)
Available-for-sale debt securities on which an other-than-temporary				
impairment has been recognized:				
Subsequent unrealized gain on debt securities on which an				
other-than-temporary impairment has been recognized	274	592	1,187	1,435
Reclassification adjustment for other-than-temporary impairment				
on debt securities included in net income	-	-	-	117
All other unrealized holding gains (losses) on available-for-sale securities:				
All other unrealized holding gains (losses) arising				
during the period	27,806	(60,176)	49,430	(69,746)
Reclassification adjustments for net gain included in net income	(291)	-	(291)	-
Reclassification adjustment for other-than-temporary impairment				
on equity securities	-	42	-	42
Income tax benefit (expense) related to items of other comprehensive income	1	(422)	3	(422)
Other comprehensive income (loss) for the period, net of tax	$ 27,790	$ (59,964)	$ 50,329	$ (68,574)
Total comprehensive income (loss)	$ 49,015	$ (182,547)	$ 88,637	$ (263,790)

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six-Month Period Ended		
	June 30, 2014		June 30, 2013
(In thousands)			
Cash flows from operating activities:			
Net income (loss)	$ 38,308		$ (195,216)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	10,574		11,933
Amortization of intangible assets	2,488		3,039
Provision for loan and lease losses	58,659		198,587
Deferred income tax benefit	(1,352)		(2,154)
Stock-based compensation	1,960		1,321
Gain on sales of investments, net	(291)		-
Other-than-temporary impairments on debt securities	-		117
Other-than-temporary impairments on equity securities	-		42
Equity in loss of unconsolidated entity	7,280		4,890
Impairment of collateral pledged to Lehman	-		66,574
Derivative instruments and financial liabilities measured at fair value, gain	(173)		(1,974)
Gain on sale of premises and equipment and other assets	(32)		-
Net gain on sales of loans	(3,868)		(4,870)
Net amortization of premiums, discounts and deferred loan fees and costs	(1,564)		(2,078)
Originations and purchases of loans held for sale	(141,099)		(306,579)
Sales and repayments of loans held for sale	157,964		263,072
Loans held for sale valuation adjustment	-		6,103
Amortization of broker placement fees	3,501		4,182
Net amortization of premium and discounts on investment securities	869		6,713
Increase (decrease) in accrued income tax payable	5,013		(1,623)
Decrease (increase) in accrued interest receivable	1,920		(2,965)
Increase in accrued interest payable	2,449		1,257
Decrease in other assets	12,480		20,702
(Decrease) increase in other liabilities	(4,940)		16,116
Net cash provided by operating activities	150,146		87,189
Cash flows from investing activities:			

Principal collected on loans		1,619,024			1,363,136
Loans originated and purchased		(1,582,527)			(1,545,408)
Proceeds from sales of loans held for investment		16,558			296,610
Proceeds from sales of repossessed assets		35,344			60,568
Proceeds from sales of available-for-sale securities		4,855			-
Purchases of available-for-sale securities		(88,493)			(541,910)
Proceeds from principal repayments and maturities of available-for-sale securities		114,277			207,810
Additions to premises and equipment		(13,689)			(4,999)
Proceeds from sale of premises and equipments and other assets		37			-
Net redemptions/sales of other equity securities		(450)			6,436
Net cash provided by (used in) investing activities		104,936			(157,757)
Cash flows from financing activities:					
Net (decrease) increase in deposits		(252,637)			108,917
Net FHLB advances proceeds (paid)		20,000			(150,000)
Repurchase of outstanding common stock		(392)			(233)
Issuance costs of common stock issued in exchange for preferred stock Series A through E		(62)			-
Net cash used in financing activities		(233,091)			(41,316)
Net increase (decrease) in cash and cash equivalents		21,991			(111,884)
Cash and cash equivalents at beginning of period		655,671			946,851
Cash and cash equivalents at end of period	$	677,662		$	834,967
Cash and cash equivalents include:					
Cash and due from banks	$	660,709		$	618,593
Money market instruments		16,953			216,374
	$	677,662		$	834,967
The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Six-Month Period Ended				
	June 30, 2014			June 30, 2013	
(In thousands)					
Preferred Stock					
Balance at beginning of period	$	63,047		$	63,047
Exchange of preferred stock- Series A through E		(26,943)			-
Balance at end of period		36,104			63,047
Common Stock outstanding:					
Balance at beginning of period		20,707			20,624
Common stock issued as compensation		15			11
Common stock withheld for taxes		(7)			(4)
Common stock issued in exchange for Series A through E preferred stock		459			-
Restricted stock grants		102			70
Restricted stock forfeited		-			(3)
Balance at end of period		21,276			20,698
Additional Paid-In-Capital:					
Balance at beginning of period		888,161			885,754
Stock-based compensation		1,960			1,321
Common stock withheld for taxes		(385)			(233)
Common stock issued in exchange for Series A through E preferred stock		23,904			-
Reversal of issuance costs of Series A through E preferred stock exchanged		921			-
Issuance costs of common stock issued in exchange for Series A through E preferred stock		(62)			-
Restricted stock grants		(102)			(70)
Common stock issued as compensation		(15)			-
Restricted stock forfeited		-			3
Balance at end of period		914,382			886,775
Retained Earnings:					
Balance at beginning of period		322,679			487,166
Net income (loss)		38,308			(195,216)

Excess of carrying amount of Series A though E preferred stock exchanged over fair value of new					
shares of common stock		1,659			-
Balance at end of period		362,646			291,950
Accumulated Other Comprehensive Income (Loss), net of tax:					
Balance at beginning of period		(78,736)			28,432
Other comprehensive income (loss), net of tax		50,329			(68,574)
Balance at end of period		(28,407)			(40,142)
Total stockholders' equity	$	1,306,001		$	1,222,328
The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) of First BanCorp. (“the Corporation”) have been prepared in conformity with the accounting policies stated in the Corporation’s Audited Consolidated Financial Statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2013. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2013, which are included in the Corporation’s 2013 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter and six-month period ended June 30, 2014 are not necessarily indicative of the results to be expected for the entire year.

Adoption of new accounting requirements and recently issued but not yet effective accounting requirements

The Financial Accounting Standards Board (“FASB”) has issued the following accounting pronouncements and guidance relevant to the Corporation’s operations:

In July 2013, the FASB updated the Codification to provide explicit guidelines on how to present an unrecognized tax benefit in financial statements when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments are effective for public entities with fiscal periods beginning after December 15, 2013. The adoption of this guidance in 2014 did not have an effect on the Corporation's financial statements as the Corporation's NOLs and tax credit carryfowards are not available to settle any additional income taxes that would result from the disallowance of the Corporation's unrecognized tax benefits.

In January 2014, the FASB updated the Codification to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan so that the loan should be derecognized and the real estate property recognized in the financial statements. The Update clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. In addition, creditors are required to disclose on an annual and interim basis both (i) the amount of the foreclosed residential real estate property held and (ii) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

The amendments are effective for public business entities for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 31, 2015. Early adoption is permitted. The guidance can be implemented using either a modified retrospective transition method or a prospective transition method. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its financial statements.

In April 2014, the FASB issued an update to current accounting standards which will change the criteria for reporting discontinued operations. The amendments will also require new disclosures about discontinued operations and disposals of components of an entity that do not qualify for discontinued operations reporting. The amendments are effective for the Corporation for new disposals (or classifications as held for sale) of components of the Corporation, should they occur, beginning in the first quarter of fiscal year 2016. Early adoption is permitted for disposals (or classifications as held for sale) that have not been previously reported.

In May 2014, the FASB updated the Codification to create a new, principle-based revenue recognition framework. The Update is the culmination of efforts by the FASB and the International Accounting Standards Board to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements.

In June 2014, the FASB updated the Codification to respond to stakeholders' concerns about current accounting and disclosures for repurchase agreements and similar transactions. This Update requires two accounting changes. First, the Update changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the Update requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. Additionally, the Update introduces new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For public business entities, the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other accounting and disclosure amendments in the Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements, if any.

In June 2014, the FASB updated the Codification to provide guidance for determining compensation cost under specific circumstances when an employee's compensation award is eligible to vest regardless of whether the employee is rendering service on the date the performance target is achieved. This Update becomes effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted. The Company is currently evaluating the effects of this guidance on its financial statements and disclosures, if any. The Update is effective for all business entities for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements, if any.

NOTE 2 – EARNINGS PER COMMON SHARE

The calculations of earnings (losses) per common share for the quarters and six month periods ended June 30, 2014 and 2013 are as follows:

	Quarter Ended		Six-Month Period Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In thousands, except per share information)			
Net income (loss)	$ 21,225	$ (122,583)	$ 38,308	$ (195,216)
Favorable impact from issuing common stock in exchange for Series A through E preferred stock	1,280	-	1,659	-
Net income (loss) attributable to common stockholders	$ 22,505	$ (122,583)	$ 39,967	$ (195,216)
Weighted-Average Shares:				
Basic weighted-average common shares outstanding	208,202	205,490	206,974	205,477
Average potential common shares	1,942	-	1,543	-
Diluted weighted-average number of common shares outstanding	210,144	205,490	208,517	205,477
Earnings (loss) per common share:				
Basic	$ 0.11	$ (0.60)	$ 0.19	$ (0.95)
Diluted	$ 0.11	$ (0.60)	$ 0.19	$ (0.95)

Earnings (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares issued and outstanding. Net income (loss) attributable to common stockholders represents net income (loss) adjusted for any preferred stock dividends, including any dividends declared, and any cumulative dividends related to the current dividend period that have not been declared as of the end of the period. For the second quarter and first half of 2014, net income attributable to common stockholders also includes the one-time effect of the issuance of common stock in exchange for Series A through E preferred stock. This transaction is discussed in Note 17 to the unaudited consolidated financial statements. Basic weighted average common shares outstanding excludes unvested shares of restricted stock.

Potential common shares consist of common stock issuable under the assumed exercise of stock options, unvested shares of restricted stock, and outstanding warrants using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from the exercise, in addition to the amount of compensation cost attributable to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. Stock options not included in the computation of outstanding shares because they were antidilutive amounted to 82,575 and 104,499 for the quarters and six-month periods ended June 30, 2014 and 2013, respectively. Warrants outstanding to purchase 1,285,899 shares of common stock and 1,442,427 unvested shares of restricted stock were excluded from the computation of diluted earnings per share for the quarter and six-month period ended June 30, 2013 because the Corporation reported a net loss attributable to common stockholders for the periods and their inclusion would have an antidilutive effect.

NOTE 3 – STOCK-BASED COMPENSATION

Between 1997 and January 2007, the Corporation had the 1997 stock option plan that authorized the granting of up to 579,740 options on shares of the Corporation's common stock to eligible employees. The options granted under the plan could not exceed 20% of the number of common shares outstanding.

On January 21, 2007, the 1997 stock option plan expired; all outstanding awards granted under this plan continue in full force and effect, subject to their original terms. No awards for shares could be granted under the 1997 stock option plan as of its expiration.

The activity of stock options granted under the 1997 stock option plan for the six-month period ended June 30, 2014 is set forth below:

	Number of Options		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value (In thousands)
Beginning of period outstanding and exercisable	101,435	$	206.95			
Options expired	(12,795)		321.75			
Options cancelled	(6,065)		226.15			
End of period outstanding and exercisable	82,575	$	187.75	1.9	$	-

On April 29, 2008, the Corporation's stockholders approved the First BanCorp. 2008 Omnibus Incentive Plan, as amended (the "Omnibus Plan"). The Omnibus Plan provides for equity-based compensation incentives (the "awards") through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other stock-based awards. The Omnibus Plan authorizes the issuance of up to 8,169,807 shares of common stock, subject to adjustments for stock splits, reorganizations and other similar events. The Corporation's Board of Directors, upon receiving the relevant recommendation of the Compensation Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards, subject to various limits and vesting restrictions that apply to individual and aggregate awards.

Under the Omnibus Plan, during the second quarter of 2014, 210,840 shares of restricted stock were awarded to the Corporation's independent directors subject to a one-year vesting period. In addition, during the first quarter of 2014, the Corporation issued 810,138 shares of restricted stock that will vest based on the employees' continued service with the Corporation. Fifty percent (50%) of those shares vest in two years from the grant date and the remaining 50% vests in three years from the grant date. Included in those 810,138 shares of restricted stock are 653,138 shares granted to certain senior officers consistent with the requirements of the Troubled Asset Relief Program ("TARP") Interim Final Rule, which permit TARP recipients to grant "long-term restricted stock" without violating the prohibition on paying or accruing a bonus payment if it satisfies the following requirements: (i) the value of the grant may not exceed one-third of the amount of the employee's annual compensation, (ii) no portion of the grant may vest before two years after the grant date, and (iii) the grant must be subject to a further restriction on transfer or payment as described below. Specifically, the stock that has otherwise vested may not become transferable at any time earlier than as permitted under the schedule set forth by TARP, which is based on the repayment in 25% increments of the aggregate financial assistance received from the U.S. Department of Treasury (the "Treasury"). Hence, notwithstanding the vesting period mentioned above, the employees covered by TARP are restricted from transferring the shares.

The fair value of the shares of restricted stock granted in 2014 was based on the market price of the Corporation's outstanding common stock on the date of the grant. For the 653,138 shares of restricted stock granted under the TARP requirements, the market price was discounted due to postvesting restrictions. For purposes of computing the discount, the Corporation estimated an appreciation of 16% in the value of the common stock using the Capital Asset Pricing Model as a basis of what would be a market participant's expected return on the Corporation's stock and assumed that the Treasury would hold its outstanding common stock of the Corporation for two years, resulting in a fair value of $2.63 for restricted shares granted under the TARP requirements. Also, the Corporation uses empirical data to estimate employee termination; separate groups of employees that have similar historical exercise behavior were considered separately for valuation purposes.

The following table summarizes the restricted stock activity in 2014 under the Omnibus Plan for both executive officers covered by the TARP requirements and other employees as well as for independent directors:

	Six-Month Period Ended June 30, 2014		
	Number of shares of restricted stock		Weighted-Average Grant Date Fair Value
Non-vested shares at beginning of year	1,411,185	$	3.04
Granted	1,020,978		3.52
Forfeited	(2,000)		6.03
Vested	(101,323)		4.39
Non-vested shares at June 30, 2014	2,328,840	$	3.20

For the quarter and six-month period ended June 30, 2014, the Corporation recognized $0.8 million and $1.2 million, respectively, of stock-based compensation expense related to restricted stock awards, compared to $0.4 million and $0.6 million for the same periods in 2013. As of June 30, 2014, there was $4.4 million of total unrecognized compensation cost related to nonvested shares of restricted stock. The weighted average period over which the Corporation expects to recognize such cost is 1.7 years.

During the second quarter of 2013, the Corporation issued 701,405 shares of restricted stock that will vest based on the employees' continued service with the Corporation. Fifty percent (50%) of those shares vest in two years from the grant date and the remaining 50% vest in three years from the grant date. Included in those 701,405 shares of restricted stock are 582,905 shares granted to certain senior officers consistent with the requirements of TARP. The employees covered by TARP are restricted from transferring the shares, subject to certain conditions as explained above.

The fair value of the shares of restricted stock granted in the second quarter of 2013 was based on the market price of the Corporation's outstanding common stock on the date of the grant of $6.03. For the 582,905 shares of restricted stock granted under the TARP requirements, the market price was discounted due to postvesting restrictions. For purposes of computing the discount, the Corporation assumed appreciation of 13% in the value of the common stock and a holding period by the Treasury of its outstanding common stock of the Corporation of two years, resulting in a fair value of $3.02 for restricted shares granted under the TARP requirements.

Stock-based compensation accounting guidance requires the Corporation to develop an estimate of the number of share-based awards that will be forfeited due to employee or director turnover. Quarterly changes in the estimated forfeiture rate may have a significant effect on share-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period in which the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease in the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase in the expense recognized in the financial statements. When unvested options or shares of restricted stock are forfeited, any compensation expense previously recognized on the forfeited awards is reversed in the period of the forfeiture. Approximately $5 thousand of compensation expense was reversed during the first six months of 2014 related to forfeited awards.

Also, under the Omnibus Plan, effective April 1, 2013, the Corporation's Board of Directors determined to increase the salary amounts paid to certain executive officers primarily by paying the increased salary amounts in the form of shares of the Corporation's common stock, instead of cash. During the first six months of 2014, the Corporation issued 147,781 shares of common stock with a weighted average market value of $5.24 as salary stock compensation. This resulted in a compensation expense of $0.8 million recorded in the first six-months of 2014. For the first half of 2014, the Corporation withheld 49,145 shares from the common stock paid to certain senior officers as additional compensation and 23,555 shares of restricted stock that vested during the first quarter of 2014, to cover employees' payroll and income tax withholding liabilities; these shares are held as treasury shares. The Corporation paid any fractional share of salary stock that the officer was entitled to in cash. In the consolidated financial statements, the Corporation treats shares withheld for tax purposes as common stock repurchases.

NOTE 4 – INVESTMENT SECURITIES

Investment Securities Available for Sale

The amortized cost, non-credit loss component of other-than-temporary impairment ("OTTI") recorded in other comprehensive income ("OCI"), gross unrealized gains and losses recorded in OCI, approximate fair value, weighted average yield and contractual maturities of investment securities available for sale as of June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014					
		Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized			
	Amortized cost		gains	losses	Fair value	Weighted average yield%
	(Dollars in thousands)					
U.S. Treasury securities:						
Due within one year	$ 7,494	$ -	$ 3	$ -	$ 7,497	0.11
Obligations of U.S. government-sponsored agencies:						
After 1 to 5 years	50,000	-	-	521	49,479	1.05
After 5 to 10 years	214,245	-	-	6,868	207,377	1.31
Puerto Rico government obligations:						
After 1 to 5 years	39,807	-	-	10,807	29,000	4.49
After 5 to 10 years	885	-	1	-	886	5.20
After 10 years	20,399	-	-	5,303	15,096	5.82

United States and Puerto Rico						
government obligations	332,830	-	4	23,499	309,335	1.91
Mortgage-backed securities:						
FHLMC certificates:						
After 10 years	335,489	-	1,354	3,298	333,545	2.20
GNMA certificates:						
After 1 to 5 years	59	-	2	-	61	3.39
After 5 to 10 years	1,620	-	91	-	1,711	3.30
After 10 years	394,842	-	21,917	-	416,759	3.83
	396,521	-	22,010	-	418,531	3.83
FNMA certificates:						
After 1 to 5 years	5,114	-	237	-	5,351	3.46
After 5 to 10 years	7,627	-	485	-	8,112	3.81
After 10 years	889,130	-	7,077	11,875	884,332	2.38
	901,871	-	7,799	11,875	897,795	2.40
Collateralized mortgage						
obligations issued or						
guaranteed by the FHLMC:						
After 1 to 5 years	9	-	-	-	9	3.01
Other mortgage pass-through						
trust certificates:						
Over 5 to 10 years	120	-	-	-	120	7.27
After 10 years	51,187	13,123	-	-	38,064	2.21
	51,307	13,123	-	-	38,184	2.21
Total mortgage-backed						
securities	1,685,197	13,123	31,163	15,173	1,688,064	2.69

Adoption of new accounting requirements and recently issued but not yet effective accounting requirements

Equity securities (without											
contractual maturity) (1)		35		-		-		26		9	-
Total investment securities											
available for sale	$	2,018,062	$	13,123	$	31,167	$	38,698	$	1,997,408	2.56

(1) Represents common shares of another financial institution in Puerto Rico.

	December 31, 2013					
		Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized			
	Amortized cost		gains	losses	Fair value	Weighted average yield%
U.S. Treasury securities:						
Due within one year	$ 7,498	$ -	$ 1	$ -	$ 7,499	0.12
Obligations of U.S.						
government-sponsored						
agencies:						
After 1 to 5 years	50,000	-	-	1,408	48,592	1.05
After 5 to 10 years	214,271	-	-	13,368	200,903	1.31
Puerto Rico government						
obligations:						
Due within one year	10,000	-	-	210	9,790	3.50
After 5 to 10 years	40,699	-	-	12,962	27,737	4.51
After 10 years	20,309	-	-	6,506	13,803	5.82
United States and Puerto Rico						
government obligations	342,777	-	1	34,454	308,324	1.96
Mortgage-backed securities:						
FHLMC certificates:						
After 10 years	332,766	-	133	10,712	322,187	2.16
GNMA certificates:						
After 1 to 5 years	86	-	4	-	90	3.48

	After 5 to 10 years	800	-	37	-	837	2.47
	After 10 years	425,589	-	18,492	-	444,081	3.82
		426,475	-	18,533	-	445,008	3.82
FNMA certificates:							
	After 1 to 5 years	1,389	-	84	-	1,473	4.82
	After 5 to 10 years	7,765	-	389	-	8,154	4.09
	After 10 years	882,798	-	2,984	33,626	852,156	2.36
		891,952	-	3,457	33,626	861,783	2.38
Collateralized mortgage							
	obligations issued or						
	guaranteed by the FHLMC:						
	After 1 to 5 years	82	-	-	1	81	3.01
Other mortgage pass-through							
trust certificates:							
	Over 5 to 10 years	127	-	1	-	128	7.27
	After 10 years	55,048	14,310	-	-	40,738	2.24
		55,175	14,310	1	-	40,866	2.24
Total mortgage-backed							
	securities	1,706,450	14,310	22,124	44,339	1,669,925	2.69
Equity securities (without							
	contractual maturity) (1)	35	-	-	2	33	-
Total investment securities							
	available for sale	$ 2,049,262	$ 14,310	$ 22,125	$ 78,795	$ 1,978,282	2.57

(1) Represents common shares of another financial institution in Puerto Rico.

Maturities of mortgage-backed securities are based on contractual terms assuming no prepayments. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options. The weighted average yield on investment securities available for sale is based on amortized cost and, therefore, does not give effect to changes in fair value. The net unrealized gain or loss on securities available for sale and the non credit loss component of OTTI are presented as part of OCI.

The following tables show the Corporation's available-for-sale investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2014 and December 31, 2013. The tables also include debt securities for which an OTTI was recognized and only the amount related to a credit loss was recognized in earnings. Unrealized losses for which OTTI had been recognized have been reduced by any subsequent recoveries in fair value.

	As of June 30, 2014					
	Less than 12 months		**12 months or more**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(In thousands)					
Debt securities:						
Puerto Rico government obligations	$ -	$ -	$ 44,096	$ 16,110	$ 44,096	$ 16,110
U.S. government agencies obligations	-	-	256,856	7,389	256,856	7,389
Mortgage-backed securities:						
FNMA	40,008	67	577,485	11,808	617,493	11,875
FHLMC	-	-	195,771	3,298	195,771	3,298
Collateralized mortgage obligations						
issued or guaranteed by FHLMC	-	-	9	-	9	-
Other mortgage pass-through trust						
certificates	-	-	38,064	13,123	38,064	13,123
Equity securities	9	26	-	-	9	26
	$ 40,017	$ 93	$ 1,112,281	$ 51,728	$ 1,152,298	$ 51,821

	As of December 31, 2013		
	Less than 12 months	**12 months or more**	**Total**

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
Puerto Rico government obligations	$ 23,156	$ 5,977	$ 28,174	$ 13,701	$ 51,330	$ 19,678
U.S. government agencies obligations	175,369	8,913	74,126	5,863	249,495	14,776
Mortgage-backed securities:						
FNMA	748,215	33,626	-	-	748,215	33,626
FHLMC	286,208	10,712	-	-	286,208	10,712
Collateralized mortgage obligations						
issued or guaranteed by FHLMC	-	-	81	1	81	1
Other mortgage pass-through trust						
certificates	-	-	40,738	14,310	40,738	14,310
Equity securities	33	2	-	-	33	2
	$ 1,232,981	$ 59,230	$ 143,119	$ 33,875	$ 1,376,100	$ 93,105

Assessment for OTTI

On a quarterly basis, the Corporation performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered an OTTI. A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. The accounting literature requires the Corporation to assess whether the unrealized loss is other than temporary.

OTTI losses must be recognized in earnings if an investor has the intent to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, even if an investor does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss has occurred.

An unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an OTTI, if any, is recorded as a component of net impairment losses on investment securities in the accompanying consolidated statements of income (loss), while the remaining portion of the impairment loss is recognized in OCI, provided the Corporation does not intend to sell the underlying debt security and it is "more likely than not" that the Corporation will not have to sell the debt security prior to recovery.

Debt securities issued by U.S. government agencies, government-sponsored entities and the Treasury accounted for approximately 96% of the total available-for-sale portfolio as of June 30, 2014 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation's OTTI assessment was concentrated mainly on private label mortgage-backed securities ("MBS") with an amortized cost of $51.2 million for which credit losses are evaluated on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- Changes in the near term prospects of the underlying collateral of a security, such as changes in default rates, loss severity given default, and significant changes in prepayment assumptions;
- The level of cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and
- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and

government actions affecting the issuer's industry and actions taken by the issuer to deal with the present economic climate.

The Corporation recorded OTTI losses on available-for-sale debt securities as follows:

	Private Label MBS			Private Label MBS		
	Quarter ended June 30,			Six-Month Period Ended June 30,		
	2014		2013	2014		2013
(In thousands)						
Total other-than-temporary impairment losses	$ -		$ -	$ -		$ -
Portion of other-than-temporary impairment losses recognized in OCI	-		-	-		(117)
Net impairment losses recognized in earnings	$ -		$ -	$ -		$ (117)

The following table summarizes the roll-forward of credit losses on debt securities held by the Corporation for which a portion of an OTTI is recognized in OCI:

	Quarter ended June 30,		Six-Month Period Ended June 30,	
	2014	**2013**	**2014**	**2013**
(In thousands)				
Credit losses at the beginning of the period	$ 5,389	$ 5,389	$ 5,389	$ 5,272
Additions:				
Credit losses on debt securities for which an OTTI was				
previously recognized	-	-	-	117
Ending balance of credit losses on debt securities held for				
which a portion of an OTTI was recognized in OCI	$ 5,389	$ 5,389	$ 5,389	$ 5,389

During the first half of 2013, the $117 thousand credit-related impairment loss is related to private label MBS, which are collateralized by fixed-rate mortgages on single-family residential properties in the United States. The interest rate on these private-label MBS is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The underlying mortgages are fixed-rate single-family loans with original high FICO scores (over 700) and moderate original loan-to-value ratios (under 80%), as well as moderate delinquency levels.

Based on the expected cash flows derived from the model, and since the Corporation does not have the intention to sell the securities and has sufficient capital and liquidity to hold these securities until a recovery of the fair value occurs, only the credit loss component was reflected in earnings. Significant assumptions in the valuation of the private label MBS were as follows:

	June 30, 2014		December 31, 2013	
	Weighted Average	**Range**	**Weighted Average**	**Range**
Discount rate	14.5%	14.5%	14.5%	14.5%
Prepayment rate	32%	18.15%-100.00%	29%	15.86%-100.00%
Projected Cumulative Loss	8.5%	0.90%-80.00%	6.8%	0.58%-38.16%

Adoption of new accounting requirements and recently issued but not yet effective accounting requirements

Rate							

No OTTI losses on equity securities held in the available-for-sale investment portfolio were recognized in the first half of 2014. The Corporation recorded OTTI losses of $42,000 on equity securities held in the available-for-sale investment portfolio in the second quarter and first half of 2013.

Total proceeds from the sale of securities available for sale during the second quarter and first half of 2014 amounted to $4.9 million, including a $0.3 million gain on the sale of a Puerto Rico government agency bond.

As of June 30, 2014, the Corporation held approximately $61.1 million of Puerto Rico government and agencies bond obligations, mainly bonds of the Government Development Bank ("GDB") and the Puerto Rico Building Authority, as part of its available-for-sale investment securities portfolio, which were reflected at their aggregate fair value of $45.0 million. During the first half of 2014, the fair value of these obligation increased by $3.6 million. In February 2014, Standard & Poor's ("S&P"), Moody's Investor Service ("Moodys") and Fitch Ratings ("Fitch") downgraded the Commonwealth of Puerto Rico general obligation bonds and other obligations of Puerto Rico instrumentalities to non-investment grade category. In July 2014, the Puerto Rico debt was downgraded further into speculative grade by these credit agencies after the enactment of The Puerto Rico Public Corporations Debt Enforcement and Recovery Act that provides a legislative framework for certain public corporations that are experiencing severe financial stress to address their financial obstacles through an orderly statutory process that allows them to handle their debts. The issuers of Puerto Rico government and agencies bonds held by the Corporation have not defaulted, and the contractual payments on these securities have been made as scheduled. The Corporation has the ability and intent to hold these securities until a recovery of the fair value occurs, and it is not more likely than not that the Corporation will be required to sell the securities prior to such recovery. It is uncertain how the financial markets may react to any potential further rating downgrade of Puerto Rico's debt. However, further deterioration in the fiscal situation could further adversely affect the value of Puerto Rico's government obligations. The Corporation will continue to closely monitor Puerto Rico's political and economic status and evaluate the portfolio for any declines in value that could be considered other-than temporary.

NOTE 5 – OTHER EQUITY SECURITIES

Institutions that are members of the FHLB system are required to maintain a minimum investment in FHLB stock. Such minimum investment is calculated as a percentage of aggregate outstanding mortgages, and an additional investment is required that is calculated as a percentage of total FHLB advances, letters of credit, and the collateralized portion of interest-rate swaps outstanding. The stock is capital stock issued at $100 par value. Both stock and cash dividends may be received on FHLB stock.

As of June 30, 2014 and December 31, 2013, the Corporation had investments in FHLB stock with a book value of $28.9 million and $28.4 million, respectively. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the quarter and six-month period ended June 30, 2014 was $0.3 million and $0.6 million, respectively, compared to $0.3 million and $0.7 million for the comparable periods in 2013.

The shares of FHLB stock owned by the Corporation are issued by the FHLB of New York. The FHLB of New York is part of the Federal Home Loan Bank System, a national wholesale banking network of 12 regional, stockholder-owned congressionally chartered banks. The Federal Home Loan Banks are all privately capitalized and operated by their member stockholders. The system is supervised by the Federal Housing Finance Agency, which ensures that the Home Loan Banks operate in a financially safe and sound manner, remain adequately capitalized and able to raise funds in the capital markets, and carry out their housing finance mission.

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of June 30, 2014 and December 31, 2013 was $0.3 million.

NOTE 6 – LOANS HELD FOR INVESTMENT

The following table provides information about the loan portfolio held for investment:

	June 30, 2014		December 31, 2013
(In thousands)			
Residential mortgage loans, mainly secured by first mortgages	$ 2,795,159		$ 2,549,008
Commercial loans:			
Construction loans	148,266		168,713
Commercial mortgage loans	1,813,930		1,823,608
Commercial and Industrial loans (1)	2,647,478		2,788,250
Loans to a local financial institution collateralized by			
real estate mortgages (2)	-		240,072
Commercial loans	4,609,674		5,020,643
Finance leases	240,593		245,323
Consumer loans	1,821,675		1,821,196
Loans held for investment	9,467,101		9,636,170
Allowance for loan and lease losses	(241,177)		(285,858)
Loans held for investment, net	$ 9,225,924		$ 9,350,312

(1) As of June 30, 2014 and December 31, 2013, includes $1.1 billion and 1.2 billion, respectively, of commercial loans that are secured by real estate but are not dependent upon the real estate for repayment.

(2) On May 30, 2014, FirstBank acquired from Doral Financial Corporation ("Doral") mortgage loans, mainly residential mortgage loans, having an unpaid principal balance of $241.7 million (estimated fair value at acquisition of $226.0 million) in full satisfaction of secured borrowings with a book value of $232.9 million owed by Doral to FirstBank. Refer to Acquired Loans, including Purchased Credit-Impaired ("PCI") loans discussion below for additional information.

Loans held for investment on which accrual of interest income had been discontinued were as follows:

(In thousands)	June 30, 2014		December 31, 2013
Non-performing loans:			
Residential mortgage	$ 175,404		$ 161,441
Commercial mortgage	166,218		120,107

Commercial and Industrial		143,669			114,833
Construction:					
Land		20,838			27,834
Construction-commercial		3,849			3,924
Construction-residential		14,143			27,108
Consumer:					
Auto loans		22,005			21,316
Finance leases		3,414			3,082
Other consumer loans		15,091			15,904
Total non-performing loans held for investment (1) (2)	$	564,631		$	495,549

(1) As of June 30, 2014 and December 31, 2013, excludes $54.8 million of non-performing loans held for sale.

(2) Amount excludes PCI loans with a carrying value of approximately $105.6 million and $4.8 million as of June 30, 2014 and December 31, 2013, respectively, primarily mortgage loans acquired from Doral in the second quarter of 2014, as further discussed below. These loans are not considered non-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 analysis.

The Corporation's aging of the loans held for investment portfolio is as follows:

As of June 30, 2014 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing (2)
Residential mortgage:								
FHA/VA and other government-guaranteed loans (2) (3) (4)	$ -	$ 10,357	$ 79,082	$ 89,439	$ -	$ 72,554	$ 161,993	$ 79,082
Other residential mortgage loans (4)	-	95,029	189,752	284,781	99,997	2,248,388	2,633,166	14,348
Commercial:								
Commercial and Industrial loans	12,240	3,015	162,557	177,812	-	2,469,666	2,647,478	18,888
Commercial mortgage loans (4)	-	5,362	179,861	185,223	3,447	1,625,260	1,813,930	13,643
Construction:								
Land (4)	-	258	23,212	23,470	-	39,879	63,349	2,374
Construction-commercial	-	-	3,849	3,849	-	14,980	18,829	-

Construction-residential (4)	-	-	14,143	14,143	-	51,945	66,088	-
Consumer:								
Auto loans	82,018	20,391	22,005	124,414	-	997,700	1,122,114	-
Finance leases	9,664	3,376	3,414	16,454	-	224,139	240,593	-
Other consumer loans	7,139	8,770	18,713	34,622	2,176	662,763	699,561	3,622
Total loans held for investment	$ 111,061	$ 146,558	$ 696,588	$ 954,207	$ 105,620	$ 8,407,274	$ 9,467,101	$ 131,957

(1) Includes non-performing loans and accruing loans that are contractually delinquent 90 days or more (i.e., FHA/VA guaranteed loans and credit cards). Credit card loans continue to accrue finance charges fees until charged-off at 180 days.

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $40.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA that are over 18 months delinquent, and are no longer accruing interest as of June 30, 2014.

(3) As of June 30, 2014, includes $19.8 million of defaulted loans collateralizing Government National Mortgage Association ("GNMA") securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA government guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans and construction-residential loans past due 30-59 days amounted to $16.5 million, $160.1 million, $72.1 million, $0.8 million, and $2.5 million, respectively.

As of December 31, 2013	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 days or more Past Due (1)**	**Total Past Due**	**Purchased Credit-**	**Current**	**Total loans held for investment**	**90 days past due and still accruing (2)**
(In thousands)								

					Impaired Loans			
Residential mortgage:								
FHA/VA and other government-guaranteed loans (2) (3) (4)	$	$ 12,180	$ 78,645	$ 90,825	$ -	$ 104,401	$ 195,226	$ 78,645
Other residential mortgage loans (4)	-	88,898	172,286	261,184	-	2,092,598	2,353,782	10,845
Commercial:								
Commercial and Industrial loans	21,029	5,454	134,233	160,716	-	2,867,606	3,028,322	19,400
Commercial mortgage loans (4)	-	5,428	126,674	132,102	-	1,691,506	1,823,608	6,567
Construction:								
Land (4)	-	358	27,871	28,229	-	52,145	80,374	37
Construction-commercial	-	-	3,924	3,924	-	12,907	16,831	-
Construction-residential (4)	-	-	27,108	27,108	-	44,400	71,508	-
Consumer:								
Auto loans	79,279	17,944	21,316	118,539	-	993,781	1,112,320	-
Finance leases	10,275	3,536	3,082	16,893	-	228,430	245,323	-
Other	11,710	8,691	20,492	40,893	4,791	663,192	708,876	4,588

consumer loans								
Total loans held for investment	$ 122,293	$ 142,489	$ 615,631	$ 880,413	$ 4,791	$ 8,750,966	$ 9,636,170	$ 120,082

(1) Includes non-performing loans and accruing loans that are contractually delinquent 90 days or more (i.e. FHA/VA guaranteed loans and credit cards). Credit card loans continue to accrue finance charges and fees until charged-off at 180 days.

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $37.0 million of residential mortgage loans insured by the FHA or guaranteed by the VA that are over 18 months delinquent, and are no longer accruing interest as of December 31, 2013.

(3) As of December 31, 2013, includes $11.5 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA government guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans and construction-residential loans past due 30-59 days amounted to $23.9 million, $166.7 million, $18.4 million, $0.9 million and $2.5 million, respectively.

The Corporation’s credit quality indicators by loan type as of June 30, 2014 and December 31, 2013 are summarized below:

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness category:				
June 30, 2014	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 295,588	$ 3,133	$ -	$ 298,721	$ 1,813,930
Construction:					
Land	21,134	936	-	22,070	63,349
Construction-commercial	12,490	3,149	-	15,639	18,829
Construction-residential	13,343	741	60	14,144	66,088
Commercial and Industrial	252,595	2,768	475	255,838	2,647,478

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness category:				
December 31, 2013	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 317,365	$ 9,160	$ 234	$ 326,759	$ 1,823,608
Construction					
Land	31,777	3,308	52	35,137	80,373
Construction-commercial	16,022	-	-	16,022	16,831
Construction-residential	27,829	2,209	241	30,279	71,509
Commercial and Industrial	205,807	7,998	973	214,778	3,028,322

(1) Excludes $54.8 million ($7.8 million land, $39.1 million construction-commercial, $0.9 million construction-residential and $ 7.0 million commercial mortgage) as of June 30, 2014 and December 31, 2013, of non-performing loans held for sale.

Adoption of new accounting requirements and recently issued but not yet effective accounting requirements

The Corporation considers a loan as adversely classified if its risk rating is Substandard, Doubtful or Loss. These categories are defined as follows:

Substandard- A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must 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- Doubtful classifications have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. A Doubtful classification may be appropriate in cases where significant risk exposures are perceived, but Loss cannot be determined because of specific reasonable pending factors which may strengthen the credit in the near term.

Loss- Assets classified 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 basically worthless asset even though partial recovery may be affected in the future. There is little or no prospect for near term improvement and no realistic strengthening action of significance pending.

June 30, 2014	Consumer Credit Exposure-Credit Risk Profile based on payment activity									
	Residential Real-Estate				Consumer					
	FHA/VA/ Guaranteed (1)		Other residential loans		Auto		Finance Leases		Other Consumer	
(In thousands)										
Performing	$	161,993	$	2,357,765	$	1,100,109	$	237,179	$	682,294
Purchased Credit-Impaired (2)		-		99,997		-		-		2,176
Non-performing		-		175,404		22,005		3,414		15,091
Total	$	161,993	$	2,633,166	$	1,122,114	$	240,593	$	699,561

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $40.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA that are over 18 months delinquent, and are no longer accruing interest as of June 30, 2014.

(2) PCI loans are excluded from non-performing statistics 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 analysis.

December 31, 2013	Consumer Credit Exposure-Credit Risk Profile based on payment activity									
	Residential Real-Estate				Consumer					
	FHA/VA/ Guaranteed (1)		Other residential loans		Auto		Finance Leases		Other Consumer	
(In thousands)										
Performing	$	195,226	$	2,192,341	$	1,091,004	$	242,241	$	688,181
Purchased Credit-Impaired (2)		-		-		-		-		4,791
Non-performing		-		161,441		21,316		3,082		15,904
Total	$	195,226	$	2,353,782	$	1,112,320	$	245,323	$	708,876

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $37.0 million of residential mortgage loans insured by the FHA or guaranteed by the VA that are over 18 months delinquent, and are no longer accruing interest as of December 31, 2013.

(2) PCI loans are excluded from non-performing statistics 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 analysis.

The following tables present information about impaired loans, excluding purchased credit-impaired loans, which are reported separately, as discussed below:

Impaired Loans (In thousands)	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Year-To-Date Average Recorded Investment	Quarter ended June 30, 2014 Interest Income Recognized Accrual Basis	Quarter ended June 30, 2014 Interest Income Recognized Cash Basis	Six-month Period Ended June 30, 2014 Interest Income Recognized Accrual Basis	Six-month Period Ended June 30, 2014 Interest Income Recognized Cash Basis
As of June 30, 2014								
With no related allowance recorded:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	263,024	286,904	-	265,285	2,788	355	5,357	749
Commercial:								
Commercial mortgage loans	84,909	90,834	-	85,642	423	484	884	640
Commercial and Industrial Loans	39,507	55,335	-	40,027	6	264	14	264
Construction:								
Land	1,821	2,500	-	1,844	6	3	12	3
Construction-commercial	-	-	-	-	-	-	-	-
Construction-residential	4,848	4,946	-	4,917	42	2	83	4
Consumer:								
Auto loans	-	-	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-	-	-
Other consumer loans	4,882	5,699	-	4,962	75	18	154	32
	$ 398,991	$ 446,218	$ -	$ 402,677	$ 3,340	$ 1,126	$ 6,504	$ 1,692
With an allowance recorded:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Other residential mortgage loans	151,424	172,951	16,464	153,650	1,393	660	2,728	1,040
Commercial:								
Commercial mortgage loans	154,088	176,208	16,317	160,076	471	162	937	599
Commercial and Industrial Loans	140,257	171,068	22,745	150,374	611	333	1,177	390
Construction:								
Land	13,548	22,265	3,855	13,690	13	10	27	14
Construction-commercial	15,639	15,639	3,950	15,881	-	87	-	259
Construction-residential	10,865	11,062	1,157	12,548	-	-	-	-
Consumer:								
Auto loans	14,110	14,110	1,980	14,887	258	-	498	-
Finance leases	2,162	2,162	91	2,348	58	-	110	-
Other consumer loans	7,774	8,616	1,799	8,042	589	15	1,113	26
	$ 509,867	$ 594,081	$ 68,358	$ 531,496	$ 3,393	$ 1,267	$ 6,590	$ 2,328
Total:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	414,448	459,855	16,464	418,935	4,181	1,015	8,085	1,789
Commercial:								
Commercial mortgage loans	238,997	267,042	16,317	245,718	894	646	1,821	1,239
Commercial and Industrial Loans	179,764	226,403	22,745	190,401	617	597	1,191	654
Construction:								
Land	15,369	24,765	3,855	15,534	19	13	39	17
Construction-commercial	15,639	15,639	3,950	15,881	-	87	-	259
Construction-residential	15,713	16,008	1,157	17,465	42	2	83	4
Consumer:								
Auto loans	14,110	14,110	1,980	14,887	258	-	498	-
Finance leases	2,162	2,162	91	2,348	58	-	110	-
Other consumer loans	12,656	14,315	1,799	13,004	664	33	1,267	58
	$ 908,858	$ 1,040,299	$ 68,358	$ 934,173	$ 6,733	$ 2,393	$ 13,094	$ 4,020

(In thousands)	Recorded Investments	Unpaid Principal Balance	Related Specific Allowance	Year-To-Date Average Recorded Investment
As of December 31, 2013				
With no related allowance recorded:				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	220,428	237,709	-	222,617
Commercial:				
Commercial mortgage loans	69,484	73,723	-	71,367
Commercial and Industrial Loans	32,418	56,831	-	37,946
Construction:				
Land	359	366	-	360
Construction-commercial	-	-	-	-
Construction-residential	14,761	19,313	-	17,334
Consumer:				
Auto loans	-	-	-	-
Finance leases	-	-	-	-
Other consumer loans	4,035	4,450	-	3,325
	$ 341,485	$ 392,392	$ -	$ 352,949
With an allowance recorded:				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	190,566	212,028	18,125	193,372
Commercial:				
Commercial mortgage loans	149,888	163,656	32,189	153,992
Commercial and Industrial Loans	154,686	170,191	26,686	162,786
Construction:				
Land	27,711	40,348	10,455	28,906
Construction-commercial	16,022	16,238	8,873	16,157
Construction-residential	13,864	13,973	2,816	13,640
Consumer:				
Auto loans	14,121	14,122	1,829	12,937
Finance leases	2,359	2,359	73	2,219
Other consumer loans	8,410	8,919	1,555	8,919

	$	577,627		$	641,834		$	102,601		$	592,928
Total:											
FHA/VA-Guaranteed loans	$	-		$	-		$	-		$	-
Other residential mortgage loans		410,994			449,737			18,125			415,989
Commercial:											
Commercial mortgage loans		219,372			237,379			32,189			225,359
Commercial and Industrial Loans		187,104			227,022			26,686			200,732
Construction:											
Land		28,070			40,714			10,455			29,266
Construction-commercial		16,022			16,238			8,873			16,157
Construction-residential		28,625			33,286			2,816			30,974
Consumer:											
Auto loans		14,121			14,122			1,829			12,937
Finance leases		2,359			2,359			73			2,219
Other consumer loans		12,445			13,369			1,555			12,244
	$	919,112		$	1,034,226		$	102,601		$	945,877

Interest income of approximately $7.9 million ($6.4 million on an accrual basis and $1.5 million on a cash basis) and $15.3 million ($12.0 million on an accrual basis and $3.3 million on a cash basis) was recognized on impaired loans for the second quarter and six-month period ended June 30, 2013, respectively.

The following tables show the activity for impaired loans and the related specific reserve for the quarter and six-month period ended June 30, 2014:

			Quarter Ended		Six-Month Period Ended
	June 30, 2014				
	(In thousands)				
Impaired Loans:					
Balance at beginning of period	$	879,388		$	919,112
Loans determined impaired during the period		98,966			153,243
Net charge-offs		(32,646)			(64,685)
Increases to impaired loans- additional disbursements		294			919
Foreclosures		(4,134)			(8,140)
Loans no longer considered impaired		(14,003)			(17,731)
Paid in full or partial payments		(19,007)			(73,860)
Balance at end of period	$	908,858		$	908,858

		Quarter Ended			Six-Month Period Ended
	June 30, 2014				
	(In thousands)				
Specific Reserve:					
Balance at beginning of period	$	85,016		$	102,601
Provision for loan losses		15,988			30,442
Net charge-offs		(32,646)			(64,685)
Balance at end of period	$	68,358		$	68,358

Acquired loans, including PCI Loans

On May 30, 2014, FirstBank purchased from Doral all of its rights, title and interests in first and second mortgage loans having an unpaid principal balance of approximately $241.7 million for an aggregate price of approximately $232.9 million. Doral had pledged the mortgage loans to FirstBank as collateral for secured borrowings pursuant to a series of credit agreements between the parties entered into in 2006. As consideration for the purchase of the mortgage loans, FirstBank credited approximately $232.9 million as full satisfaction of the outstanding balance of the Doral secured borrowings plus interest owed to FirstBank. The estimated fair value of the mortgage loans at acquisition was $226.0 million. This transaction resulted in a loss of $6.9 million derived from the difference between the fair value of the mortgage loans acquired, $226.0 million, and the book value of the secured borrowings of $232.9 million. Approximately $5.5 million of the loss was part of the general allowance for loan losses established for commercial loans in prior periods; thus, an additional charge of $1.4 million to the provision was recorded in the second quarter of 2014. In addition, the Corporation recorded $0.6 million of professional service fees in the second quarter of 2014 specifically related to this transaction.

Acquired loans are recorded at fair value at the date of acquisition. The Corporation concluded that loans with a contractual unpaid principal balance of $119.2 million and an estimated fair value at acquisition of $102.8 million were acquired with evidence of credit quality deterioration and, as purchased credit impaired loans, have been accounted for under ASC 310-30, while loans with a contractual unpaid principal balance of $122.5 million and an estimated fair value at acquisition of $123.2 million are non-credit impaired purchased loans that have been accounted for under ASC 310-20.

Subsequent to the day-one fair value, acquired loans accounted for under ASC 310-20 are accounted for consistently with other originated loans, potentially becoming non-accrual or impaired, as well as being classified under the Corporation's standard practices and procedures. In addition, these loans are considered in the determination of the allowance for loan losses.

Under ASC 310-30, the acquired loans were aggregated into pools based on similar characteristics (i.e. delinquency status, loan terms). Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The loans which are accounted for under ASC 310-30 by the Corporation are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The Corporation measures additional losses for this portfolio when it is probable the Corporation will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition.

On May 30, 2012, the Corporation reentered the credit card business with the acquisition of an approximate $406 million portfolio of FirstBank-branded credit card loans from FIA Card Services ("FIA"). These loans were recorded on the Consolidated Statement of Financial Condition at estimated fair value on the acquisition date of $368.9 million. The Corporation concluded that loans with a contractual outstanding unpaid principal and interest balance at acquisition of $34.6 million and an estimated fair value of $15.7 million were PCI loans.

The carrying amount of PCI loans follows:

	June 30, 2014		**December 31, 2013**	
(In thousands)				
Residential mortgage loans	$	99,997	$	-
Commercial mortgage loans		3,447		-
Credit Cards		2,176		4,791
	$	105,620	$	4,791

The following tables present PCI loans by past due status as of June 30, 2014 and December 31, 2013:

As of June 30, 2014 (In thousands)	**30-59 Days**	**60-89 Days**	**90 days or more**	**Total Past Due**	**Current**	**Total PCI loans**
Residential mortgage loans (1)	$ -	$ 11,282	$ 11,522	$ 22,804	$ 77,193	$ 99,997
Commercial mortgage loans (1)	-	366	437	803	2,644	3,447
Credit Cards	166	62	145	373	1,803	2,176
	$ 166	$ 11,710	$ 12,104	$ 23,980	$ 81,640	$ 105,620

(1) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans and commercial mortgage loans past due 30-59 days amounted to $18.2 million and $0.9 million, respectively.

As of December 31, 2013 (In thousands)	**30-59 Days**	**60-89 Days**	**90 days or more**	**Total Past Due**	**Current**	**Total PCI loans**
Credit Cards	$ 377	$ 354	$ 573	$ 1,304	$ 3,487	$ 4,791

Initial Fair Value and Accretable Yield of PCI Loans

At acquisition, the Corporation estimated the cash flows the Corporation expected to collect on PCI loans. Under the accounting guidance for PCI loans, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on the Corporation’s Consolidated Statement of Financial Condition. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans, using the effective-yield method.

The following table presents acquired loans from Doral accounted for pursuant to ASC 310-30 as of May 30, 2014 acquisition date:

(In thousands)		
Contractually- required principal and interest	$	275,842
Less: Nonaccretable difference		(86,252)
Cash flows expected to be collected		189,590
Less: Accretable yield		(86,759)
Fair value of loans acquired in 2014	$	102,831

The cash flows expected to be collected consider the estimated remaining life of the underlying loans and include the effects of estimated prepayments.

Changes in accretable yield of acquired loans

Subsequent to acquisition, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation's provision for loan and lease losses, resulting in an increase to the allowance for loan losses. During the first half of 2014, the Corporation did not record charges to the provision for loan losses related to PCI loans, most of which were acquired on May 30, 2014.

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Changes in the accretable yield of PCI loans for the quarter and six month period ended June 30, 2014 were as follows:

	Quarter ended June 30, 2014		Quarter ended June 30, 2013		Six month period ended June 30, 2014		Six month period ended June 30, 2013	
(In thousands)								
Balance at beginning of period	$	-	$	406	$	-	$	2,171
Additions (accretable yield at acquisition								
of loans from Doral)		86,759		-		86,759		-
Accretion recognized in earnings		(612)		-		(612)		(413)
Reclassification to non accretable		-		-		-		(1,352)
Balance at end of period	$	86,147	$	406	$	86,147	$	406

Changes in the carrying amount of loans accounted pursuant to ASC 310-30 follows:

	Quarter Ended		Six-Month Period Ended	
		June 30, 2014		June 30, 2014
(In thousands)				
Balance at beginning of period (1)	$	3,383	$	4,791
Additions (2)		102,831		102,831
Accretion		612		612
Collections and charge-offs		(1,207)		(2,615)
Ending balance	$	105,619	$	105,619

(1) Relates to PCI loans acquired as part of the credit card portfolio purchased in the second quarter of 2012.

(2) Represents the estimated fair value of the PCI loans acquired from Doral at the date of acquisition.

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to $139.3 million as of June 30, 2014 (December 2013- $22.7 million).

Purchases and Sales of Loans

In addition to loans acquired from Doral, during 2014, the Corporation purchased $80.5 million of residential mortgage loans consistent with a strategic program established by the Corporation in 2005 to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. Generally, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions, depending upon the Corporation's interest rate risk management strategies. When the Corporation sells such loans, it generally keeps the servicing of the loans.

In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to the GNMA and government-sponsored entities ("GSEs"). GNMA and GSEs, such as Fannie Mae ("FNMA") and Freddie Mac ("FHLMC"), generally securitize the transferred loans into mortgage-backed securities for sale into the secondary market. The Corporation sold approximately $65.1 million of performing residential mortgage loans to FNMA and FHLMC during the first half of 2014. Also, the Corporation securitized $104.2 million of FHA/VA mortgage loans into GNMA mortgage-backed securities during the first half of 2014. The Corporation's continuing involvement in these loan sales consists primarily of servicing the loans. In addition, the Corporation agreed to repurchase loans when it breaches any of the representations and warranties included in the sale agreement. These representations and warranties are consistent with the GSEs' selling and servicing guidelines (i.e., ensuring that the mortgage was properly underwritten according to established guidelines).

For loans sold to GNMA, the Corporation holds an option to repurchase individual delinquent loans issued on or after January 1, 2003 when the borrower fails to make any payment for three consecutive months. This option gives the Corporation the ability, but not the obligation, to repurchase the delinquent loans at par without prior authorization from GNMA.

Under ASC Topic 860 Transfer and Servicing, once the Corporation has the unilateral ability to repurchase the delinquent loan, it is considered to have regained effective control over the loan and is required to recognize the loan and a corresponding repurchase liability on the balance sheet regardless of the Corporation's intent to repurchase the loan.

During the first half of 2014, the Corporation repurchased pursuant to its repurchase option with GNMA $2.7 million of loans previously sold to GNMA. The principal balance of these loans is fully guaranteed and the risk of loss related to repurchases is generally limited to the difference between the delinquent interest payment advanced to GNMA computed at the loan's interest rate and the interest payments reimbursed by FHA, which are computed at a pre-determined debenture rate. Repurchases of GNMA loans allow the Corporation, among other things, to maintain acceptable delinquency rates on outstanding GNMA pools and remain as a seller and servicer in good standing with GNMA. The Corporation generally remediates any breach of representations and warranties related to the underwriting of such loans according to established GNMA guidelines without incurring losses. The Corporation does not maintain a liability for estimated losses as a result of breaches in representations and warranties.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation repurchased at par loans previously sold to FNMA and FHLMC in the amount of $1.3 million during the first half of 2014. The Corporation's risk of loss with respect to these loans is also minimal as these repurchased loans are generally performing loans with documentation deficiencies. A $0.7 million loss was recorded in the first half of 2014 related to breaches in representations and warranties and a $0.3 million charge was recorded related to compensatory fees imposed by GSEs. Historically, losses experienced related to breaches in representation and warranties have been immaterial.

As a consequence, as of June 30, 2014, the Corporation does not maintain a liability for estimated losses on loans expected to be repurchased as a result of breaches in loan and servicer representations and warranties.

Bulk Sales of Assets and Transfer of Loans to Held For Sale

On June 21, 2013, the Corporation announced that it had completed a sale of non-performing residential mortgage loans with a book value of $203.8 million and OREO properties with a book value of $19.2 million in a cash transaction. The sales price of this bulk sale was $128.3 million. Approximately $30.1 million of reserves had already been allocated to the loans. This transaction resulted in total charge-offs of $98.0 million and an incremental loss of $69.8 million, reflected in the provision for loan and lease losses for the second quarter and first half of 2013. In addition, the Corporation recorded $3.1 million of professional service fees specifically related to this bulk sale of non-performing residential assets. This transaction resulted in a total pre-tax loss of $72.9 million.

On March 28, 2013, the Corporation completed the sale of adversely classified loans with a book value of $211.4 million ($100.1 million of commercial and industrial loans, $68.8 million of commercial mortgage loans, $41.3 million of construction loans, and $1.2 million of residential mortgage loans), and $6.3 million of OREO properties in a cash transaction. Included in the bulk sale was $185.0 million of non-performing assets. The sales price of this bulk sale was $120.2 million. Approximately $39.9 million of reserves had already been allocated to the loans. This transaction resulted in total charge-offs of $98.5 million and an incremental loss of $58.9 million, reflected in the provision for loan and lease losses for the first half of 2013. In addition, the Corporation recorded $3.9 million of professional fees specifically related to this bulk sale of assets. This transaction resulted in a total pre-tax loss of $62.8 million.

In addition, during the first quarter of 2013, the Corporation transferred to held for sale non-performing loans with an aggregate book value of $181.6 million. These transfers resulted in charge-offs of $36.0 million and an incremental loss of $5.2 million reflected in the provision for loan and lease losses for the first half of 2013.

During the second quarter of 2013, the Corporation completed the sale of a $40.8 million non-performing commercial mortgage loan that was among the loans transferred to held for sale in the first quarter of 2013 without incurring additional losses.

Adoption of new accounting requirements and recently issued but not yet effective accounting requirements

In a separate transaction during 2013, the Corporation foreclosed on the collateral underlying $39.2 million related to one of the loans written-off and transferred to held for sale in the first quarter of 2013. Furthermore, in the third quarter of 2013, approximately $6.4 million of construction loan held for sale participations were paid-off.

The Corporation's primary goal with respect to these sales has been to accelerate the disposition of non-performing assets, which is the main priority of the Corporation's Strategic Plan. The opportunistic sale of distressed assets is a pivotal and tactical step in the Corporation's efforts to reduce balance sheet risk, improve earnings in the future through reductions of credit-related-costs and enhance credit quality consistent with regulators' expectations of adequate levels of adversely classified assets for financial institutions.

Loan Portfolio Concentration

The Corporation's primary lending area is Puerto Rico. The Corporation's banking subsidiary, First Bank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of $9.5 billion as of June 30, 2014, approximately 83% have credit risk concentration in Puerto Rico, 10% in the United States, and 7% in the USVI and BVI.

As of June 30, 2014, the Corporation had $385.3 million in credit facilities granted to the Puerto Rico government, its municipalities and public corporations, of which $340.7 million was outstanding, compared to $397.8 million outstanding as of December 31, 2013, and $80.2 million granted to the government of the Virgin Islands, compared to $60.6 million as of December 31, 2013. Approximately $205.7 million of the outstanding credit facilities consists of loans to municipalities in Puerto Rico. Municipal debt exposure is secured by ad valorem taxation without limitation as to rate or amount on all taxable property within the boundaries of each municipality. The good faith, credit, and unlimited taxing power of the applicable municipality have been pledged to the repayment of all outstanding bonds and notes. Approximately $46.4 million consists of loans to units of the central government, and approximately $88.6 million consists of loans to public corporations that receive revenues from the rates they charge for services or products, such as electric power services, including a $75.0 million credit extended to the Puerto Rico Electric Power Authority for fuel purchases that have priority over senior bonds and other debt. Main public corporations have varying degrees of independence from the central government and many receive appropriations or other payments from the Puerto Rico's government general fund. Debt issued by the central government can either carry the full faith, credit and taxing power of the Commonwealth of Puerto Rico or represent an obligation that is subject to annual budget appropriations. Furthermore, the Corporation had $200.2 million outstanding as of June 30, 2014 in financing to the hotel industry in Puerto Rico guaranteed by the Puerto Rico Tourism Development Fund ("TDF"). The TDF is a subsidiary of the GDB that works with private-sector financial institutions to structure financings for new hospitality projects.

As disclosed in Note 4, S&P, Moody's and Fitch downgraded the credit rating of the Commonwealth of Puerto Rico's debt and certain public corporations to non-investment grade categories. The Corporation cannot predict at this time the impact that the current fiscal situation of the Commonwealth of Puerto Rico and the various legislative and other measures adopted and to be adopted by the Puerto Rico government in response to such fiscal situation will have on the Puerto Rico economy and on the Corporation's financial condition and results of operations.

Troubled Debt Restructurings

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico that is similar to the U.S. government's Home Affordable Modification Program guidelines. Depending upon the nature of borrowers' financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction, and residential mortgage loans in the U.S. mainland fit the definition of a troubled debt restructuring (a "TDR"). A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of June 30, 2014, the Corporation's total TDR loans held for investment of $628.2 million consisted of $342.9 million of residential mortgage loans, $103.5 million of commercial and industrial loans, $137.6 million of commercial mortgage loans, $17.0 million of construction loans, and $27.2 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $0.4 million as of June 30, 2014.

The Corporation's loss mitigation programs for residential mortgage and consumer loans can provide for one or a combination of the following: movement of interest past due to the end of the loan, extension of the loan term, deferral of principal payments for a significant period of time, and reduction of interest rates either permanently (offered up to 2010) or for a period of up to two years (step-up rates). Additionally, in certain cases, the restructuring may provide for the forgiveness of contractually due principal or interest. Uncollected interest is added to the end of the loan term at the time of the restructuring and not recognized as income until collected or when the loan is paid off. These programs are available only to those borrowers who have defaulted, or are likely to default, permanently on their loan and would lose their homes in a foreclosure action absent some lender concession. Nevertheless, if the Corporation is not reasonably assured that the borrower will comply with its contractual commitment, properties are foreclosed.

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of June 30, 2014, we classified an additional $8.2 million of residential mortgage loans as TDRs that were participating in or had been offered a trial modification.

For the commercial real estate, commercial and industrial, and construction portfolios, at the time of a restructuring, the Corporation determines, on a loan-by-loan basis, whether a concession was granted for economic or legal reasons related to the borrower's financial difficulty. Concessions granted for commercial loans could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waivers of borrower covenants; forgiveness of principal or interest; or other contract changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collections function. The function's objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of the commercial and industrial, commercial mortgage and construction loan portfolios, the Corporation's Special Asset Group ("SAG") focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists, and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary. The SAG utilizes its collections infrastructure of workout collection officers, credit work-out specialists, in-house legal counsel, and third-party consultants. In the case of residential construction projects and large commercial loans, the function also utilizes third-party specialized consultants to monitor the residential and commercial construction projects in terms of construction, marketing and sales, and assists with the restructuring of large commercial loans. In addition, the Corporation extends, renews, and restructures loans with satisfactory credit profiles. Many commercial loan facilities are structured as lines of credit, which are mainly one year in term and therefore are required to be renewed annually. Other facilities may be restructured or extended from time to time based upon changes in the borrower's business needs, use of funds, timing of completion of projects, and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals, and restructurings are done in the normal course of business and not considered concessions, and the loans continue to be recorded as performing.

Selected information on TDRs that includes the recorded investment by loan class and modification type is summarized in the following tables. This information reflects all TDRs:

	June 30, 2014					
(In thousands)	**Interest rate below**	**Maturity or term**	**Combination of reduction**	**Forgiveness of**	**Other (1)**	**Total**

	market	extension	in interest rate and extension of maturity	principal and/or interest		
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	$ 24,088	$ 6,437	$ 277,431	$ -	$ 34,956	$ 342,912
Commercial Mortgage Loans	30,672	12,884	74,939	-	19,124	137,619
Commercial and Industrial Loans:	7,666	4,885	33,216	3,100	54,671	103,538
Construction Loans:						
Land	834	214	1,634	-	554	3,236
Construction-commercial	-	-	3,848	-	-	3,848
Construction-residential	6,155	160	3,142	-	432	9,889
Consumer Loans - Auto	-	544	8,662	-	4,904	14,110
Finance Leases	-	510	1,652	-	-	2,162
Consumer Loans - Other	642	178	8,407	130	1,562	10,919
Total Troubled Debt Restructurings (2)	$ 70,057	$ 25,812	$ 412,931	$ 3,230	$ 116,203	$ 628,233

(1) Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation or a combination of the concessions listed in the table.

(2) Excludes TDRs held for sale amounting to $45.8 million as of June 30, 2014

(In thousands)	December 31, 2013 Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Other (1)	Total
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	$ 23,428	$ 6,059	$ 274,562	$ -	$ 33,195	$ 337,244
Commercial Mortgage Loans	36,543	12,985	83,993	7	20,048	153,576
Commercial and Industrial Loans	12,099	11,341	12,835	3,122	52,554	91,951
Construction Loans:						
Land	878	2,012	1,760	-	675	5,325
Construction-commercial	-	-	3,924	-	-	3,924
Construction-residential	6,054	160	3,173	994	513	10,894
Consumer Loans - Auto	-	706	8,350	-	5,066	14,122
Finance Leases	-	1,286	1,072	-	-	2,358
Consumer Loans - Other	227	256	8,638	-	1,743	10,864
Total Troubled Debt Restructurings (2)	$ 79,229	$ 34,805	$ 398,307	$ 4,123	$ 113,794	$ 630,258

(1) Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation or a combination of the concessions listed in the table.

(2) Excludes TDRs held for sale amounting to $45.9 million as of December 31, 2013.

The following table presents the Corporation's TDR activity:

(In thousands)	Quarter Ended

				Six-Month Period Ended
	June 30, 2014			
Beginning balance of TDRs	$	622,320	$	630,258
New TDRs		34,810		54,745
Increases to existing TDRs - additional disbursements		107		134
Charge-offs post modification		(18,666)		(26,648)
Foreclosures		(1,527)		(2,601)
Paid-off and partial payments		(8,811)		(27,655)
Ending balance of TDRs	$	628,233	$	628,233

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure, generally for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loans being returned to accrual at the time of the restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. Loan modifications increase the Corporation's interest income by returning a non-performing loan to performing status, if applicable, increase cash flows by providing for payments to be made by the borrower, and avoid increases in foreclosure and OREO costs. The Corporation continues to consider a modified loan as an impaired loan for purposes of estimating the allowance for loan and lease losses. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms. The Corporation did not remove loans from the TDR classification during the first half of 2014.

The following table provides a breakdown between accrual and nonaccrual status of TDRs:

(In thousands)	June 30, 2014		
	Accrual	Nonaccrual (1) (2)	Total TDRs
Non-FHA/VA Residential Mortgage loans	$ 256,948	$ 85,964	$ 342,912
Commercial Mortgage Loans	77,795	59,824	137,619
Commercial and Industrial Loans	53,249	50,289	103,538
Construction Loans:			
Land	811	2,425	3,236
Construction-commercial	-	3,848	3,848
Construction-residential	3,301	6,588	9,889
Consumer Loans - Auto	8,847	5,263	14,110
Finance Leases	2,060	102	2,162
Consumer Loans - Other	8,859	2,060	10,919
Total Troubled Debt Restructurings	$ 411,870	$ 216,363	$ 628,233

(1) Included in non-accrual loans are $85.5 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability.

(2) Excludes non-accrual TDRs held for sale with a carrying value of $45.8 million as of June 30, 2014.

(In thousands)	December 31, 2013		
	Accrual	Nonaccrual (1) (2)	Total TDRs
Non- FHA/VA Residential Mortgage loans	$ 263,919	$ 73,324	$ 337,243
Commercial Mortgage Loans	84,419	69,156	153,575
Commercial and Industrial Loans	53,509	38,441	91,950
Construction Loans:			
Land	1,000	4,325	5,325
Construction-commercial	-	3,924	3,924
Construction-residential	3,332	7,562	10,894

Consumer Loans - Auto		8,512		5,610		14,122
Finance Leases		2,275		85		2,360
Consumer Loans - Other		8,417		2,448		10,865
Total Troubled Debt Restructurings	$	425,383	$	204,875	$	630,258

(1) Included in non-accrual loans are $95.7 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability.

(2) Excludes non-accrual TDRs held for sale with a carrying value of $45.9 million as of December 31, 2013.

TDRs exclude restructured mortgage loans that are government guaranteed (i.e., FHA/VA loans) in an amount totaling $76.9 million. The Corporation excludes government guaranteed loans from TDRs given that, in the event that the borrower defaults on the loan, the principal and interest (debenture rate) are guaranteed by the U.S. government; therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

Loan modifications that are considered TDRs completed during the quarter and six-month period ended June 30, 2014 and 2013 were as follows:

(Dollars in thousands)	Quarter ended June 30, 2014						
	Number of contracts		Pre-modification Outstanding Recorded Investment			Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	91		$	11,017		$	10,264
Commercial Mortgage Loans	1			410			410
Commercial and Industrial Loans	7			21,114			21,114
Construction Loans:							
Land	2			55			57
Construction-commercial	-			-			-
Construction-residential	-			-			-
Consumer Loans - Auto	92			1,408			1,393
Finance Leases	10			174			142
Consumer Loans - Other	313			1,457			1,430
Total Troubled Debt Restructurings	516		$	35,635		$	34,810
(Dollars in thousands)	Six-Month period ended June 30, 2014						
	Number of contracts		Pre-modification Outstanding Recorded Investment			Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	138		$	18,726		$	17,975
Commercial Mortgage Loans	4			1,244			1,247
Commercial and Industrial Loans	12			29,078			28,744
Construction Loans:							
Land	2			55			57

Construction-commercial	-			-			-
Construction-residential	-			-			-
Consumer Loans - Auto	209			3,013			2,998
Finance Leases	20			367			335
Consumer Loans - Other	742			3,416			3,389
Total Troubled Debt Restructurings	1,127		$	55,899		$	54,745

(Dollars in thousands)	Quarter ended June 30, 2013					
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	40	$	3,335	$	3,335	
Commercial Mortgage Loans	1		491		491	
Commercial and Industrial Loans	1		1,165		1,165	
Construction Loans:						
Land	4		208		208	
Consumer Loans - Auto	142		1,945		1,945	
Finance Leases	19		416		416	
Consumer Loans - Other	367		1,675		1,675	
Total Troubled Debt Restructurings	574	$	9,235	$	9,235	

(Dollars in thousands)	Six-Month period ended June 30, 2013					
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	113	$	13,098	$	13,122	
Commercial Mortgage Loans	1		491		491	
Commercial and Industrial Loans	8		68,051		42,663	
Construction Loans:						
Land	4		208		208	
Construction-residential	1		195		195	
Consumer Loans - Auto	285		3,868		3,868	
Finance Leases	38		729		729	
Consumer Loans - Other	730		3,322		3,322	
Total Troubled Debt Restructurings	1,180	$	89,962	$	64,598	

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan, results in the loan once again becoming a non-performing loan. Recidivism occurs at a notably higher rate than do defaults on new origination loans, so modified loans present a higher risk of loss than do new origination loans. The Corporation considers a loan to have defaulted if the borrower has failed to make payments of either principal, interest, or both for a period of 90 days or more.

Loan modifications considered TDRs that defaulted during the quarters and six-month periods ended June 30, 2014 and June 30, 2013 and had become TDRs during the 12-months preceding the default date were as follows:

	Quarter ended June 30,			
(Dollars in thousands)	**2014**		**2013**	
	Number of contracts	**Recorded Investment**	**Number of contracts**	**Recorded Investment**
Non-FHA/VA Residential Mortgage loans	19	$ 2,267	19	$ 2,090
Commercial Mortgage Loans	-	-	-	-
Commercial and Industrial Loans	-	-	-	-
Construction Loans:				
Land	1	46	2	66
Construction-commercial	-	-	-	-
Construction-residential	-	-	1	186
Consumer Loans - Auto	18	286	5	37
Consumer Loans - Other	53	205	35	137
Finance Leases	-	-	2	20
Total	91	$ 2,804	64	$ 2,536

	Six-Month Period Ended June 30,			
(Dollars in thousands)	**2014**		**2013**	
	Number of contracts	**Recorded Investment**	**Number of contracts**	**Recorded Investment**
Non-FHA/VA Residential Mortgage loans	33	$ 4,819	64	$ 9,615
Commercial Mortgage Loans	-	-	1	46,102

Commercial and Industrial Loans	-			-		2			3,829
Construction Loans:									
Land	1			46		2			66
Construction-commercial	-			-		-			-
Construction-residential	-			-		1			186
Consumer Loans - Auto	22			325		7			54
Consumer Loans - Other	98			381		40			219
Finance Leases	-			-		2			20
Total	154		$	5,571		119		$	60,091

For certain TDRs, the Corporation splits the loans into two new notes, A and B notes. The A note is restructured to comply with the Corporation's lending standards at current market rates, and is tailored to suit the customer's ability to make timely interest and principal payments. The B note includes the granting of the concession to the borrower and varies by situation. The B note is charged off but the obligation is not forgiven to the borrower, and any payments collected are accounted for as recoveries. At the time of restructuring, the A note is identified and classified as a TDR. If the loan performs for at least six months according to the modified terms, the A note may be returned to accrual status. The borrower's payment performance prior to the restructuring is included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of the restructuring. In the periods following the calendar year in which a loan is restructured, the A note may no longer be reported as a TDR if it is on accrual, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the restructuring).

The recorded investment in loans held for investment restructured using the A/B note restructure workout strategy was approximately $62.2 million at June 30, 2014. The following table provides additional information about the volume of this type of loan restructuring and the effect on the allowance for loan and lease losses in the first half of 2014 and 2013:

(In thousands)	June 30, 2014				June 30, 2013
Principal balance deemed collectible at end of period	$	62,159		$	93,451
Amount (recovery) charged off	$	(4,106)		$	25,389
(Reductions) charges to the provision for loan losses	$	(4,725)		$	2,318
Allowance for loan losses at end of period	$	942		$	3,339

Of the loans comprising the $62.2 million that have been deemed collectible, approximately $60.5 million were placed in accrual status as the borrowers have exhibited a period of sustained performance. These loans continue to be individually evaluated for impairment purposes.

NOTE 7 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The changes in the allowance for loan and lease losses were as follows:

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended June 30, 2014						
Allowance for loan and lease losses:						
Beginning balance	$ 30,508	$ 66,512	$ 79,590	$ 27,411	$ 62,757	$ 266,778
Charge-offs	(4,987)	(13,423)	(19,452)	(2,661)	(18,531)	(59,054)
Recoveries	300	4,297	416	55	1,641	6,709
Provision (release)	3,934	(8,808)	16,336	(3,513)	18,795	26,744
Ending balance	$ 29,755	$ 48,578	$ 76,890	$ 21,292	$ 64,662	$ 241,177
Ending balance: specific reserve for impaired loans	$ 16,464	$ 16,317	$ 22,745	$ 8,962	$ 3,870	$ 68,358
Ending balance: purchased credit-impaired loans	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: general allowance	$ 13,291	$ 32,261	$ 54,145	$ 12,330	$ 60,792	$ 172,819
Loans held for investment:						
Ending balance	$ 2,795,159	$ 1,813,930	$ 2,647,478	$ 148,266	$ 2,062,268	$ 9,467,101
Ending balance:	$ 414,448	$ 238,997	$ 179,764	$ 46,721	$ 28,928	$ 908,858

impaired loans												
Ending balance: purchased credit-impaired loans	$	99,997	$	3,447	$	-	$	-	$	2,176	$	105,620
Ending balance: loans with general allowance	$	2,280,714	$	1,571,486	$	2,467,714	$	101,545	$	2,031,164	$	8,452,623
(In thousands)	Residential Mortgage Loans		Commercial Mortgage Loans		Commercial & Industrial Loans		Construction Loans		Consumer Loans		Total	
Six-Month period ended June 30, 2014												
Allowance for loan and lease losses:												
Beginning balance	$	33,110	$	73,138	$	85,295	$	35,814	$	58,501	$	285,858
Charge-offs		(11,409)		(19,233)		(41,911)		(3,631)		(36,577)		(112,761)
Recoveries		369		4,332		1,079		672		2,969		9,421
Provision (release)		7,685		(9,659)		32,427		(11,563)		39,769		58,659
Ending balance	$	29,755	$	48,578	$	76,890	$	21,292	$	64,662	$	241,177
Ending balance: specific reserve for impaired loans	$	16,464	$	16,317	$	22,745	$	8,962	$	3,870	$	68,358
Ending balance: purchased credit-impaired loans	$	-	$	-	$	-	$	-	$	-	$	-
Ending balance: general allowance	$	13,291	$	32,261	$	54,145	$	12,330	$	60,792	$	172,819
Loans held for investment:												
	$	2,795,159	$	1,813,930	$	2,647,478	$	148,266	$	2,062,268	$	9,467,101

Ending balance												
Ending balance: impaired loans	$	414,448	$	238,997	$	179,764	$	46,721	$	28,928	$	908,858
Ending balance: purchased credit-impaired loans	$	99,997	$	3,447	$	-	$	-	$	2,176	$	105,620
Ending balance: loans with general allowance	$	2,280,714	$	1,571,486	$	2,467,714	$	101,545	$	2,031,164	$	8,452,623

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended June 30, 2013						
Allowance for loan and lease losses:						
Beginning balance	$ 64,722	$ 78,053	$ 97,363	$ 45,033	$ 57,360	$ 342,531
Charge-offs	(5,956)	(3,271)	(6,488)	(2,387)	(16,350)	(34,452)
Charge-offs related to bulk sale	(97,941)	-	-	(31)	-	(97,972)
Recoveries	479	18	968	50	1,961	3,476
Provision (release)	74,277	2,522	5,274	(6,686)	12,077	87,464
Reclassification (1)	-	10,691	(9,440)	(1,251)	-	-
Ending balance	$ 35,581	$ 88,013	$ 87,677	$ 34,728	$ 55,048	$ 301,047
Ending balance: specific reserve for impaired loans	$ 20,406	$ 33,219	$ 36,503	$ 21,884	$ 2,941	$ 114,953
Ending balance: purchased credit-impaired loans	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: general allowance	$ 15,175	$ 54,794	$ 51,174	$ 12,844	$ 52,107	$ 186,094
Loans held for investment:						
Ending balance	$ 2,511,206	$ 1,916,509	$ 2,775,791	$ 194,912	$ 2,047,368	$ 9,445,786
Ending balance: impaired loans	$ 384,062	$ 212,983	$ 206,932	$ 76,483	$ 27,785	$ 908,245

Ending balance: purchased credit-impaired loans	$	-	$	-	$	-	$	-	$	8,285	$	8,285
Ending balance: loans with general allowance	$	2,127,144	$	1,703,526	$	2,568,859	$	118,429	$	2,011,298	$	8,529,256
(In thousands)		**Residential Mortgage Loans**		**Commercial Mortgage Loans**		**Commercial & Industrial Loans**		**Construction Loans**		**Consumer Loans**		**Total**
Six-Month period ended June 30, 2013												
Allowance for loan and lease losses:												
Beginning balance	$	68,354	$	97,692	$	146,900	$	61,600	$	60,868	$	435,414
Charge-offs		(16,653)		(19,270)		(47,430)		(28,246)		(31,114)		(142,713)
Charge-offs related to bulk sale		(98,972)		(40,057)		(44,678)		(12,784)		-		(196,491)
Recoveries		627		38		1,759		147		3,679		6,250
Provision		82,225		38,919		40,566		15,262		21,615		198,587
Reclassification (1)		-		10,691		(9,440)		(1,251)		-		-
Ending balance	$	35,581	$	88,013	$	87,677	$	34,728	$	55,048	$	301,047
Ending balance: specific reserve for impaired loans	$	20,406	$	33,219	$	36,503	$	21,884	$	2,941	$	114,953
Ending balance: purchased credit-impaired loans	$	-	$	-	$	-	$	-	$	-	$	-
Ending balance: general allowance	$	15,175	$	54,794	$	51,174	$	12,844	$	52,107	$	186,094
Loans held for investment:												

Ending balance	$ 2,511,206	$ 1,916,509	$ 2,775,791	$ 194,912	$ 2,047,368	$ 9,445,786
Ending balance: impaired loans	$ 384,062	$ 212,983	$ 206,932	$ 76,483	$ 27,785	$ 908,245
Ending balance: purchased credit-impaired loans	$ -	$ -	$ -	$ -	$ 8,285	$ 8,285
Ending balance: loans with general allowance	$ 2,127,144	$ 1,703,526	$ 2,568,859	$ 118,429	$ 2,011,298	$ 8,529,256

(1) During the second quarter of 2013, after a comprehensive review of substantially all of the loans in our commercial portfolios, the classification of certain loans was revised to more accurately depict the nature of the underlying loans. This reclassification resulted in a net increase of $269.0 million in commercial mortgage loans, since the principal source of repayment for such loans is derived primarily from the operation of the underlying real estate, with a corresponding decrease of $246.8 million in commercial and industrial loans and $22.2 million decrease in construction loans. The Corporation evaluated the impact of this reclassification on the provision for loan losses and determined that the effect of this adjustment was not material to any previously reported results.

During the second quarter of 2014, the Corporation made certain enhancements to the general allowance estimation process for commercial loans which mainly consisted of the following:

Utilization of longer historical loss periods to better reflect the level of incurred losses in portfolio. Historical charge-off rates are calculated by the Corporation on a quarterly basis by tracking cumulative charge-offs experienced over a two year loss period on loans according to their internal risk rating (referred to as "base rate" for the quarter). Prior to the second quarter enhancements, the Corporation would use the base rate of the current quarter or the average of the last 4 quarters, if greater. During the second quarter of 2014, the Corporation eliminated the use of the "greater of" approach and adopted the utilization of the base rate average of the last 8 quarters. This change captures a longer historical period that would help mitigate period to period volatility in the loss rates.

Enhancements of the environmental factors adjustment. Prior to the second quarter enhancements, these adjustments were applied in the form of basis points additions to the loss ratio based on changes in credit and economic indicators observed in the most recent periods. During the second quarter of 2014, the resulting factor derived from a set of risk-based ratings and weights assigned to credit and economic indicators activity over a reasonable period is now applied to a developed expected range of historical losses, in order to adjust the base loss rates. These enhancements result in a framework that can be applied more consistently, by having a more granular analysis that better captures trends in economic conditions and the impact in the Corporation's portfolio.

In addition, the calculation of loss rates for asset classifications with limited or zero loss history was improved to consider these loans' migration experience.

The Corporation maintained a parallel computation of the general reserve for commercial loans. The enhancements to the general allowance estimation process resulted in a net decrease to the allowance for loan losses of $4.8 million as of the implementation date of May 31, 2014.

The bulk sale of approximately $217.7 million of adversely classified assets in the first quarter of 2013, mainly commercial loans, resulted in charge-offs of approximately $98.5 million. In determining the historical loss rate for the computation of the general reserve for commercial loans, the Corporation includes the portion of these charge-offs that was related to the acceleration of previously reserved credit losses amounting to approximately $39.9 million. The Corporation considered that the portion not deemed to be credit-related losses was not indicative of the ultimate losses that may have occurred had the assets been resolved on an individual basis, over time and not in a steeply discounted bulk sale. A transaction, such as this one, entered into to expedite the reduction of non-performing and adversely classified assets, can result in charge-offs that are not reflective of true credit-related charge-off history since there is a component related to the discounted value realized on a bulk sale basis. Accordingly, the Corporation concluded that it is reasonable to exclude the component related to the discounted value from its historical charge-off analysis used in estimating its allowance for loan losses.

Adoption of new accounting requirements and recently issued but not yet effective accounting requirements

As of June 30, 2014, the Corporation maintained a $0.2 million reserve for unfunded loan commitments mainly related to outstanding construction and commercial and industrial loan commitments. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments to borrowers that are experiencing financial difficulties at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statement of financial condition.

NOTE 8 – LOANS HELD FOR SALE

The Corporation's loans held-for-sale portfolio was composed of:

	June 30, 2014			**December 31, 2013**		
	(In thousands)					
Residential mortgage loans	$	17,350		$	21,168	
Construction loans		47,802			47,802	
Commercial mortgage loans		6,953			6,999	
Total	$	72,105		$	75,969	

Non-performing loans held for sale totaled $54.8 million ($7.0 million commercial mortgage and $47.8 million construction loans) as of June 30, 2014 and December 31, 2013.

NOTE 9 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

One of the market risks facing the Corporation is interest rate risk, which includes the risk that changes in interest rates will result in changes in the value of the Corporation's assets or liabilities and the risk that net interest income from its loan and investment portfolios will be adversely affected by changes in interest rates. The overall objective of the Corporation's interest rate risk management activities is to reduce the variability of earnings caused by changes in interest rates.

The Corporation designates a derivative as a fair value hedge, a cash flow hedge or an economic undesignated hedge when it enters into the derivative contract. As of June 30, 2014 and December 31, 2013, all derivatives held by the Corporation were considered economic undesignated hedges. These undesignated hedges are recorded at fair value with the resulting gain or loss recognized in current earnings.

The following summarizes the principal derivative activities used by the Corporation in managing interest rate risk:

Interest rate cap agreements - Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Corporation enters into interest rate cap agreements for protection from rising interest rates.

Interest rate swaps - Interest rate swap agreements generally involve the exchange of fixed and floating-rate interest payment obligations without the exchange of the underlying notional principal amount. As of June 30, 2014 and December 31, 2013, most of the interest rate swaps outstanding are used for protection against rising interest rates. Similar to unrealized gains and losses arising from changes in fair value, net interest settlements on interest rate swaps are recorded as an adjustment to interest income or interest expense depending on whether an asset or liability is being economically hedged.

Forward Contracts - Forward contracts are sales of to-be-announced ("TBA") mortgage-backed securities that will settle over the standard delivery date and do not qualify as "regular way" security trades. Regular-way security trades are contracts that have no net settlement provision and no market mechanism to facilitate net settlement and provide for delivery of a security within the time generally established by regulations or conventions in the market place or exchange in which the transaction is being executed. The forward sales are considered derivative instruments that need to be marked to market. These securities are used to economically hedge the FHA/VA residential mortgage loan securitizations of the mortgage-banking operations. Unrealized gains (losses) are recognized as part of mortgage banking activities in the Consolidated Statements of Income (Loss).

To satisfy the needs of its customers, the Corporation may enter into nonhedging transactions. On these transactions, generally, the Corporation participates as a buyer in one of the agreements and as a seller in the other agreement under the same terms and conditions.

In addition, the Corporation enters into certain contracts with embedded derivatives that do not require separate accounting as these are clearly and closely related to the economic characteristics of the host contract. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated, carried at fair value, and designated as a trading or non-hedging derivative instrument.

The following table summarizes the notional amounts of all derivative instruments:

	Notional Amounts				
	As of June 30, 2014			**As of December 31, 2013**	
	(In thousands)				
Undesignated economic hedges:					
Interest rate contracts:					
Interest rate swap agreements	$	30,859		$	31,080
Written interest rate cap agreements		37,769			38,391
Purchased interest rate cap agreements		37,769			38,391
Forward Contracts:					
Sale of TBA GNMA MBS pools		17,000			25,000
	$	123,397		$	132,862

Notional amounts are presented on a gross basis with no netting of offsetting exposure positions.

The following table summarizes the fair value of derivative instruments and the location in the statement of financial condition:

	Asset Derivatives			Liability Derivatives		
	Statement of Financial Condition Location	June 30, 2014 Fair Value	December 31, 2013 Fair Value	Statement of Financial Condition Location	June 30, 2014 Fair Value	December 31, 2013 Fair Value
	(In thousands)					
Undesignated economic hedges:						
Interest rate contracts:						
Interest rate swap agreements	Other assets	$ 99	$ 162	Accounts payable and other liabilities	$ 3,328	$ 3,965
Written interest rate cap agreements	Other assets	-	-	Accounts payable and other liabilities	16	58
Purchased interest rate cap agreements	Other assets	16	58	Accounts payable and other liabilities	-	-
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets	-	174	Accounts payable and other liabilities	228	-
		$ 115	$ 394		$ 3,572	$ 4,023

The following table summarizes the effect of derivative instruments on the statement of income (loss):

		Gain (or Loss) Quarter Ended June 30,		Gain (or Loss) Six-Month Period Ended June 30,	
(In thousands)	Location of Gain or (loss) Recognized in Income on Derivatives	2014	2013	2014	2013
		(In thousands)			

Undesignated economic hedges:									
Interest rate contracts:									
Interest rate swap agreements used to hedge fixed-rate loans	Interest income - Loans	$	261	$	709	$	574	$	1,099
Written and purchased interest rate cap agreements	Interest income - Loans		-		(1)		-		9
Forward contracts:									
Sales of TBA GNMA MBS pools	Mortgage banking activities		(237)		971		(402)		866
Total gain on derivatives		$	24	$	1,679	$	172	$	1,974

Derivative instruments, such as interest rate swaps, are subject to market risk. As is the case with investment securities, the market value of derivative instruments 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.

A summary of interest rate swaps follows:

	As of June 30, 2014		**As of December 31, 2013**	
	(Dollars in thousands)			
Pay fixed/receive floating :				
Notional amount	$	30,859	$	31,080
Weighted-average receive rate at period end		1.84%		1.85%
Weighted-average pay rate at period end		6.77%		6.77%
Floating rates range from 167 to 187 basis points over 3-month LIBOR				

As of June 30, 2014, the Corporation has not entered into any derivative instrument containing credit-risk related contingent features.

NOTE 10 – OFFSETTING OF ASSETS AND LIABILITIES

The Corporation enters into master agreements with counterparties that may allow for netting of exposures in the event of default, primarily related to derivatives and repurchase agreements. In an event of default, each party has a right of set-off against the other party for the amounts owed in the related agreement and any other amount or obligation owed in respect of any other agreement or transaction between them. The following table presents information about the offsetting of financial assets and liabilities as well as derivative assets and liabilities:

				Gross Amounts Not Offset in the Statement of Financial Position		
Offsetting of Financial Assets and Derivative Assets						
(In thousands)						
As of June 30, 2014						
Description	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Statement of Financial Position**	**Net Amounts of Assets Presented in the Statement of Financial Position**	**Financial Instruments**	**Cash Collateral**	**Net Amount**
Derivatives	$ 16	$ -	$ 16	$ (16)	$ -	$ -
As of December 31, 2013						
				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets	**Gross Amounts Offset in the Statement**	**Net Amounts of Assets Presented in the Statement**	**Financial Instruments**	**Cash Collateral**	**Net Amount**

			of Financial Position	of Financial Position			
Description							
Derivatives	$	58	$ -	$ 58	$ (58)	$ -	$ -

Offsetting of Financial Liabilities and Derivative Liabilities																	
(In thousands)																	
As of June 30, 2014																	
										Gross Amounts Not Offset in the Statement of Financial Position							
	Gross Amounts of Recognized Liabilities			**Gross Amounts Offset in the Statement of Financial Position**			**Net Amounts of Liabilities Presented in the Statement of Financial Position**			**Financial Instruments**			**Cash Collateral**			**Net Amount**	
Description																	
Derivatives	$	3,328		$	-		$	3,328		$	(3,328)		$	-		$	-
Repurchase agreements		600,000			-			600,000			(600,000)			-			-
Total	$	603,328		$	-		$	603,328		$	(603,328)		$	-		$	-
As of December 31, 2013																	
										Gross Amounts Not Offset in the Statement of Financial Position							
	Gross Amounts of Recognized Liabilities			**Gross Amounts Offset in the Statement of Financial Position**			**Net Amounts of Liabilities Presented in the Statement of Financial Position**			**Financial Instruments**			**Cash Collateral**			**Net Amount**	
Description																	

Derivatives	$ 3,965	$ -	$ 3,965	$ (3,965)	$ -	$ -
Repurchase agreements	600,000	-	600,000	(600,000)	-	-
Total	$ 603,965	$ -	$ 603,965	$ (603,965)	$ -	$ -

NOTE 11 – GOODWILL AND OTHER INTANGIBLES

Goodwill as of June 30, 2014 and December 31, 2013 amounted to $28.1 million, recognized as part of “Other Assets” in the consolidated statement of financial condition. The Corporation conducted its annual evaluation of goodwill and intangibles during the fourth quarter of 2013.

The Corporation bypassed the qualitative assessment in 2013 and proceeded directly to perform the first step of the two-step goodwill impairment test. The Step 1 evaluation of goodwill allocated to the Florida reporting unit under both valuation approaches (market and discounted cash flow analysis) indicated that the fair value of the unit was above the carrying amount of its equity book value as of the valuation date (October 1); therefore, the completion of Step 2 was not required. Based on the analysis under both the market and discounted cash flow analysis, the estimated fair value of the equity of the reporting unit exceeded the carrying amount of the entity, including goodwill at the evaluation date. There have been no events related to the Florida reporting unit that could indicate potential goodwill impairment since the date of the last evaluation; therefore, no goodwill impairment evaluation was performed during the first six months of 2014. Goodwill and other indefinite life intangibles are reviewed at least annually for impairment.

In connection with the acquisition of the FirstBank-branded credit card loan portfolio in the second quarter of 2012, the Corporation recognized a purchased credit card relationship intangible of $24.5 million, which is being amortized over 7.5 years on an accelerated basis based on the estimated attrition rate of the purchased credit card accounts, which reflects the pattern in which the economic benefits of the intangible asset are consumed. These benefits are consumed as the revenue stream generated by the cardholder relationship is realized.

The following table shows the gross amount and accumulated amortization of the Corporation’s intangible assets recognized as part of Other Assets in the consolidated statement of financial condition:

	As of June 30, 2014			**As of December 31, 2013**	
(Dollars in thousands)					
Core deposit intangible:					
Gross amount	$	45,844		$	45,844
Accumulated amortization		(39,644)			(38,863)
Net carrying amount	$	6,200		$	6,981
Remaining amortization period		8.9 years			9.8 years
Purchased credit card relationship intangible:					
Gross amount	$	24,465		$	24,465
Accumulated amortization		(6,385)			(4,678)

Net carrying amount	$	18,080		$	19,787
Remaining amortization period		7.5 years			8.0 years

For the quarter and six-month period ended June 30, 2014, the amortization expense of core deposit intangibles amounted to $0.4 million and $0.8 million, respectively (2013 - $0.6 million and $1.2 million). For the quarter and six-month period ended June 30, 2014, the amortization expense of the purchased credit card relationship intangible amounted to $0.9 million and $1.7 million, respectively (2013 - $0.9 million and $1.9 million).

NOTE 12 – NON CONSOLIDATED VARIABLE INTEREST ENTITIES AND SERVICING ASSETS

The Corporation transfers residential mortgage loans in sale or securitization transactions in which it has continuing involvement, including servicing responsibilities and guarantee arrangements. All such transfers have been accounted for as sales as required by applicable accounting guidance.

When evaluating transfers and other transactions with Variable Interest Entities ("VIEs") for consolidation, the Corporation first determines if the counterparty is an entity for which a variable interest exists. If no scope exception is applicable and a variable interest exists, the Corporation then evaluates if it is the primary beneficiary of the VIE and whether the entity should be consolidated or not.

Below is a summary of transfers of financial assets to VIEs for which the Corporation has retained some level of continuing involvement:

Ginnie Mae

The Corporation typically transfers first lien residential mortgage loans in conjunction with GNMA securitization transactions in which the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements, the Corporation is required to service the loans in accordance with the issuers' servicing guidelines and standards. As of June 30, 2014, the Corporation serviced loans securitized through GNMA with a principal balance of $1.1 billion.

Trust Preferred Securities

In 2004, FBP Statutory Trust I, a financing subsidiary of the Corporation, sold to institutional investors $100 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase $103.1 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. Also in 2004, FBP Statutory Trust II, a statutory trust that is wholly owned by the Corporation, sold to institutional investors $125 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.9 million of FBP Statutory Trust II variable rate common securities, were used by FBP Statutory Trust II to purchase $128.9 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. The debentures are presented in the

Corporation's consolidated statement of financial condition as Other Borrowings, net of related issuance costs. The variable rate trust-preferred securities are fully and unconditionally guaranteed by the Corporation. The $100 million Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and the $125 million issued in September 2004 mature on June 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Deferrable Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust-preferred securities). The trust-preferred securities, subject to certain limitations, qualify as Tier I regulatory capital under current applicable rules and regulations. The Collins Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act eliminates certain trust-preferred securities from Tier 1 Capital. Bank Holding Companies, such as the Corporation, must fully phase out these instruments from Tier I capital by January 1, 2016 (25% allowed in 2015 and 0% in 2016); however, these instruments may remain in Tier 2 capital until the instruments are redeemed or mature.

Grantor Trusts

During 2004 and 2005, a third party to the Corporation, from now on identified as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates. The seller initially provided the servicing for a fee, which is senior to the obligations to pay trust certificate holders.

The seller then entered into a sales agreement through which it sold and issued the trust certificates in favor of the Corporation's banking subsidiary. Currently, the Bank is the sole owner of the trust certificates; the servicing of the underlying residential mortgages that generate the principal and interest cash flows is performed by another third party, which receives a servicing fee. The securities are variable rate securities indexed to 90-day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer) who then remits interest to the Bank; interest income is shared to a certain extent with the FDIC, which has an interest only strip ("IO") tied to the cash flows of the underlying loans and is entitled to receive the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted average coupon of the securities. The FDIC became the owner of the IO upon the intervention of the seller, a failed financial institution. No recourse agreement exists and the risk from losses on non accruing loans and repossessed collateral is absorbed by the Bank as the sole holder of the certificates. As of June 30, 2014, the amortized balance and carrying value of Grantor Trusts amounted to $51.2 million and $38.1 million, respectively, with a weighted average yield of 2.21%.

Investment in unconsolidated entity

On February 16, 2011, FirstBank sold an asset portfolio consisting of performing and non-performing construction, commercial mortgage and commercial and industrial loans with an aggregate book value of $269.3 million to CPG/GS, an entity organized under the laws of the Commonwealth of Puerto Rico and majority owned by PRLP Ventures LLC ("PRLP"), a company created by Goldman, Sachs & Co. and Caribbean Property Group. In connection with the sale, the Corporation received $88.5 million in cash and a 35% interest in CPG/GS, and made a loan in the amount of $136.1 million representing seller financing provided by FirstBank. The loan had a seven-year maturity and bears variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity's assets as well as the PRLP's 65% ownership interest in CPG/GS. As of June 30, 2014, the carrying amount of the loan was $39.2 million, which was included in the Corporation's Commercial and Industrial loans held for investment portfolio. FirstBank's equity interest in CPG/GS is accounted for under the equity method and included as part of Investment in unconsolidated entity in the Consolidated Statements of Financial Condition. When applying the equity method, the Bank follows the Hypothetical Liquidation Book Value method ("HLBV") to determine its share of CPG/GS's earnings or loss. Under HLBV, the Bank determines its share of CPG/GS's earnings or loss by determining the difference between its "claim on CPG/GS's book value" at the end of the period as compared to the beginning of the period. This claim is calculated as the amount the Bank would receive if CPG/GS were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to the investors, PRLP and FirstBank, according to their respective priorities as provided in the contractual agreement. The Bank reports its share of CPG/GS's operating results on a one-quarter lag basis. In addition, as a result of using HLBV, the difference between the Bank's investment in CPG/GS and its claim on the book value of CPG/GS at the date of the investment, known as the basis difference, is amortized over the estimated life of the investment, or five years. CPG/GS records its loans receivable under the fair value option. Equity in loss of unconsolidated entity for the six month period ended June 30, 2014 of $7.3 million includes $1.8 million related to the amortization of the basis differential, compared to equity in loss of unconsolidated entity of $4.9 million for the first six months of 2013. The loss recorded in 2014 reduced to zero the carrying amount of the Bank's investment in CPG/GS. No negative investment needs to be reported as the Bank has no legal obligation or commitment to provide further financial support to this entity; thus, no further losses will be recorded on this investment. Any potential increase in the carrying value of the investment in CPG/GS, under the HLBV method, would depend upon how better off the Bank is at the end of the period than it was at the beginning of the period after the waterfall calculation performed to determine the amount of gain allocated to the investors.

FirstBank also provided an $80 million advance facility to CPG/GS to fund unfunded commitments and costs to complete projects under construction, which was fully disbursed in 2011, and a $20 million working capital line of credit to fund certain expenses of CPG/GS. During 2013, the working capital line of credit was renewed and reduced to $7 million for a period of two years expiring September 2015.

During 2012, CPG/GS repaid the outstanding balance of the advance facility to fund unfunded commitments, and the funds became available to redraw under a one-time revolver agreement. These loans bear variable interest at 30-day LIBOR plus 300 basis points. As of June 30, 2014, the carrying value of the revolver agreement and working capital line was $34.1 million and $0, respectively, which was included in the Corporation's commercial and industrial loans held for investment portfolio.

Cash proceeds received by CPG/GS are first used to cover operating expenses and debt service payments, including the note receivable, the advance facility, and the working capital line, described above, which must be substantially repaid before proceeds can be used for other purposes, including the return of capital to both PRLP and FirstBank. FirstBank will not receive any return on its equity interest until PRLP receives an aggregate amount equivalent to its initial investment and a priority return of at least 12%, resulting in FirstBank's interest in CPG/GS being subordinate to PRLP's interest. CPG/GS will then begin to make payments pro rata to PRLP and FirstBank, 35% and 65%, respectively, until FirstBank has achieved a 12% return on its invested capital and the aggregate amount of distributions is equal to FirstBank's capital contributions to CPG/GS.

The Bank has determined that CPG/GS is a VIE in which the Bank is not the primary beneficiary. In determining the primary beneficiary of CPG/GS, the Bank considered applicable guidance that requires the Bank to qualitatively assess the determination of the primary beneficiary (or consolidator) of CPG/GS based on whether it has both the power to direct the activities of CPG/GS that most significantly impact the entity's economic performance and the obligation to absorb losses of CPG/GS that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Bank determined that it does not have the power to direct the activities that most significantly impact the economic performance of CPG/GS as it does not have the right to manage the loan portfolio, impact foreclosure proceedings, or manage the construction and sale of the property; therefore, the Bank concluded that it is not the primary beneficiary of CPG/GS. As a creditor to CPG/GS, the Bank has certain rights related to CPG/GS; however, these are intended to be protective in nature and do not provide the Bank with the ability to manage the operations of CPG/GS. Since CPG/GS is not a consolidated subsidiary of the Bank and the transaction met the criteria for sale accounting under authoritative guidance, the Bank accounted for this transaction as a true sale, recognizing the cash received, the notes receivable, and the interest in CPG/GS and derecognizing the loan portfolio sold.

The following table shows summarized unaudited income statement information of CPG/GS for the quarters and six-month periods ended June 30, 2014 and 2013:

	Quarter Ended			Six-Month Period Ended		
	June 30, 2014		**June 30, 2013**	**June 30, 2014**		**June 30, 2013**

	(In thousands)					(In thousands)			
Revenues, including net realized gains on sale of									
investments in loans and OREO	$	2,118	$	1,040		$	2,869	$	1,719
Gross (loss) profit	$	(455)	$	(1,893)		$	(1,963)	$	(3,668)
Net (loss) income	$	(2,355)	$	(3,877)		$	(4,802)	$	2,193

Servicing Assets

The Corporation is actively involved in the securitization of pools of FHA-insured and VA-guaranteed mortgages for issuance of GNMA mortgage-backed securities. Also, certain conventional conforming loans are sold to FNMA or FHLMC with servicing retained. The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased.

The changes in servicing assets are shown below:

	Quarter ended June 30, 2014		Quarter ended June 30, 2013		Six-Month period ended June 30, 2014		Six-Month period ended June 30, 2013	
	(In thousands)							
Balance at beginning of period	$	22,026	$	18,717	$	21,987	$	17,524
Capitalization of servicing assets		1,017		2,094		2,069		3,814
Amortization		(790)		(796)		(1,573)		(1,586)
Adjustment to fair value		39		277		(180)		557
Other (1)		(22)		(313)		(33)		(330)
Balance at end of period	$	22,270	$	19,979	$	22,270	$	19,979

(1) Amount represents the adjustment to fair value related to the repurchase of loans serviced for others.

Impairment charges are recognized through a valuation allowance for each individual stratum of servicing assets. The valuation allowance is adjusted to reflect the amount, if any, by which the cost basis of the servicing asset for a given stratum of loans being serviced exceeds its fair value. Any fair value in excess of the cost basis of the servicing asset for a given stratum is not recognized.

Changes in the impairment allowance related to servicing assets were as follows:

	Quarter ended June 30, 2014	Quarter ended June 30, 2013	Six-Month Period Ended June 30, 2014	Six-Month Period Ended June 30, 2013
	(In thousands)			

Balance at beginning of period	$	431	$	392	$	212	$	672
Temporary impairment charges		24		75		243		115
Recoveries		(63)		(352)		(63)		(672)
Balance at end of period	$	392	$	115	$	392	$	115

The components of net servicing income are shown below:

	Quarter ended June 30,				Six-Month Period Ended June 30,			
	2014		2013		2014		2013	
	(In thousands)							
Servicing fees	$	1,689	$	2,096	$	3,360	$	3,613
Late charges and prepayment penalties		177		218		341		431
Adjustment for loans repurchased		(22)		(313)		(33)		(330)
Other (1)		(689)		(148)		(1,047)		(148)
Servicing income, gross		1,155		1,853		2,621		3,566
Amortization and impairment of servicing assets		(751)		(519)		(1,753)		(1,029)
Servicing income, net	$	404	$	1,334	$	868	$	2,537

(1) Mainly consisted of compensatory fees imposed by GSEs and losses related to representations and warranties.

The Corporation's servicing assets are subject to prepayment and interest rate risks. Key economic assumptions used in determining the fair value at the time of sale ranged as follows:

	Maximum			Minimum	
Six-Month Period Ended June 30, 2014:					
Constant prepayment rate:					
Government guaranteed mortgage loans	9.6	%		9.1	%
Conventional conforming mortgage loans	9.4	%		8.9	%
Conventional non-conforming mortgage loans	13.4	%		12.7	%
Discount rate:					
Government guaranteed mortgage loans	11.5	%		11.5	%
Conventional conforming mortgage loans	9.5	%		9.5	%
Conventional non-conforming mortgage loans	13.9	%		13.8	%
Six-Month Period Ended June 30, 2013:					
Constant prepayment rate:					
Government guaranteed mortgage loans	10.5	%		9.1	%
Conventional conforming mortgage loans	10.9	%		9.4	%
Conventional non-conforming mortgage loans	14.3	%		13.5	%
Discount rate:					
Government guaranteed mortgage loans	12.0	%		12.0	%
Conventional conforming mortgage loans	10.0	%		10.0	%
Conventional non-conforming mortgage loans	14.3	%		14.3	%

As of June 30, 2014, fair values of the Corporation's servicing assets were based on a valuation model that incorporates market driven assumptions regarding discount rates and mortgage prepayment rates, adjusted by the particular characteristics of the Corporation's servicing portfolio. The weighted-averages of the key economic assumptions used by the Corporation in its valuation model and the sensitivity of the current aggregate fair value to immediate 10% and 20% adverse changes in those assumptions for mortgage loans as of June 30, 2014 were as follows:

	(Dollars in thousands)		
Carrying amount of servicing assets	$	22,270	
Fair value	$	24,917	
Weighted-average expected life (in years)		9.15	
Constant prepayment rate (weighted-average annual rate)		9.78%	
Decrease in fair value due to 10% adverse change	$	953	

Decrease in fair value due to 20% adverse change	$	1,846	
Discount rate (weighted-average annual rate)		10.62%	
Decrease in fair value due to 10% adverse change	$	1,045	
Decrease in fair value due to 20% adverse change	$	2,009	

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship between the change in assumption and the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the servicing asset is calculated without changing any other assumption; in reality, 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 counteract the sensitivities.

NOTE 13 – DEPOSITS

The following table summarizes deposit balances:

		June 30, 2014		December 31, 2013
		(In thousands)		
Type of account:				
Non-interest bearing checking accounts	$	851,038	$	851,212
Savings accounts		2,387,743		2,334,831
Interest-bearing checking accounts		1,079,843		1,167,480
Certificates of deposit		2,215,263		2,384,378
Brokered CDs		3,096,901		3,142,023
	$	9,630,788	$	9,879,924

Brokered CDs mature as follows:

		June 30, 2014
		(In thousands)
Three months or less	$	547,506
Over three months to six months		475,447
Over six months to one year		757,172
One to three years		1,164,461
Three to five years		116,314
Over five years		36,001
Total	$	3,096,901

The following are the components of interest expense on deposits:

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2014		2013		2014		2013	
	(In thousands)				(In thousands)			
Interest expense on deposits	$	17,750	$	21,891	$	36,264	$	45,280
Amortization of broker placement fees		1,716		2,027		3,501		4,182

Interest expense on deposits	$	19,466			$	23,918		$	39,765		$	49,462

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NOTE 14 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE