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

(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.

INDEX PAGE

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, 2014		Quarter Ended June 30, 2013		Six-Month Period Ended June 30, 2014		Six-Month Period Ended June 30, 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**	
		Unrealized		**Unrealized**		**Unrealized**
	Fair Value	**Losses**	**Fair Value**	**Losses**	**Fair Value**	**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 (In thousands)	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)

					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)								
					Quarter ended		**Six-month Period Ended**	
					June 30, 2014			
	Recorded Investment	**Unpaid Principal Balance**	**Related Specific Allowance**	**Year-To-Date Average Recorded Investment**	**Interest Income Recognized Accrual Basis**	**Interest Income Recognized Cash Basis**	**Interest Income Recognized Accrual Basis**	**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.

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

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

	December 31, 2013					
(In thousands)	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

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

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
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
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)		Gain (or Loss)	
	Location of Gain or (loss)	Quarter Ended		Six-Month Period Ended	
	Recognized in Income on	June 30,		June 30,	
(In thousands)	**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:

Offsetting of Financial Assets and Derivative Assets						
(In thousands)						
As of June 30, 2014						
				Gross Amounts Not Offset in the Statement of Financial Position		
	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**
Description						
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)	$ -	$ -

46

Offsetting of Financial Liabilities and Derivative Liabilities

(In thousands)

As of June 30, 2014

Description	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	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral	Net Amount
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

Description	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	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral	Net Amount

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

54

NOTE 14 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (repurchase agreements) consist of the following:

	June 30, 2014 (1)			**December 31, 2013**
	(Dollars in thousands)			
Repurchase agreements, interest rates ranging from 2.45% to 3.31% (December 31, 2013 - 2.45% to 3.32%)	$	900,000	$	900,000

(1) As of June 30, 2014, includes $800 million with an average rate of 2.84% that lenders have the right to call before their contractual maturities at various dates beginning on July 9, 2014. Subsequent to June 30, 2014, no lender has exercised its call option on repurchase agreements. Also includes $700 million that is currently tied to variable rates.

Repurchase agreements mature as follows:

	June 30, 2014 (In thousands)	
Over one year to three years	$	600,000
Three to five years		300,000
Total	$	900,000

As of June 30, 2014 and December 31, 2013, the securities underlying such agreements were delivered to the dealers with which the repurchase agreements were transacted.

Repurchase agreements as of June 30, 2014, grouped by counterparty, were as follows:

(Dollars in thousands)			
Counterparty	_	**Amount**	**Weighted-Average Maturity (In Months)**

	Citigroup Global Markets		$	300,000		28
	JP Morgan Chase			200,000		32
	Dean Witter / Morgan Stanley			100,000		40
	Credit Suisse First Boston			300,000		42
			$	900,000		

NOTE 15 – ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

The following is a summary of the advances from the FHLB:

		June 30, 2014			December 31, 2013	
		(Dollars in thousands)				
	Fixed-rate advances from FHLB, with a weighted-average interest rate of 1.07%	$	320,000		$	300,000

Advances from FHLB mature as follows:

		June 30, 2014 (In thousands)	
	One to thirty days	$	20,000
	Over one year to three years		100,000
	Over three years		200,000
	Total	$	320,000

As of June 30, 2014, the Corporation had additional capacity of approximately $396.8 million on this credit facility based on collateral pledged at the FHLB, including a haircut reflecting the perceived risk associated with holding the collateral.

NOTE 16 – OTHER BORROWINGS

Other borrowings consist of:

	June 30, 2014			December 31, 2013	
	(In thousands)				
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.75% over 3-month LIBOR (2.98% as of June 30, 2014 and 2.99% as of December 31, 2013)	$	103,093		$	103,093
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.50% over 3-month LIBOR (2.73% as of June 30, 2014 and 2.75% as of December 31, 2013)		128,866			128,866
	$	231,959		$	231,959

NOTE 17 – STOCKHOLDERS' EQUITY

Common Stock

As of June 30, 2014 and December 31, 2013, the Corporation had 2,000,000,000 authorized shares of common stock with a par value of $0.10 per share. As of June 30, 2014 and December 31, 2013, there were 213,399,037 and 207,635,157 shares issued, respectively, and 212,760,158 and 207,068,978 shares outstanding, respectively. On July 30, 2009, the Corporation announced the suspension of common and preferred stock dividends effective with the preferred dividend for the month of August 2009.

In April 2014 the Corporation awarded 210,840 shares of restricted stock under the Omnibus Plan to the independent directors, subject to a one-year vesting period. Also in the first half of 2014, the Corporation granted 810,138 shares of restricted stock to certain senior officers and certain other employees. The restrictions on such restricted stock will lapse with respect to 50% over a two-year period and 50% over a three-year period. Included in the 810,138 shares of restricted stock are 653,138 shares granted to certain senior officers consistent with the requirements of TARP. In addition, in 2014, the Corporation issued 147,781 shares of common stock as increased compensation to certain executive officers. As of June 30, 2014 and December 31, 2013, there were 2,328,840 and 1,411,185 shares of unvested restricted stock outstanding. During the first six months of 2014, 2,000 shares of restricted stock were forfeited and the restrictions on 101,323 shares of restricted stock lapsed. Refer to Note 3 for additional details.

Preferred Stock

The Corporation has 50,000,000 authorized shares of preferred stock with a par value of $1, redeemable at the Corporation's option subject to certain terms. This stock may be issued in series and the shares of each series will have such rights and preferences as are fixed by the Board of Directors when authorizing the issuance of that particular series. As of June 30, 2014, the Corporation has five outstanding series of non-convertible, non-cumulative preferred stock: 7.125% non-cumulative perpetual monthly income preferred stock, Series A; 8.35% non-cumulative perpetual monthly income preferred stock, Series B; 7.40% non-cumulative perpetual monthly income preferred stock, Series C; 7.25% non-cumulative perpetual monthly income preferred stock, Series D; and 7.00% non-cumulative perpetual monthly income preferred stock, Series E. The liquidation value per share is $25.

Effective January 17, 2012, the Corporation delisted all of its outstanding series of non-convertible, non-cumulative preferred stock from the New York Stock Exchange. The Corporation has not arranged for listing and/or registration on another national securities exchange or for quotation of the Series A through E Preferred Stock in a quotation medium.

In the first six months of 2014, the Corporation issued an aggregate of 4,597,121 shares of its common stock in exchange for an aggregate of 1,077,726 shares of the Corporation's Series A through E Preferred Stock, having an aggregate liquidation value of $26.9 million. The shares of common stock were issued to holders of the Series A through E Preferred Stock in separate and unrelated transactions in reliance upon the exemption set forth in Section 3(a)(9) of the Securities Act of 1933, as amended, for securities exchanged by an issuer with existing security holders where no commission or other remuneration is paid or given directly or indirectly by the issuer for soliciting such exchange. The carrying (liquidation) value of the Series A through E preferred stock exchanged, or $26.9 million, was reduced, and common stock and additional paid-in capital was increased in the amount of the fair value of the common stock issued. The Corporation recorded the par value of the shares issued as common stock ($0.10 per common share) or $0.5 million. The excess of the common stock fair value over the par value, or $23.9 million, was recorded in additional paid-in capital. The excess of the carrying amount of the shares of preferred stock over the fair value of the shares of common stock, or $1.7 million, was recorded as an increase to retained earnings and an increase in earnings per common share computation.

The results of the exchange with respect to Series A through E preferred stock were as follows:

Title of Securities	Liquidation preference per share		Shares of preferred stock outstanding prior to exchange	Shares of preferred stock exchanged	Shares of preferred stock outstanding after exchange	Aggregate liquidation preference after exchange (in thousands)		Shares of common stock issued
7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A	$	25	450,195	252,809	197,386	$	4,935	1,081,652
8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B	$	25	475,987	179,841	296,146		7,404	769,379
7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C	$	25	460,611	210,759	249,852		6,246	890,830
7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D	$	25	510,592	225,070	285,522		7,138	961,724

7.00% Noncumulative Perpetual								
Monthly Income Preferred								
Stock, Series E	$	25	624,487	209,247	415,240		10,381	893,536
			2,521,872	1,077,726	1,444,146	$	36,104	4,597,121

Treasury stock

During the first six months of 2014, the Corporation withheld an aggregate of 72,700 shares of the common stock paid to certain senior officers as additional compensation and of the restricted stock that vested during 2014 to cover employees' payroll and income tax withholding liabilities; these shares are also held as treasury shares. As of June 30, 2014 and December 31, 2013, the Corporation had 638,879 and 566,179 shares held as treasury stock, respectively.

FirstBank Statutory Reserve (Legal Surplus)

The Banking Law of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to legal surplus until such surplus equals the total of paid-in-capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the stockholders without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The net loss experienced in 2013 exhausted FirstBank's statutory reserve fund. The Puerto Rico Banking Law provides that when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts shall be charged against the undistributed profits of the bank, and the balance, if any, shall be charged against the reserve fund, as a reduction thereof. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount shall be charged against the capital account and the Bank cannot pay dividends until it can replenish the reserve fund to an amount of at least 20% of the original capital contributed.

NOTE 18 - INCOME TAXES

Income tax expense includes Puerto Rico and Virgin Islands income taxes as well as applicable U.S. federal and state taxes. The Corporation is subject to Puerto Rico income tax on its income from all sources. As a Puerto Rico corporation, First BanCorp. is treated as a foreign corporation for U.S. income tax purposes and is generally subject to United States income tax only on its income from sources within the United States or income effectively connected with the conduct of a trade or business within the United States. Any such tax paid is also creditable against the Corporation's Puerto Rico tax liability, subject to certain conditions and limitations.

Under the Puerto Rico Internal Revenue Code of 2011, as amended (the "2011 PR Code"), the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns and, thus, the Corporation is not able to utilize losses from one subsidiary to offset gains in another subsidiary. Accordingly, in order to obtain a tax benefit from a NOL, a particular subsidiary must be able to demonstrate sufficient taxable income within the applicable carry forward period. The 2011 PR Code provides a dividend received deduction of 100% on dividends received from "controlled" subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

On June 30, 2013, the Puerto Rico Government approved Act No. 40 ("Act 40"), known as the "Tax Burden Adjustment and Redistribution Act", which amended the 2011 PR Code, and Act No. 46 ("Act 46"), which bring changes to the sales and use tax regime. The main provisions of Act 40 that impact financial institutions are:

(i) A new national gross receipts tax that in the case of financial institutions is 1% of gross income that is not deductible for purposes of computing net taxable income and is not part of the alternative minimum tax ("AMT"). This provision was retroactive to January 1, 2013. The national gross receipts tax expense for the quarter and six-month period ended June 30, 2014 amounted to $1.4 million and $2.8 million, respectively, compared to $3.2 million recorded for the second quarter of 2013 ($1.6 million of such charge corresponded to the first quarter of 2013 and was recorded in the second quarter of 2013 upon enactment of Act 40, which was retroactive to January 1, 2013). This expense is included as part of "Taxes, other than income taxes" in the consolidated statement of income (loss). Subject to certain limitations, a financial institution will be able to claim a credit of 0.5% of its gross income against its regular income tax or the AMT. A benefit related to this credit of $0.7 million and $1.4 million was recorded as a reduction to the provision for income taxes in the second quarter and first half of 2014, respectively, compared to the benefit of $1.6 million recorded in the second quarter of 2013.

(ii) A decrease in the deduction available to corporations for the computation of the additional surtax from $750,000 to $25,000 and a change in the surtax rate to rates that range from 5% to 19%, resulting in an increase in the maximum statutory tax rate from 30% to 39%. This provision was also retroactive to January 1, 2013.

(iii) A higher AMT rate (30% of the alternative minimum net income, as compared to 20% previously) and various parallel computations required to be made before determining whether an AMT liability exists.

(iv) The NOL carryover period increased from 10 years to 12 years for losses incurred in taxable years that commenced after December 31, 2004 and ended before January 1, 2013. The carryover period for NOLs incurred during taxable years commencing after December 31, 2012 is 10 years. The NOL deduction is now limited to 90% of taxable income for regular income tax purposes and 80% for AMT purposes.

Significant changes to the sales and use tax regime include adjustments to the Business to Business exclusion. The business to business exclusion applicable to services rendered from one registered business to another registered business remains in effect, except for certain services that will be taxable, including, among others, service charges imposed by financial institutions on other businesses (commercial clients), collection services, repairs and maintenance services of real and personal property, and computer programming services, including modifications to previously designed systems. The sales and use tax provisions were effective beginning on July 1, 2013.

On October 14, 2013, the Governor of Puerto Rico signed into law Act No. 117 ("Act 117") providing additional changes and transitional provisions in connection with Act 40. In relation to the national gross receipts tax, Act 117 clarifies, among other things, that gross income subject to the special tax does not include the following:

(i) Dividends received from a 100% controlled domestic subsidiary. During the first half of 2014, no dividends subject to this exception were received by any of the Corporation's entities.

(ii) Income attributable to a trade or business outside of Puerto Rico.

The Corporation has maintained an effective tax rate lower than the maximum statutory rate mainly by investing in government obligations and mortgage-backed securities exempt from U.S. and Puerto Rico income taxes and by doing business through an International Banking Entity ("IBE") of the Bank and through the Bank's subsidiary, FirstBank Overseas Corporation, whose interest income and gain on sales is exempt from Puerto Rico and U.S. income taxation. The IBE and FirsBank Overseas Corporation were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by IBEs operating in Puerto Rico on the specific activities identified in the IBE Act. An IBE that operates as a unit of a bank pays income taxes at normal rates to the extent that the IBE's net income exceeds 20% of the bank's total net taxable income.

For the quarter and six-month period ended June 30, 2014, the Corporation recorded an income tax benefit of $0.3 million and an income tax expense of $0.6 million compared to an income tax benefit of $1.0 million and an income tax expense of $0.6 million for the same periods in 2013. The variance in the second quarter of 2014 compared to the same period in 2013 mainly reflects the impact of the amendments to the 2011 PR Code during the second quarter of 2013 when the Corporation recognized a $1.6 million benefit related to the national gross receipts tax credit ($0.8 million of such benefit corresponded to the first quarter of 2013 and was recorded in the second quarter of 2013 upon enactment of Act 40 which was retroactive to January 1, 2013) compared to the $0.7 million benefit related to the national gross receipts tax credit recorded in 2014. In addition, the variance reflects a net benefit in the 2013 second quarter of $0.5 million related to the increase in the deferred tax asset of profitable subsidiaries due to changes in statutory tax rates. Further, there was an increase of $1.0 million in the AMT expense recorded in the second quarter of 2014. These variances were partially offset by a $1.8 million reduction to the liability for certain tax positions related to prior year's tax positions, as further discussed below. The income tax in the interim financial statements is calculated based on the income of the individual subsidiaries and the currently valid tax rates as a best possible estimate. As of June 30, 2014, the deferred tax asset, net of a valuation allowance of $510.8 million, amounted to $8.7 million compared to $7.6 million as of December 31, 2013. The decrease in the valuation allowance to $510.8 million from $522.7 million as of December 31, 2013 was mainly due to the reversal of temporary differences primarily attributable to the reduction in the allowance for loan and lease losses during the first half of 2014.

Accounting for income taxes requires that companies assess whether a valuation allowance should be recorded against their deferred tax asset based on an assessment of the amount of the deferred tax asset that is "more likely than not" to be realized. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

In making such assessment, significant weight is given to evidence that can be objectively verified, including both positive and negative evidence. Consideration must be given to all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, future taxable income exclusive of the reversal of temporary differences and carry forwards, taxable income in carry back years and tax planning strategies. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance.

In assessing the weight of positive and negative evidence, a significant negative factor that resulted in the maintenance of the valuation allowance was that the Corporation’s banking subsidiary, FirstBank Puerto Rico, was in a three-year historical cumulative loss position as of June 30, 2014, mainly due to significant charges to the provision for loan and lease losses in prior years as a result of the economic downturn and the bulk sales of assets completed in 2013. As of June 30, 2014, the Corporation had a gross deferred tax asset of $520.6 million, including $373.3 million associated with NOLs. The Bank incurred all of the NOLs on or after 2009. As mentioned before, the Corporation maintained a valuation allowance of $510.8 million as of June 30, 2014 against the deferred tax asset. As of June 30, 2014, management concluded that $8.7 million of the deferred tax asset will be realized as it relates to profitable subsidiaries and to amounts that can be realized through future reversals of existing taxable temporary differences. To the extent the realization of a portion, or all, of the tax asset becomes “more likely than not” based on changes in circumstances (such as, improved earnings, changes in tax laws or other relevant changes), a reversal of that portion of the deferred tax asset valuation allowance will then be recorded.

The authoritative accounting guidance prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken on income tax returns. Under this guidance, income tax benefits are recognized and measured based upon a two-step analysis: 1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized under this analysis and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit (“UTB”).

The following table reconciles the balance of UTBs:

(In thousands)		Six-Month Period Ended June 30, 2014		Six-Month Period Ended June 30, 2013
Balance beginning of the year	$	4,310	$	2,374
Decrease related to positions taken during prior years		(1,763)		-
Balance at end of period	$	2,547	$	2,374

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

As of June 30, 2014, the Corporation had UTBs of approximately $2.5 million, all of which would, if recognized, affect the Corporation's effective tax rate. The Corporation classifies all interest and penalties, if any, related to tax uncertainties as income tax expense. As of June 30, 2014, the Corporation's accrued interest that relates to tax uncertainties amounted to $2.4 million and there was no need to accrue for the payment of penalties. The years 2007 through 2009 were examined by the United States Internal Revenue Service ("IRS") and disputed issues were taken to administrative appeals during 2011. Based on feasible settlement with the IRS Appeals office in June 2014, the Corporation released a portion of its reserve for uncertain tax positions, resulting in a tax benefit of approximately $1.8 million. Based on such agreement management believes that the amounts of unrecognized tax benefits will decrease within the next twelve months by approximately $2.5 million. Such change will not have an impact on the effective tax rate.

The Corporation's liability for income taxes includes its liability for UTBs, and interest that relates to tax years still subject to review by taxing authorities. The UTBs are recorded as a liability instead of a reduction to the deferred tax asset as the Corporation's NOLs and tax credit carryfowards are not available to settle any income tax that would result from the disallowance of the Corporation's UTBs. Audit periods remain open for review until the statute of limitations has passed. The statute of limitations under the 2011 PR Code is 4 years; the statute of limitations for Virgin Islands and U.S. income tax purposes are each three years after a tax return is due or filed, whichever is later. The completion of an audit by the taxing authorities or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Corporation's liability for income taxes. Any such adjustment could be material to results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. For Puerto Rico, Virgin Islands and U.S income tax purposes, all tax years subsequent to 2009 remain open to examination. Tax year 2010 is currently under examination by the Puerto Rico Department of Treasury.

Recent Developments. On July 1, 2014, the Puerto Rico Government approved Act No. 77 ("Act 77"), Act for Adjustments to Tax System, which amended the 2011 PR Code. Some of the main provisions that impact corporations follow:

(i) Long Term Capital Gain Tax Rate is increased from 15% to 20% and Long Term Capital Treatment was amended to apply only to assets held for a period of 1 year or more (previously 6 month or more) for transactions completed after June 30, 2014.

(ii) New Capital Loss carryover limitation, of up to 90% of Capital Gains and the carryover period of NOL's attributable to capital losses incurred during taxable years commencing after December 31, 2013 was increased from 5 years to 7 years.

(iii) The credit for AMT paid in previous years will be limited to 25% of the excess of the regular income tax over the tentative minimum tax.

(iv) The national gross receipts tax rate for financial institutions was not affected by Act 77 and remains at 1% and financial institutions continue to claim 0.5% of their gross income as a credit against regular income tax or the AMT. However, tax credits purchased or generated by the institution are not allowed as a credit against the national gross receipts tax obligation.

NOTE 19 – FAIR VALUE

Fair Value Measurement

The FASB authoritative guidance for fair value measurement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy for classifying financial instruments. The hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Three levels of inputs may be used to measure fair value:

Level 1	Valuations of Level 1 assets and liabilities are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 assets and liabilities include equity securities that trade in an active exchange market, as well as certain U.S. Treasury and other U.S. government and agency securities and corporate debt securities that are traded by dealers or brokers in active markets.
Level 2	Valuations of Level 2 assets and liabilities are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on the value of identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments, and (iii) derivative contracts and financial liabilities (e.g., medium-term notes elected to be measured at fair value) whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
Level 3	Valuations of Level 3 assets and liabilities are based on unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models for which the determination of fair value required significant management judgments estimation.

For 2014, there were no transfers into or out of Level 1, Level 2 or Level 3 measurement of the fair value hierarchy.

Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities available for sale

The fair value of investment securities was the market value based on quoted market prices (as is the case with equity securities, U.S. Treasury notes, and non-callable U.S. Agency debt securities), when available (Level 1), or market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters, including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data including market research operations (Level 2). Observable prices in the market already consider the risk of nonperformance. If listed prices or quotes are not available, fair value is based upon models that use unobservable inputs due to the limited market activity of the instrument, as is the case with certain private label mortgage-backed securities held by the Corporation (Level 3).

Private label MBS are collateralized by fixed-rate mortgages on single-family residential properties in the United States; the interest rate on the securities is variable, tied to three-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The market valuation represents the estimated net cash flows over the projected life of the pool of underlying assets applying a discount rate that reflects market observed floating spreads over LIBOR, with a widening spread based on a nonrated security. The market valuation is derived from a model that utilizes relevant assumptions such as prepayment rate, default rate, and loss severity on a loan level basis. The Corporation modeled the cash flow from the fixed-rate mortgage collateral using a static cash flow analysis according to collateral attributes of the underlying mortgage pool (i.e. loan term, current balance, note rate, rate adjustment type, rate adjustment frequency, rate caps, and others) in combination with prepayment forecasts obtained from a commercially available prepayment model (ADCO). The variable cash flow of the security is modeled using the 3-month LIBOR forward curve. Loss assumptions were driven by the combination of default and loss severity estimates, taking into account loan credit characteristics (loan-to-value, state, origination date, property type, occupancy loan purpose, documentation type, debt-to-income ratio, and other) to provide an estimate of default and loss severity.

Refer to the table below for further information regarding qualitative information for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

Derivative instruments

The fair value of most of the Corporation's derivative instruments is based on observable market parameters and takes into consideration the credit risk component of paying counterparties when appropriate, except when collateral is pledged. That is, on interest rate swaps, the credit risk of both counterparties is included in the valuation; and, on options and caps, only the seller's credit risk is considered. The derivative instruments, namely swaps and caps, were valued based on a discounted cash flow approach using the related LIBOR and swap rate for each cash flow. Derivatives include interest rate swaps used for protection against rising interest rates. For these interest rate swaps, a credit component was not considered in the valuation since the Corporation has fully collateralized with investment securities any marked-to-market loss with the counterparty and, if there were market gains, the counterparty had to deliver additional collateral to the Corporation.

Although most of the derivative instruments are fully collateralized, a credit spread is considered for those that are not secured in full. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments for the quarter and six-month period ended June 30, 2014 was immaterial.

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

Assets and liabilities measured at fair value on a recurring basis, are summarized below:

	As of June 30, 2014				As of December 31, 2013			
	Fair Value Measurements Using				Fair Value Measurements Using			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**
Assets:								
Securities available for sale :								
Equity securities	$ 9	$ -	$ -	$ 9	$ 33	$ -	$ -	$ 33
U.S. Treasury Securities	7,497	-	-	7,497	7,499	-	-	7,499
Noncallable U.S. agency debt	-	207,377	-	207,377	-	200,903	-	200,903
Callable U.S. agency debt and MBS	-	1,699,358	-	1,699,358	-	1,677,651	-	1,677,651
Puerto Rico government obligations	-	42,248	2,734	44,982	-	48,904	2,426	51,330
Private label MBS	-	-	38,184	38,184	-	-	40,866	40,866
Derivatives, included in assets:								
Interest rate swap agreements	-	99	-	99	-	162	-	162
Purchased interest rate cap agreements	-	16	-	16	-	58	-	58
Forward contracts	-	-	-	-	-	174	-	174

Liabilities:								
Derivatives, included in liabilities:								
Interest rate swap agreements	-	3,328	-	3,328	-	3,965	-	3,965
Written interest rate cap agreement	-	16	-	16	-	58	-	58
Forward contracts	-	228	-	228	-	-	-	-

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters and six-month period ended June 30, 2014 and 2013:

	Quarter ended June 30,			
	2014		**2013**	
Level 3 Instruments Only	**Securities**		**Securities**	
(In thousands)	**Available For Sale(1)**		**Available For Sale(1)**	
Beginning balance	$	47,510	$	52,047
Total gains or losses (realized/unrealized):				
Included in other comprehensive income		729		29
Sales		(4,855)		-
Principal repayments and amortization		(2,466)		(3,416)
Ending balance	$	40,918	$	48,660

(1) Amounts mostly related to private label mortgage-backed securities.

	Six-Month Period Ended June 30,			
	2014		**2013**	
Level 3 Instruments Only	**Securities**		**Securities**	
(In thousands)	**Available For Sale(1)**		**Available For Sale(1)**	
Beginning balance	$	43,292	$	54,617
Total gains or losses (realized/unrealized):				
Included in earnings		-		(117)
Included in other comprehensive income		1,693		860
Purchases		5,123		-
Sales		(4,855)		-

Principal repayments and amortization		(4,335)		(6,700)
Ending balance	$	40,918	$	48,660

(1) Amounts mostly related to private label mortgage-backed securities.

The table below presents qualitative information for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2014:

	June 30, 2014				
(In thousands)	Fair Value		Valuation Technique	Unobservable Input	Range
Investment securities available-for-sale:					
Private label MBS	$	38,184	Discounted cash flow	Discount rate	14.5%
				Prepayment rate	18.15% -100% (Weighted Average 32%)
				Projected cumulative loss rate	0.90% -80.00% (Weighted Average 8.5%)
Puerto Rico Government Obligations		2,734	Discounted cash flow	Prepayment speed	5.57%

Information about Sensitivity to Changes in Significant Unobservable Inputs

Private label MBS: The significant unobservable inputs in the valuation include probability of default, the loss severity assumption and the prepayment rates. Shifts in those inputs would result in different fair value measurements. Increases in the probability of default, loss severity assumptions, and prepayment rates in isolation would generally result in an adverse effect in the fair value of the instruments. Meaningful and possible shifts of each input were modeled to assess the effect on the fair value estimation.

Puerto Rico Government Obligations: The significant unobservable input used in the fair value measurement is the assumed prepayment rate. A significant increase (decrease) in the assumed rate would lead to a higher (lower) fair value estimate. Loss severity and probability of default are not included as significant unobservable variables because the obligations are guaranteed by the Puerto Rico Housing Finance Authority ("PRHFA"). The PRHFA credit risk is modeled by discounting the cash flows using a curve appropriate to the PRHFA credit rating.

The tables below summarize changes in unrealized gains and losses recorded in earnings for the quarters and six-month periods ended June 30, 2014 and 2013 for Level 3 assets and liabilities that are still held at the end of each period:

	Changes in Unrealized Losses		**Changes in Unrealized Losses**
	Quarter ended June 30, 2014		**Quarter ended June 30, 2013**
Level 3 Instruments Only	**Securities**		**Securities**
(In thousands)	**Available For Sale**		**Available For Sale**
Changes in unrealized losses relating to assets still held at reporting date:			
Net impairment losses on available-for-sale investment securities (credit component)	$ -		$ -

	Changes in Unrealized Losses		**Changes in Unrealized Losses**
	Six-Month Period Ended June 30, 2014		**Six-Month Period Ended June 30, 2013**
Level 3 Instruments Only	**Securities**		**Securities**
(In thousands)	**Available For Sale**		**Available For Sale**
Changes in unrealized losses relating to assets still held at reporting date:			
Net impairment losses on available-for-sale investment securities (credit component)	$ -		$ (117)

Additionally, fair value is used on a nonrecurring basis to evaluate certain assets in accordance with GAAP. Adjustments to fair value usually result from the application of lower-of-cost or market accounting (e.g., loans held for sale carried at the lower-of-cost or fair value and repossessed assets) or write downs of individual assets (e.g., goodwill, loans).

As of June 30, 2014, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of June 30, 2014			(Losses) Gain recorded for the Quarter Ended June 30, 2014	(Losses) Gain recorded for the Six-Month Period Ended June 30, 2014
	Level 1	Level 2	Level 3		
	(In thousands)				
Loans receivable [(1)]	$ -	$ -	$ 484,381	$ (3,742)	$ (34,193)
OREO [(2)]	-	-	121,842	(4,481)	(8,958)
Mortgage servicing rights [(3)]	-	-	22,270	39	(180)
Loans Held For Sale [(4)]	-	-	54,755	-	-

(1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.

(2) The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates, net operating income of income producing properties) which are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3) Fair value adjustments to mortgage servicing rights were mainly due to assumptions associated with mortgage prepayment rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment rate 9.78%, Discount Rate 10.62%.

(4) The value of these loans was derived from external appraisals, adjusted for specific characteristics of the loans, and for loans with signed sale agreements, the value was determined based on the sales price on such agreements.

As of June 30, 2013, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of June 30, 2013						(Losses) Gain recorded for the Quarter Ended June 30, 2013		(Losses) Gain recorded for the Six-Month Period Ended June 30, 2013	
	Level 1		Level 2		Level 3					
	(In thousands)									
Loans receivable (1)	$	-	$	-	$	409,056	$	(3,534)	$	(14,192)
Other Real Estate Owned (2)		-		-		139,257		(9,181)		(12,106)
Mortgage servicing rights (3)		-		-		19,979		277		557
Loans Held For Sale (4)		-		142,632		94,951		(6,103)		(11,325)

(1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.

(2) The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates, net operating income of income producing properties) which are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3) Fair value adjustments to the mortgage servicing rights were mainly due to assumptions associated with mortgage prepayments rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment Rate 9.40%, Discount Rate 11.06%.

(4) The value of these loans was derived from external appraisals, adjusted for specific characteristics of the loans, and, for loans with signed sale agreements, the value was determined based on the sales price on such agreements.

Qualitative information regarding the fair value measurements for Level 3 financial instruments are as follows:

	June 30, 2014		
	Method		**Inputs**
Loans	Income, Market, Comparable Sales, Discounted Cash Flows		External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
OREO	Income, Market, Comparable Sales, Discounted Cash Flows		External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
Mortgage servicing rights	Discounted Cash Flow		Weighted average prepayment rate 9.78%; weighted average discount rate 10.62%

The following is a description of the valuation methodologies used for instruments that are not measured and reported at fair value on a recurring basis or reported at fair value on a non-recurring basis. The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument.

Cash and due from banks and money market investments

The carrying amounts of cash and due from banks and money market investments are reasonable estimates of their fair value. Money market investments include held-to-maturity securities, which have a contractual maturity of three months or less. The fair value of these securities is based on quoted market prices in active markets that incorporate the risk of nonperformance.

Other equity securities

Equity or other securities that do not have a readily available fair value are stated at their net realizable value, which management believes is a reasonable proxy for their fair value. This category is principally composed of stock that is owned by the Corporation to comply with FHLB regulatory requirements. The realizable value of the FHLB stock equals its cost as this stock can be freely redeemed at par.

Loans receivable, including loans held for sale

The fair value of loans held for investment and for mortgage loans held for sale was estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms and credit quality and with adjustments that the Corporation's management believes a market participant would consider in determining fair value. Loans were classified by type, such as commercial, residential mortgage, and automobile. These asset categories were further segmented into fixed- and adjustable-rate categories. Valuations are carried out based on categories and not on a loan-by-loan basis. The fair values of performing fixed-rate and adjustable-rate loans were calculated by discounting expected cash flows through the estimated maturity date. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate. The fair value of credit card loans was estimated using a discounted cash flow method and excludes any value related to a customer account relationship. Other loans with no stated maturity, like credit lines, were valued at book value. Prepayment assumptions were considered for non-residential loans. For residential mortgage loans, prepayment estimates were based on a prepayments model that combined both a historical calibration and current market prepayment expectations. Discount rates were based on the Treasury and LIBOR/Swap Yield Curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity. For impaired collateral dependent loans, the impairment was primarily measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations. The market valuation of the loans acquired from Doral was derived from a model that utilizes relevant assumptions such as prepayment rate, default rate, and loss severity on a loan level basis. The cash flows were modeled using a static cash flow analysis discounted by yields observed in the secondary market and in combination with prepayment forecasts. Loss assumptions were driven by the combination of default and loss severity estimates, taking into account loan credit characteristics (loan-to-value, Puerto Rico market, loan type, delinquency status, loan terms, and other), with higher default rates applied to loans acquired with evidence of credit deterioration.

Deposits

The estimated fair value of demand deposits and savings accounts, which are deposits with no defined maturities, equals the amount payable on demand at the reporting date. The fair values of retail fixed-rate time deposits, with stated maturities, are based on the present value of the future cash flows expected to be paid on the deposits. The cash flows were based on contractual maturities; no early repayments were assumed. Discount rates were based on the LIBOR yield curve.

The estimated fair value of total deposits excludes the fair value of core deposit intangibles, which represent the value of the customer relationship measured by the value of demand deposits and savings deposits that bear a low or zero rate of interest and do not fluctuate in response to changes in interest rates. The fair value of brokered CDs, which are included within deposits, is determined using discounted cash flow analyses over the full term of the CDs.

The fair value of the CDs is computed using the outstanding principal amount. The discount rates used were based on brokered CD market rates as of June 30, 2014. The fair value does not incorporate the risk of nonperformance, since interests in brokered CDs are generally sold by brokers in amounts of less than $250,000 and, therefore, insured by the FDIC.

Securities sold under agreements to repurchase

Some repurchase agreements reprice at least quarterly, and their outstanding balances are estimated to be their fair value. Where longer commitments are involved, fair value is estimated using exit price indications of the cost of unwinding the transactions as of the end of the reporting period. The brokers who are the counterparties provide these indications. Securities sold under agreements to repurchase are fully collateralized by investment securities.

Advances from FHLB

The fair value of advances from FHLB with fixed maturities is determined using discounted cash flow analyses over the full term of the borrowings, using indications of the fair value of similar transactions. The cash flows assume no early repayment of the borrowings. Discount rates are based on the LIBOR yield curve. Advances from FHLB are fully collateralized by mortgage loans and, to a lesser extent, investment securities.

Other borrowings

Other borrowings consist of junior subordinated debentures. Projected cash flows from the debentures were discounted using the Bloomberg BB Finance curve plus a credit spread. This credit spread was estimated using the difference in yield curves between Swap rates and a yield curve that considers the industry and credit rating of the Corporation as issuer of the note at a tenor comparable to the time to maturity of the debentures.

The following table presents the estimated fair value and carrying value of financial instruments as of June 30, 2014 and December 31, 2013:

	Total Carrying Amount in Statement of Financial Condition June 30, 2014		Fair Value Estimate June 30, 2014		Level 1		Level 2		Level 3	
	(In thousands)									
Assets:										
Cash and due from banks and money market investments	$	677,662	$	677,662	$	677,662	$	-	$	-
Investment securities available for sale		1,997,408		1,997,408		7,506		1,948,984		40,918
Other equity securities		29,141		29,141		-		29,141		-
Loans held for sale		72,105		72,807		-		18,052		54,755
Loans, held for investment		9,467,101								
Less: allowance for loan and lease losses		(241,177)								
Loans held for investment, net of allowance	$	9,225,924		8,892,011		-		-		8,892,011
Derivatives, included in assets		115		115		-		115		-
Liabilities:										
Deposits		9,630,788		9,644,647		-		9,644,647		-
Securities sold under agreements to repurchase		900,000		977,620		-		977,620		-
Advances from FHLB		320,000		319,505		-		319,505		-
Other borrowings		231,959		115,954		-		-		115,954
		3,572		3,572		-		3,572		-

Derivatives, included in liabilities					

	Total Carrying Amount in Statement of Financial Condition December 31, 2013	Fair Value Estimate December 31, 2013	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
Cash and due from banks and money market investments	$ 655,671	$ 655,671	$ 655,671	$ -	$ -
Investment securities available for sale	1,978,282	1,978,282	7,532	1,927,458	43,292
Other equity securities	28,691	28,691	-	28,691	-
Loans held for sale	75,969	76,684	-	21,883	54,801
Loans, held for investment	9,636,170				
Less: allowance for loan and lease losses	(285,858)				
Loans held for investment, net of allowance	$ 9,350,312	9,127,234	-	-	9,127,234
Derivatives, included in assets	394	394	-	394	-
Liabilities:					
Deposits	9,879,924	9,898,615	-	9,898,615	-
Securities sold under agreements to repurchase	900,000	976,151	-	976,151	-
Advances from FHLB	300,000	297,523	-	297,523	-
Other borrowings	231,959	106,772	-	-	106,772
Derivatives, included in	4,023	4,023	-	4,023	-

liabilities																		

NOTE 20 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

	Six-Month Period Ended June 30,				
	2014			2013	
	(In thousands)				
Cash paid for:					
Interest on borrowings	$	51,817		$	64,075
Income tax		2,524			2,141
Non-cash investing and financing activities:					
Additions to other real estate owned		13,267			42,526
Additions to auto and other repossessed assets		43,091			31,236
Capitalization of servicing assets		2,069			3,814
Loan securitizations		104,236			159,140
Loans held for investment transferred to held for sale		-			181,620

NOTE 21 – SEGMENT INFORMATION

Based upon the Corporation’s organizational structure and the information provided to the Chief Executive Officer of the Corporation and, to a lesser extent, the Board of Directors, the operating segments are driven primarily by the Corporation’s lines of business for its operations in Puerto Rico, the Corporation’s principal market, and by geographic areas for its operations outside of Puerto Rico. As of June 30, 2014, the Corporation had six reportable segments: Commercial and Corporate Banking; Mortgage Banking; Consumer (Retail) Banking; Treasury and Investments; United States Operations, and Virgin Islands Operations. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Others factors such as the Corporation’s organizational chart, nature of the products, distribution channels, and the economic characteristics of the product were also considered in the determination of the reportable segments.

The Commercial and Corporate Banking segment consists of the Corporation's lending and other services for large customers represented by specialized and middle-market clients and the public sector. The Commercial and Corporate Banking segment offers commercial loans, including commercial real estate and construction loans, and floor plan financings, as well as other products, such as cash management and business management services. The Mortgage Banking segment consists of the origination, sale, and servicing of a variety of residential mortgage loans. The Mortgage Banking segment also acquires and sells mortgages in the secondary markets. In addition, the Mortgage Banking segment includes mortgage loans purchased from other local banks and mortgage bankers. The Consumer (Retail) Banking segment consists of the Corporation's consumer lending and deposit-taking activities conducted mainly through its branch network and loan centers. The Treasury and Investments segment is responsible for the Corporation's investment portfolio and treasury functions executed to manage and enhance liquidity. This segment lends funds to the Commercial and Corporate Banking, Mortgage Banking and Consumer (Retail) Banking segments to finance their lending activities and borrows from those segments and from the United States Operations segment. The Consumer (Retail) Banking and the United States Operations segments also lend funds to other segments. The interest rates charged or credited by Treasury and Investments, the Consumer (Retail) Banking and the United States Operations segments are allocated based on market rates. The difference between the allocated interest income or expense and the Corporation's actual net interest income from centralized management of funding costs is reported in the Treasury and Investments segment. The United States Operations segment consists of all banking activities conducted by FirstBank in the United States mainland, including commercial and retail banking services. The Virgin Islands Operations segment consists of all banking activities conducted by the Corporation in the USVI and BVI, including commercial and retail banking services and insurance activities.

The accounting policies of the segments are the same as those referred to in Note 1- "Nature of Business and Summary of Significant Accounting Policies."

The Corporation evaluates the performance of the segments based on net interest income, the estimated provision for loan and lease losses, non-interest income and direct non-interest expenses. The segments are also evaluated based on the average volume of their interest-earning assets less the allowance for loan and lease losses.

The following table presents information about the reportable segments:							
(In thousands)	**Mortgage Banking**	**Consumer (Retail) Banking**	**Commercial and Corporate**	**Treasury and Investments**	**United States Operations**	**Virgin Islands Operations**	**Total**
For the quarter ended June 30, 2014:							
Interest income	$ 27,444	$ 54,869	$ 40,825	$ 13,988	$ 10,879	$ 10,418	$ 158,423
Net (charge) credit for transfer of funds	(8,736)	4,136	(3,049)	4,584	3,065	-	-
Interest expense	-	(5,882)	-	(16,783)	(4,855)	(996)	(28,516)
Net interest income	18,708	53,123	37,776	1,789	9,089	9,422	129,907
(Provision) release for loan and lease losses	(4,089)	(19,475)	(14,179)	-	10,481	518	(26,744)
Non-interest income	2,701	10,005	1,150	344	711	1,690	16,601
Direct non-interest expenses	(10,340)	(31,510)	(14,694)	(1,514)	(7,269)	(8,664)	(73,991)
Segment income	$ 6,980	$ 12,143	$ 10,053	$ 619	$ 13,012	$ 2,966	$ 45,773
Average earnings assets	$ 2,029,859	$ 2,031,391	$ 3,683,746	$ 2,714,179	$ 883,822	$ 670,692	$ 12,013,689
(In thousands)	**Mortgage Banking**	**Consumer (Retail) Banking**	**Commercial and Corporate**	**Treasury and Investments**	**United States Operations**	**Virgin Islands Operations**	**Total**
For the quarter ended June 30, 2013:							

Interest income	$ 27,469	$ 57,984	$ 42,476	$ 12,584	$ 9,055	$ 11,102	$ 160,670
Net (charge) credit for transfer of funds	(9,631)	(681)	(3,592)	11,552	2,352	-	-
Interest expense	-	(6,992)	-	(20,212)	(5,583)	(995)	(33,782)
Net interest income	17,838	50,311	38,884	3,924	5,824	10,107	126,888
(Provision) release for loan and lease losses	(68,944)	(12,142)	(6,221)	-	3,943	(4,100)	(87,464)
Non-interest income (loss)	238	9,555	1,330	(65,565)	275	1,856	(52,311)
Direct non-interest expenses	(16,570)	(30,198)	(13,993)	(1,549)	(7,532)	(15,358)	(85,200)
Segment (loss) income	$ (67,438)	$ 17,526	$ 20,000	$ (63,190)	$ 2,510	$ (7,495)	$ (98,087)
Average earnings assets	$ 2,093,238	$ 2,021,367	$ 3,971,083	$ 2,774,670	$ 746,384	$ 657,946	$ 12,264,688

	Mortgage Banking	**Consumer (Retail) Banking**	**Commercial and Corporate**	**Treasury and Investments**	**United States Operations**	**Virgin Islands Operations**	**Total**
Six-month period ended June 30, 2014:							
Interest income	$ 53,192	$ 110,681	$ 83,124	$ 29,571	$ 21,775	$ 20,651	$ 318,994
Net (charge) credit for transfer of funds	(17,282)	7,771	(6,048)	10,384	5,175	-	-
Interest expense	-	(12,678)	-	(33,544)	(9,652)	(1,893)	(57,767)
Net interest income	35,910	105,774	77,076	6,411	17,298	18,758	261,227

	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
(Provision) release for loan and lease losses	(7,473)	(39,970)	(27,524)	-	16,440	(132)	(58,659)
Non-interest income	5,803	20,635	2,917	397	1,152	3,657	34,561
Direct non-interest expenses	(20,172)	(63,525)	(27,272)	(2,640)	(14,489)	(17,688)	(145,786)
Segment income	$ 14,068	$ 22,914	$ 25,197	$ 4,168	$ 20,401	$ 4,595	$ 91,343
Average earnings assets	$ 1,993,129	$ 1,951,587	$ 3,869,311	$ 2,712,564	$ 865,091	$ 663,172	$ 12,054,854

	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
Six-month period ended June 30, 2013:							
Interest income	$ 55,689	$ 116,243	$ 85,805	$ 24,044	$ 17,704	$ 21,410	$ 320,895
Net (charge) credit for transfer of funds	(19,902)	(1,719)	(7,740)	24,515	4,846	-	-
Interest expense	-	(13,841)	-	(41,975)	(11,700)	(1,998)	(69,514)
Net interest income	35,787	100,683	78,065	6,584	10,850	19,412	251,381
(Provision) release for loan and lease losses	(77,532)	(22,323)	(92,332)	-	2,434	(8,834)	(198,587)
Non-interest income (loss)	4,588	20,297	2,789	(65,733)	887	4,028	(33,144)
Direct non-interest expenses	(28,218)	(59,866)	(31,581)	(3,955)	(14,254)	(24,494)	(162,368)
Segment (loss) income	$ (65,375)	$ 38,791	$ (43,059)	$ (63,104)	$ (83)	$ (9,888)	$ (142,718)

Supplemental cash flow information is as follows:

Average earnings assets	$ 2,096,464	$ 1,943,173	$ 4,150,227	$ 2,732,539	$ 713,072	$ 667,587	$ 12,303,062

73

The following table presents a reconciliation of the reportable segment financial information to the consolidated totals:

	Quarter Ended June 30, 2014	Quarter Ended June 30, 2013	Six-Month Period Ended June 30, 2014	Six-Month Period Ended June 30, 2013
Net income (loss):				
Total income (loss) for segments and other	$ 45,773	$ (98,087)	$ 91,343	$ (142,718)
Other non-interest (loss) income (1)	(670)	648	(7,280)	(4,890)
Other operating expenses (2)	(24,154)	(26,123)	(45,144)	(46,965)
Income (loss) before income taxes	20,949	(123,562)	38,919	(194,573)
Income tax benefit (expense)	276	979	(611)	(643)
Total consolidated net income (loss)	$ 21,225	$ (122,583)	$ 38,308	$ (195,216)
Average assets:				
Total average earning assets for segments	$ 12,013,689	$ 12,264,688	$ 12,054,854	$ 12,303,062
Other average earning assets (1)	152	17,841	3,343	20,797
Average non-earning assets	640,718	654,304	656,179	681,489
Total consolidated average assets	$ 12,654,559	$ 12,936,833	$ 12,714,376	$ 13,005,348

(1) The activities related to the Bank's equity interest in CPG/GS are presented as an Other non-interest income (loss) and as Other average earning assets in the table above.

(2) Expenses pertaining to corporate administrative functions that support the operating segments but are not specifically attributable to or managed by any segment are not included in the reported financial results of the operating segments. The unallocated corporate expenses include certain general and administrative expenses and related depreciation and amortization expenses.

74

Supplemental cash flow information is as follows:

NOTE 22 – REGULATORY MATTERS, COMMITMENTS AND CONTINGENCIES

The Corporation is subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets and liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgment and adjustment by the regulators with respect to minimum capital requirements, components, risk weightings and other factors.

Capital standards established by regulations require the Corporation to maintain minimum amounts and ratios for Leverage (Tier 1 capital to average total assets) and ratios of Tier 1 Capital to Risk-Weighted Assets and Total Capital to Risk-Weighted Assets as defined in the regulations. The total amount of risk-weighted assets is computed by applying risk-weighting factors to the Corporation's assets and certain off-balance sheet items, which generally vary from 0% to 100% depending on the nature of the asset.

Effective June 2, 2010, FirstBank, by and through its Board of Directors, entered into a Consent Order (the "FDIC Order") with the FDIC and OCIF. The FDIC Order provides for various things, including (among other things) the following: (1) having and retaining qualified management; (2) increased participation in the affairs of FirstBank by its Board of Directors; (3) development and implementation by FirstBank of a capital plan to attain a leverage ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 10% and a total risk-based capital ratio of at least 12%; (4) adoption and implementation of strategic, liquidity and fund management and profit and budget plans and related projects within certain timetables set forth in the FDIC Order and on an ongoing basis; (5) adoption and implementation of plans for reducing FirstBank's positions in certain classified assets and delinquent and non-accrual loans within timeframes set forth in the FDIC Order; (6) refraining from lending to delinquent or classified borrowers already obligated to FirstBank on any extensions of credit so long as such credit remains uncollected, except where FirstBank's failure to extend further credit to a particular borrower would be detrimental to the best interests of FirstBank, and any such additional credit is approved by FirstBank's Board of Directors; (7) refraining from accepting, increasing, renewing or rolling over brokered CDs without the prior written approval of the FDIC; (8) establishment of a comprehensive policy and methodology for determining the allowance for loan and lease losses and the review and revision of FirstBank's loan policies, including the non-accrual policy; and (9) adoption and implementation of adequate and effective programs of independent loan review, appraisal compliance, and an effective policy for managing FirstBank's sensitivity to interest rate risk. The foregoing summary is not complete and is qualified in all respects by reference to the actual language of the FDIC Order. Although all of FirstBank's regulatory capital ratios exceeded the minimum capital ratios for "well capitalized" levels, as well as the minimum capital ratios required by the FDIC Order, as of June 30, 2014, FirstBank cannot be treated as a "well capitalized" institution under regulatory guidance because it is operating under the FDIC Order.

Effective June 3, 2010, First BanCorp. entered into the Written Agreement with the New York FED. The Written Agreement provides, among other things, that the holding company must serve as a source of strength to FirstBank, and that, except with the consent generally of the New York FED and the Federal Reserve Board, (1) the holding company may not pay dividends to stockholders or receive dividends from FirstBank, (2) the holding company and its nonbank subsidiaries may not make payments on trust-preferred securities or subordinated debt, and (3) the holding company cannot incur, increase, or guarantee debt or repurchase any capital securities. The Written Agreement also requires that the holding company submit a capital plan that reflects sufficient capital at First BanCorp. on a consolidated basis, which must be acceptable to the New York FED, and follow certain guidelines with respect to the appointment or change in responsibilities of senior officers. The foregoing summary is not complete and is qualified in all respects by reference to the actual language of the Written Agreement.

The Corporation submitted its capital plan setting forth how it plans to improve capital positions to comply with the FDIC Order and the Written Agreement over time.

In addition to the Capital Plan, the Corporation has submitted to its regulators a liquidity and brokered CD plan, including a contingency funding plan, a non-performing asset reduction plan, a budget and profit plan, a strategic plan, and a plan for the reduction of classified and special mention assets. As of June 30, 2014, the Corporation had completed all of the items included in the Capital Plan and is continuing to work on reducing non-performing loans. Further, the Corporation has reviewed and enhanced the Corporation's loan review program, various credit policies, the Corporation's treasury and investment policy, the Corporation's asset classification and allowance for loan and lease losses and non-accrual policies, the Corporation's charge-off policy and the Corporation's appraisal program. The Regulatory Agreements also require the submission to the regulators of quarterly progress reports.

The FDIC Order imposes no other restrictions on FirstBank's products or services offered to customers, nor does it or the Written Agreement impose any type of penalties or fines upon FirstBank or the Corporation. Concurrent with the FDIC Order, the FDIC has granted FirstBank temporary waivers to enable it to continue accessing the brokered CD market through September 30, 2014. FirstBank will request approvals for future periods, although no assurance can be given that future approvals will be given.

In July 2013, U.S. banking regulators approved a revised regulatory capital framework for U.S. banking organizations (the "Basel 3 rules") that is based on international regulatory capital requirements adopted by the Basel Committee on Banking Supervision over the past several years. The Basel 3 rules introduce new minimum capital ratios and capital conservation buffer requirements, change the composition of regulatory capital, require a number of new adjustments to and deductions from regulatory capital, and introduce a new "Standardized Approach" for the calculation of risk-weighted assets that will replace the risk-weighting requirements under the current U.S. regulatory capital rules. The new minimum regulatory capital requirements and the Standardized Approach for the calculation of risk-weighted assets will become effective for the Corporation and FirstBank on January 1, 2015. The capital conservation buffer requirements, and the regulatory capital adjustments and deductions under the Basel 3 rules will be phased-in over several years ending as of December 31, 2018.

The Basel 3 rules introduce a new and separate ratio of Common Equity Tier 1 capital ("CET1") to risk-weighted assets. CET1, a component of total Tier 1 capital, generally consists of common stock and related surplus, retained earnings, accumulated other comprehensive income ("AOCI"), and qualifying minority interests. In addition, the Basel 3 rules also will require the Corporation to maintain an additional CET1 capital conservation buffer of 2.5%. Thus, when the Basel 3 rules are fully phased in as of January 1, 2019, the Corporation will be required to maintain: (i) a minimum CET1 to risk-weighted assets ratio of at least 4.5%, plus the 2.5% "capital conservation buffer," resulting in a required minimum CET1 ratio of at least 7% upon full implementation, (ii) a minimum ratio of total Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum Tier 1 capital ratio of 8.5% upon full implementation, (iii) a minimum ratio of total Tier 1 plus Tier 2 capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum total capital ratio of 10.5% upon full implementation, and (iv) a required minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average on-balance sheet (non-risk adjusted) assets. The phase-in of the capital conversation buffer will begin on January 1, 2016 with a first year requirement of 0.625% of additional CET1, which will be progressively increased over a four-year period, increasing by that same percentage amount on each subsequent

January 1 until it reaches the fully-phased in 2.5% CET1 requirement on January 1, 2019.

In addition, the Basel 3 rules require a number of new deductions from and adjustments to CET1, including deductions from CET1 for mortgage servicing rights, and deferred tax assets dependent upon future taxable income. In the case of mortgage servicing assets and deferred tax assets, among others, these items would be required to be deducted to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current regulatory capital requirements, the effect of AOCI is excluded for the purposes of calculating the required regulatory capital ratios. By comparison, under the Basel 3 rules, the effects of certain AOCI items are not excluded. Certain banking organizations, however, including the Corporation and FirstBank, will be allowed to make a one-time permanent election in early 2015 to continue to exclude AOCI items.

The Corporation and FirstBank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the securities portfolio.

In addition, the Basel 3 rules will require that certain non-qualifying capital instruments, including cumulative preferred stock and Trust Preferred Securities ("TRuPs"), be excluded from Tier 1 capital. In general, banking organizations such as the Corporation and the Bank, must begin to phase out TRuPs from Tier 1 capital by January 1, 2015. The Corporation will be allowed to include 25% of the $225 million outstanding qualifying TRuPs as Tier 1 capital in 2015 and the TRuPs must be fully phased out from Tier 1 capital by January 1, 2016. However, the Corporation's TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature.

The Basel 3 rules also revise the "prompt corrective action" ("PCA") regulations that apply to depository institutions, including FirstBank, pursuant to Section 38 of the Federal Deposit Insurance Act by (i) introducing a separate CET1 ratio requirement for each PCA capital category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each PCA capital category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that allows a bank with a composite supervisory rating of 1 to have a 3% leverage ratio and still be adequately capitalized and maintaining the minimum leverage ratio for well-capitalized status at 5%. The Basel 3 rules do not change the total risk-based capital requirement (10% for well-capitalized status) for any PCA capital category. The new PCA requirements become effective on January 1, 2015.

The Basel 3 rules separately impose a Standardized Approach for risk-weightings that expands the risk-weighting categories from the four major risk-weighting categories under the current regulatory capital rules (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets. In a number of cases, the Standardized Approach will result in higher risk weights for a variety of asset categories. Specific changes to the risk-weightings of assets under the current regulatory capital rules include, among other things: (i) applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans, (ii) assigning a 150% risk weight to exposures that are 90 days past due (other than qualifying residential mortgage exposures, which remain at an assigned risk-weighting of 100%), and (iii) establishing a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, in contrast to the 0% risk-weighting under the current rules.

The Corporation's total capital, Tier I and leverage ratios as of June 30, 2014 were 18.06%, 16.80% and 12.04%, respectively. Meanwhile, the total capital, Tier I capital, and leverage ratios as of June 30, 2014 of the banking subsidiary, FirstBank Puerto Rico, were 17.70%, 16.43% and 11.79%, respectively.

Supplemental cash flow information is as follows:

The Corporation enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments may include commitments to extend credit and commitments to sell mortgage loans at fair value. As of June 30, 2014, commitments to extend credit amounted to approximately $1.1 billion, of which $685.3 million relates to credit card loans. Commercial and Financial standby letters of credit amounted to approximately $44.8 million. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. In the case of credit cards and personal lines of credit, the Corporation can cancel the unused credit facility at any time and without cause. Generally, the Corporation's mortgage banking activities do not enter into interest rate lock agreements with prospective borrowers.

As of June 30, 2014, First BanCorp and its subsidiaries were defendants in various legal proceedings arising in the ordinary course of business. Management believes that the final disposition of these matters, to the extent not previously provided for, will not have a material adverse effect, individually or in the aggregate, on the Corporation's financial position, results of operations or cash flows.

NOTE 23 – FIRST BANCORP. (HOLDING COMPANY ONLY) FINANCIAL INFORMATION

The following condensed financial information presents the financial position of the Holding Company only as of June 30, 2014 and December 31, 2013 and the results of its operations for the quarters and six month periods ended June 30, 2014 and 2013.

Statements of Financial Condition				
	As of June 30,		As of December 31,	
	2014		2013	
	(In thousands)			
Assets				
Cash and due from banks	$	30,862	$	31,957
Money market investments		6,111		6,111
Investment securities available for sale, at market:				
Equity investments		9		33
Other investment securities		285		285
Loans held for investment, net		345		356
Investment in First Bank Puerto Rico, at equity		1,496,636		1,403,612
Investment in First Bank Insurance Agency, at equity		11,215		9,834
Investment in FBP Statutory Trust I		3,093		3,093
Investment in FBP Statutory Trust II		3,866		3,866
Other assets		4,186		4,101
Total assets	$	1,556,608	$	1,463,248
Liabilities and Stockholders' Equity				
Liabilities:				
Other borrowings	$	231,959	$	231,959
Accounts payable and other liabilities		18,648		15,431
Total liabilities		250,607		247,390
Stockholders' equity		1,306,001		1,215,858
Total liabilities and stockholders' equity	$	1,556,608	$	1,463,248

	Quarter Ended		Six-Month Period Ended	
	June 30,		June 30,	

	2014	2013	2014	2013
	(In thousands)		(In thousands)	
Income:				
Interest income on money market investments	$ 5	$ 6	$ 10	$ 11
Other income	55	72	108	124
	60	78	118	135
Expense:				
Notes payable and other borrowings	1,786	1,763	3,546	3,509
Other operating expenses	768	806	1,274	2,609
	2,554	2,569	4,820	6,118
Impairment on equity securities	-	(42)	-	(42)
Loss before income taxes and equity				
in undistributed earnings (losses) of subsidiaries	(2,494)	(2,533)	(4,702)	(6,025)
Income tax provision	(2)	-	(4)	-
Equity in undistributed earnings (losses) of subsidiaries	23,721	(120,050)	43,014	(189,191)
Net income (loss)	$ 21,225	$ (122,583)	$ 38,308	$ (195,216)
Other Comprehensive income (loss), net of tax	27,790	(59,964)	50,329	(68,574)
Comprehensive income (loss)	$ 49,015	$ (182,547)	$ 88,637	$ (263,790)

78

Supplemental cash flow information is as follows:

NOTE 24 – SUBSEQUENT EVENTS

The Corporation has performed an evaluation of events occurring subsequent to June 30, 2014; management has determined that there are no additional events occurring in this period that require disclosure in or adjustment to the accompanying financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

SELECTED FINANCIAL DATA									
		Quarter ended				**Six-Month Period Ended**			
(In thousands, except for per share and financial ratios)		**June 30,**				**June 30,**			
		2014		**2013**		**2014**		**2013**	
Condensed Income Statements:									
	Total interest income	$	158,423	$	160,670	$	318,994	$	320,895
	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
	Non-interest income (loss)		15,931		(51,663)		27,281		(38,034)
	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 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)
Per Common Share Results:									
	Net earnings (loss) per share basic	$	0.11	$	(0.60)	$	0.19	$	(0.95)
	Net earnings (loss) per share diluted	$	0.11	$	(0.60)	$	0.19	$	(0.95)
	Cash dividends declared	$	-	$	-	$	-	$	-
	Average shares outstanding		208,202		205,490		206,974		205,477
	Average shares outstanding diluted		210,144		205,490		208,517		205,477
	Book value per common share	$	5.97	$	5.60	$	5.97	$	5.60
	Tangible book value per common share (1)	$	5.72	$	5.32	$	5.72	$	5.32
Selected Financial Ratios (In Percent):									
Profitability:									
	Return on Average Assets		0.67		(3.80)		0.61		(3.03)
	Interest Rate Spread (2)		4.19		3.91		4.22		3.84
	Net Interest Margin (2)		4.37		4.12		4.40		4.06
	Return on Average Total Equity		6.66		(35.65)		6.12		(27.51)
			6.95		(37.36)		6.41		(28.78)

	Return on Average Common Equity								
	Average Total Equity to Average Total Assets		10.10		10.66		9.93		11.00
	Tangible common equity ratio (1)		9.76		8.64		9.76		8.64
	Dividend payout ratio		-		-		-		-
	Efficiency ratio (3)		67.30		147.99		66.18		98.12
Asset Quality:									
	Allowance for loan and lease losses to total loans held for investment		2.55		3.19		2.55		3.19
	Net charge-offs (annualized) to average loans (4) (5) (6)		2.19		5.25		2.15		6.69
	Provision for loan and lease losses to net charge-offs (7) (8)		51.09		67.83		56.76		59.64
	Non-performing assets to total assets (6)		6.05		5.87		6.05		5.87
	Non-performing loans held for investment to total loans held for investment (8)		5.96		5.36		5.96		5.36
	Allowance to total non-performing loans held for investment		42.71		59.47		42.71		59.47
	Allowance to total non-performing loans held for investment								
	excluding residential real estate loans		61.96		80.87		61.96		80.87
Other Information:									
	Common Stock Price: End of period	$	5.44	$	7.08	$	5.44	$	7.08
		As of June 30, 2014		**As of December 31, 2013**					
Balance Sheet Data:									
	Loans, including loans held for sale	$	9,539,206	$	9,712,139				
	Allowance for loan and lease losses		241,177		285,858				
	Money market and investment securities		2,043,501		2,208,342				
	Intangible assets		52,378		54,866				
	Deferred tax asset, net		8,738		7,644				
	Total assets		12,523,251		12,656,925				
	Deposits		9,630,788		9,879,924				