

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico
(State or other jurisdiction of

66-0561882
(I.R.S. employer

incorporation or organization)

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 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 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

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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

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

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

FIRST BANCORP.

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SIGNATURES

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

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

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

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

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six-Month Period Ended			
	June 30,		June 30,	
	2014		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:				

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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,		June 30,	
	2014		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)

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Excess of carrying amount of Series A through 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

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

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 carryforwards 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 principle 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.

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

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,		June 30,		June 30,		June 30,		
	2014		2013		2014		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:

						Weighted-Average		
						Remaining		Aggregate
	Number		Weighted-Average		Contractual Term			Intrinsic
	of		Exercise Price		(Years)			Value
	Options							(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									
		Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized				Fair value	Weighted average yield %		
				gains	losses						
(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		

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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	

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									
		Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized				Fair value	Weighted average yield %		
				gains	losses						
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		

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	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	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			

		Unrealized		Unrealized		Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	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

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

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							
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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 (“Moody’s”) 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.

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	-	

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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
Total loans held for investment	\$ 111,061	\$ 146,558	\$ 696,588	\$ 954,207	\$ 105,620	\$ 8,407,274	\$ 9,467,101

- (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 loans held for investment	90 days past due and still accruing (2)
				Total Past Due	Purchased Credit-Impaired	Current		

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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			