

FIRST BANCORP /PR/
Form 10-Q
November 10, 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 September 30, 2014

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico (State or other jurisdiction of incorporation or organization)	66-0561882 (I.R.S. employer identification number)
1519 Ponce de León Avenue, Stop 23 Santurce, Puerto Rico (Address of principal executive offices)	00908 (Zip Code)
(787) 729-8200 (Registrant's telephone number, including area code) Not applicable	
(Former name, former address and former fiscal year, if changed since last report)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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.

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: 213,004,449 shares outstanding as of October 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 other of similar meaning or import in connection with any discussion of future operating, financial or other performance 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 need 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 and 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 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 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)

	September 30, 2014		December 31, 2013	
(In thousands, except for share information)				
ASSETS				
Cash and due from banks	\$	953,038	\$	454,302
Money market investments:				
Time deposits with other financial institutions		300		300
Other short-term investments		16,657		201,069
Total money market investments		16,957		201,369
Investment securities available for sale, at fair value:				
Securities pledged that can be repledged		1,032,467		1,042,482
Other investment securities		944,670		935,800
Total investment securities available for sale		1,977,137		1,978,282
Other equity securities		25,752		28,691
Investment in unconsolidated entity		-		7,279
Loans, net of allowance for loan and lease losses of \$225,434				
(2013 - \$285,858)		9,089,968		9,350,312
Loans held for sale, at lower of cost or market		80,014		75,969
Total loans, net		9,169,982		9,426,281
Premises and equipment, net		167,916		166,946
Other real estate owned		112,803		160,193
Accrued interest receivable on loans and investments		48,516		54,012
Other assets		171,179		179,570
Total assets	\$	12,643,280	\$	12,656,925
LIABILITIES				
Non-interest-bearing deposits	\$	862,422	\$	851,212
Interest-bearing deposits		8,840,752		9,028,712
Total deposits		9,703,174		9,879,924
Securities sold under agreements to repurchase		900,000		900,000
Advances from the Federal Home Loan Bank (FHLB)		325,000		300,000
Other borrowings		231,959		231,959
Accounts payable and other liabilities		158,990		129,184
Total liabilities		11,319,123		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, 213,642,311 shares (2013 - 207,635,157 shares issued)		21,364			20,764
Less: Treasury stock (at par value)		(66)			(57)
Common stock outstanding, 212,977,588 shares outstanding (2013 - 207,068,978					
shares outstanding)		21,298			20,707
Additional paid-in capital		915,231			888,161
Retained earnings		385,847			322,679
Accumulated other comprehensive loss, net of tax of \$7,752		(34,323)			(78,736)
Total stockholders' equity		1,324,157			1,215,858
Total liabilities and stockholders' equity	\$	12,643,280		\$	12,656,925
The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Quarter Ended				Nine-Month Period Ended			
	September 30,				September 30,			
	2014		2013		2014		2013	
(In thousands, except per share information)								
Interest and dividend income:								
Loans	\$	144,295	\$	147,325	\$	433,379	\$	443,954
Investment securities		11,894		14,422		40,850		37,650
Money market investments		473		456		1,427		1,494
Total interest income		156,662		162,203		475,656		483,098
Interest expense:								
Deposits		19,344		21,453		59,109		70,915
Securities sold under agreements to repurchase		6,857		6,531		19,655		19,418
Advances from FHLB		949		1,524		2,606		5,180
Other borrowings		1,818		1,790		5,365		5,299
Total interest expense		28,968		31,298		86,735		100,812
Net interest income		127,694		130,905		388,921		382,286
Provision for loan and lease losses		26,999		22,195		85,658		220,782
Net interest income after provision for loan and lease losses		100,695		108,710		303,263		161,504
Non-interest income (loss):								
Service charges on deposit accounts		3,235		3,157		9,728		9,635
Mortgage banking activities		3,809		3,521		10,213		12,924
Net gain (loss) on sale of investments (includes \$42 accumulated other comprehensive income reclassification for other-than-temporary impairment on equity securities for the nine-month period ended September 30, 2013)		-		-		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 previously										
recognized in other comprehensive income		(245)			-		(245)			(117)
Net impairment losses on available-for-sale debt securities		(245)			-		(245)			(117)
Equity in loss of unconsolidated entity		-			(5,908)		(7,280)			(10,798)
Impairment of collateral pledged to Lehman		-			-		-			(66,574)
Insurance commission income		1,290			1,303		5,328			4,831
Other non-interest income		8,085			7,987		25,420			22,167
Total non-interest income (loss)		16,174			10,060		43,455			(27,974)
Non-interest expenses:										
Employees' compensation and benefits		33,964			32,823		101,929			99,493
Occupancy and equipment		14,727			15,109		43,527			45,062
Business promotion		3,925			3,538		12,040			10,726
Professional fees		11,533			11,840		32,944			36,707
Taxes, other than income taxes		4,528			4,718		13,607			14,009
Insurance and supervisory fees		9,493			11,513		31,267			37,018
Net loss on other real estate owned (OREO) and OREO operations		4,326			7,052		16,941			29,191
Credit and debit card processing expenses		3,741			2,682		11,447			8,040
Communications		2,143			1,866		5,916			5,565
Other non-interest expenses		5,224			8,013		14,916			22,676
Total non-interest expenses		93,604			99,154		284,534			308,487
Income (loss) before income taxes		23,265			19,616		62,184			(174,957)
Income tax expense		(64)			(3,676)		(675)			(4,319)
Net income (loss)	\$	23,201	\$	15,940	\$	61,509	\$	(179,276)		
Net income (loss) attributable to common stockholders	\$	23,201	\$	15,940	\$	63,168	\$	(179,276)		
Net earnings (loss) per common share:										
Basic	\$	0.11	\$	0.08	\$	0.30	\$	(0.87)		
Diluted	\$	0.11	\$	0.08	\$	0.30	\$	(0.87)		
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				Nine-Month Period Ended			
	September 30, 2014		September 30, 2013		September 30, 2014		September 30, 2013	
(In thousands)								
Net income (loss)	\$	23,201	\$	15,940	\$	61,509	\$	(179,276)
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		104		1,304		1,291		2,739
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income		245		-		245		117
All other unrealized holding gains (losses) on available-for-sale securities:								
All other unrealized holding (losses) gains arising during the period		(6,265)		(20,061)		43,168		(89,807)
Reclassification adjustments for net gain included in net income		-		-		(291)		-
Reclassification adjustment for other-than-temporary impairment on equity securities		-		-		-		42
Income tax benefit (expense) related to items of other comprehensive income		-		414		-		(8)
Other comprehensive (loss) income for the period, net of tax		(5,916)		(18,343)		44,413		(86,917)
Total comprehensive income (loss)	\$	17,285	\$	(2,403)	\$	105,922	\$	(266,193)
The accompanying notes are an integral part of these statements.								

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine-Month Period Ended			
	September 30,		September 30,	
	2014		2013	
(In thousands)				
Cash flows from operating activities:				
Net income (loss)	\$	61,509	\$	(179,276)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation		15,604		17,911
Amortization of intangible assets		3,723		4,558
Provision for loan and lease losses		85,658		220,782
Deferred income tax benefit		(2,815)		(2,577)
Stock-based compensation		2,962		2,088
Gain on sales of investments, net		(291)		-
Other-than-temporary impairments on debt securities		245		117
Other-than-temporary impairments on equity securities		-		42
Equity in loss of unconsolidated entity		7,280		10,798
Impairment of collateral pledged to Lehman		-		66,574
Derivative instruments and financial liabilities measured at fair value, gain		(820)		(762)
Loss (gain) on sales of premises and equipment and other assets		20		(4)
Net gain on sales of loans		(5,498)		(6,253)
Net amortization of premiums, discounts and deferred loan fees and costs		(1,966)		(3,248)
Originations and purchases of loans held for sale		(223,602)		(400,614)
Sales and repayments of loans held for sale		234,698		461,510
Loans held for sale valuation adjustment		-		6,553
Amortization of broker placement fees		5,140		6,094
Net amortization of premium and discounts on investment securities		3,348		7,473
Increase in accrued income tax payable		2,847		1,130
Decrease in accrued interest receivable		5,496		1,823
Increase in accrued interest payable		4,620		1,345
Decrease in other assets		25,536		22,400
Increase in other liabilities		13,206		24,076
Net cash provided by operating activities		236,900		262,540
Cash flows from investing activities:				

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Principal collected on loans		2,533,504			2,081,371
Loans originated and purchased		(2,410,182)			(2,362,492)
Proceeds from sales of loans held for investment		31,558			309,024
Proceeds from sales of repossessed assets		51,399			70,805
Proceeds from sales of available-for-sale securities		4,855			-
Purchases of available-for-sale securities		(133,596)			(690,377)
Proceeds from principal repayments and maturities of available-for-sale securities		171,016			280,694
Additions to premises and equipment		(17,863)			(8,919)
Proceeds from sale of premises and equipment and other assets		1,269			4
Net redemptions/sales of other equity securities		2,939			6,661
Net cash provided by (used in) investing activities		234,899			(313,229)
Cash flows from financing activities:					
Net (decrease) increase in deposits		(181,890)			83,557
Net FHLB advances proceeds (paid)		25,000			(155,000)
Repurchase of outstanding common stock		(523)			(335)
Issuance costs of common stock issued in exchange for preferred stock Series A through E		(62)			-
Net cash used in financing activities		(157,475)			(71,778)
Net increase (decrease) in cash and cash equivalents		314,324			(122,467)
Cash and cash equivalents at beginning of period		655,671			946,851
Cash and cash equivalents at end of period	\$	969,995		\$	824,384
Cash and cash equivalents include:					
Cash and due from banks	\$	953,038		\$	623,019
Money market instruments		16,957			201,365
	\$	969,995		\$	824,384
The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Nine-Month Period Ended			
	September 30,		September 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		23		15
Common stock withheld for taxes		(10)		(5)
Common stock issued in exchange for Series A through E preferred stock		459		-
Restricted stock grants		122		74
Restricted stock forfeited		(3)		(4)
Balance at end of period		21,298		20,704
Additional Paid-In-Capital:				
Balance at beginning of period		888,161		885,754
Stock-based compensation		2,962		2,088
Common stock withheld for taxes		(513)		(335)
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		(122)		(74)
Common stock issued as compensation		(23)		-
Restricted stock forfeited		3		4
Balance at end of period		915,231		887,437
Retained Earnings:				
Balance at beginning of period		322,679		487,166
Net income (loss)		61,509		(179,276)

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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		385,847			307,890
Accumulated Other Comprehensive Income (Loss), net of tax:					
Balance at beginning of period		(78,736)			28,432
Other comprehensive income (loss), net of tax		44,413			(86,917)
Balance at end of period		(34,323)			(58,485)
Total stockholders' equity	\$	1,324,157		\$	1,220,593
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 nine-month period ended September 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 carryforwards are not available to settle any additional income taxes that would result from the disallowance of the Corporation's unrecognized tax benefits. Refer to Note 18 for additional information about the Corporation's unrecognized tax benefits, including the settlement reached with the United States Internal Revenue Service ("IRS") in the third quarter of 2014.

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 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 Update is effective for all business entities for annual periods and interim periods within those annual periods beginning after December 15, 2015. 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 August 2014, the FASB updated the Codification to reduce the diversity found in the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. Consistency in classification upon foreclosure is expected in order to provide more decision-useful information. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if: (i) the loan has a government guarantee that is not separable from the loan before foreclosure; (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim, and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The Update is effective for public business entities for annual periods, and interim periods within those annual periods beginning after December 15, 2014. The guidance can be implemented using either a prospective transition method or a modified retrospective transition method. 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 August 2014, the FASB updated the Codification to provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plans, the entity should disclose information that enables users of the financial statements to understand. The Update is effective for all business entities for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Corporation expects the adoption of this guidance will have no impact on the Corporation's financial position, results of operations, comprehensive income, cash flows and disclosures.

NOTE 2 – EARNINGS PER COMMON SHARE

The calculations of earnings (losses) per common share for the quarters and nine month periods ended September 30, 2014 and 2013 are as follows:										
	Quarter Ended					Nine-Month Period Ended				
	September 30,					September 30,				
	2014		2013			2014		2013		
(In thousands, except per share information)										
Net income (loss)	\$	23,201	\$	15,940	\$	61,509	\$	(179,276)		
Favorable impact from issuing common stock in exchange for Series A through E preferred stock		-		-		1,659		-		
Net income (loss) attributable to common stockholders	\$	23,201	\$	15,940	\$	63,168	\$	(179,276)		
Weighted-Average Shares:										
Basic weighted-average common shares outstanding		210,466		205,579		208,151		205,512		
Average potential common shares		1,893		1,737		1,660		-		
Diluted weighted-average number of common shares outstanding		212,359		207,316		209,811		205,512		
Earnings (loss) per common share:										
Basic	\$	0.11	\$	0.08	\$	0.30	\$	(0.87)		
Diluted	\$	0.11	\$	0.08	\$	0.30	\$	(0.87)		

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 nine-month period ended September 30, 2014, net income attributable to common stockholders also includes the one-time effect to retained earnings of the issuance of common stock in exchange for Series A through E preferred stock. These transactions are 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 nine-month periods ended September 30, 2014 and 2013, respectively. Warrants outstanding to purchase 1,285,899 shares of common stock and 1,435,220 unvested shares of restricted stock were excluded from the computation of diluted earnings per share for the nine-month period ended September 30, 2013 because the Corporation reported a net loss attributable to common stockholders for the period 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 nine-month period ended September 30, 2014 is set forth below:								
						Weighted-Average		
						Remaining		Aggregate
	Number of		Weighted-Average		Contractual Term			Intrinsic Value
	Options		Exercise Price		(Years)			(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		1.6		\$	-

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 first nine months of 2014, 379,573 shares of restricted stock were awarded to the Corporation's independent directors subject to vesting periods that range from 1 to 5 years. In addition, during the first nine months of 2014, the Corporation issued 840,138 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% vest in three years from the grant date. Included in those 840,138 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:				
Nine-Month Period Ended				
September 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	1,219,711			3.75
Forfeited	(33,840)			3.20
Vested	(119,838)			4.76
Non-vested shares at September 30, 2014	2,477,218		\$	3.32

For the quarter and nine-month period ended September 30, 2014, the Corporation recognized \$0.6 million and \$1.8 million, respectively, of stock-based compensation expense related to restricted stock awards, compared to \$0.5 million and \$1.1 million for the same periods in 2013. As of September 30, 2014, there was \$4.7 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 2.2 years.

During the third quarter of 2013, 22,218 shares of restricted stock were awarded to the Corporation's independent directors subject to a one-year vesting period. In addition, during the first nine months of 2013, the Corporation issued 716,405 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 716,405 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 first nine months of 2013 was based on the market price of the Corporation's outstanding common stock on the date of the grant. 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 \$65 thousand of compensation expense was reversed during the first nine 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 nine months of 2014, the Corporation issued 224,162 shares of common stock with a weighted average market value of \$5.21 as salary stock compensation. This resulted in a compensation expense of \$1.2 million recorded in the first nine-months of 2014.

For the first nine-months of 2014, the Corporation withheld 74,989 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 September 30, 2014 and December 31, 2013 were as follows:

		September 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	\$ 7,496	\$ -	\$ 2	\$ -	\$ 7,498	0.11		
Obligations of U.S. government-sponsored agencies:									
	After 1 to 5 years	174,161	-	1	4,225	169,937	1.18		
	After 5 to 10 years	133,121	-	9	4,538	128,592	1.52		
Puerto Rico government obligations:									
	After 1 to 5 years	39,816	-	-	10,006	29,810	4.49		
	After 5 to 10 years	885	-	1	-	886	5.20		
	After 10 years	20,446	-	-	4,753	15,693	5.83		

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

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United States and Puerto Rico													
government obligations	375,925		-		13		23,522			352,416		1.89	
Mortgage-backed securities:													
FHLMC certificates:													
After 10 years	325,487		-		860		4,265			322,082		2.19	
GNMA certificates:													
After 1 to 5 years	49		-		1		-			50		3.34	
After 5 to 10 years	1,534		-		84		-			1,618		3.28	
After 10 years	375,148		-		20,387		-			395,535		3.83	
	376,731		-		20,472		-			397,203		3.83	
FNMA certificates:													
After 1 to 5 years	4,639		-		201		-			4,840		3.44	
After 5 to 10 years	9,640		-		467		15			10,092		3.49	
After 10 years	862,358		-		5,736		13,720			854,374		2.36	
	876,637		-		6,404		13,735			869,306		2.38	
Other mortgage pass-through													
trust certificates:													
Over 5 to 10 years	115		-		1		-			116		7.27	
After 10 years	48,774		12,774		-		-			36,000		2.17	
	48,889		12,774		1		-			36,116		2.17	
Total mortgage-backed securities	1,627,744		12,774		27,737		18,000			1,624,707		2.67	
Equity securities (without contractual maturity) (1)	35		-		-		21			14		-	
Total investment securities available for sale	\$ 2,003,704		\$ 12,774		\$ 27,750		\$ 41,543			\$ 1,977,137		2.52	

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

(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			
	After 5 to 10 years	800	-	37	-		837	2.47			

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	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 September 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 September 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	\$ -	\$ -		\$ 45,503	\$ 14,759		\$ 45,503	\$ 14,759			
U.S. government agencies obligations	34,617	132		255,600	8,631		290,217	8,763			
Mortgage-backed securities:											
FNMA	71,267	326		558,555	13,409		629,822	13,735			
FHLMC	48,806	224		189,757	4,041		238,563	4,265			
Other mortgage pass-through trust certificates	-	-		36,000	12,774		36,000	12,774			
Equity securities	14	21		-	-		14	21			
	\$ 154,704	\$ 703		\$ 1,085,415	\$ 53,614		\$ 1,240,119	\$ 54,317			
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:											
	\$ 23,156	\$ 5,977		\$ 28,174	\$ 13,701		\$ 51,330	\$ 19,678			

Puerto Rico government obligations													
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 September 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 \$48.8 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.

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

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

	Private Label MBS				Private Label MBS			
	Quarter ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
(In thousands)								
Total other-than-temporary impairment losses	\$	-	\$	-	\$	-	\$	-
Portion of other-than-temporary impairment losses previously recognized in OCI		(245)		-		(245)		(117)
Net impairment losses recognized in earnings	\$	(245)	\$	-	\$	(245)	\$	(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 September 30,					Nine-Month Period Ended September 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		245		-		245		117		
Ending balance of credit losses on debt securities held for										
which a portion of an OTTI was recognized in OCI	\$	5,634	\$	5,389	\$	5,634	\$	5,389		

During the first nine months of 2014 and 2013, the \$245 thousand and \$117 thousand credit-related impairment loss, respectively, 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:

	September 30, 2014			December 31, 2013		
	Weighted Average	Range		Weighted Average	Range	
Discount rate	14.5%	14.5%		14.5%	14.5%	
Prepayment rate	31%	19.21%-100.00%		29%	15.86%-100.00%	
Projected Cumulative Loss Rate	7.6%	0.94%-80.00%		6.8%	0.58%-38.16%	

No OTTI losses on equity securities held in the available-for-sale investment portfolio were recognized in the first nine months of 2014. The Corporation recorded OTTI losses of \$42 thousand on equity securities held in the available-for-sale investment portfolio in the first nine months of 2013.

Total proceeds from the sale of securities available for sale during the first nine months 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 September 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 \$46.4 million. During the nine-month period ended September 30, 2014, the fair value of these obligations increased by \$4.9 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 a 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 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 September 30, 2014 and December 31, 2013, the Corporation had investments in FHLB stock with a book value of \$25.5 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 nine-month period ended September 30, 2014 was \$0.3 million and \$0.9 million, respectively, compared to \$0.3 million and \$1.0 million, respectively, for the comparable periods in 2013.

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

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 September 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:

	September 30,		December 31,	
	2014		2013	
(In thousands)				
Residential mortgage loans, mainly secured by first mortgages	\$	2,819,648	\$	2,549,008
Commercial loans:				
Construction loans		141,689		168,713
Commercial mortgage loans		1,812,094		1,823,608
Commercial and Industrial loans (1)		2,515,384		2,788,250
Loans to a local financial institution collateralized by				
real estate mortgages (2)		-		240,072
Commercial loans		4,469,167		5,020,643
Finance leases		236,115		245,323
Consumer loans		1,790,472		1,821,196
Loans held for investment		9,315,402		9,636,170
Allowance for loan and lease losses		(225,434)		(285,858)
Loans held for investment, net	\$	9,089,968	\$	9,350,312
	(1) As of September 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:				
	September 30,		December 31,	
(In thousands)	2014		2013	
Non-performing loans:				
Residential mortgage	\$	185,025	\$	161,441
Commercial mortgage		169,967		120,107

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

Commercial and Industrial		130,917			114,833
Construction:					
Land		16,262			27,834
Construction-commercial		-			3,924
Construction-residential		13,849			27,108
Consumer:					
Auto loans		22,925			21,316
Finance leases		4,501			3,082
Other consumer loans		16,070			15,904
Total non-performing loans held for investment (1) (2) (3)	\$	559,516		\$	495,549
(1)	As of September 30, 2014 and December 31, 2013, excludes \$54.6 million and \$54.8 million, respectively, of non-performing loans held for sale.				
(2)	Amount excludes PCI loans with a carrying value of approximately \$104.3 million and \$4.8 million as of September 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, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.				
(3)	Non-performing loans exclude \$485.1 million and \$425.4 million of Trouble Debt Restructuring loans that are in compliance with modified terms and in accrual status as of September 30, 2014 and December 31, 2013, respectively.				

The Corporation's aging of the loans held for investment portfolio is as follows:									
As of September 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)		8,225	\$ 77,238	\$ 85,463	\$ -	\$ 68,847	\$ 154,310	\$ 77,238	
Other residential mortgage loans (4)	-	87,502	201,883	289,385	99,535	2,276,418	2,665,338	16,858	
Commercial:									
Commercial and Industrial loans	16,775	11,637	149,037	177,449	-	2,337,935	2,515,384	18,120	
Commercial mortgage loans (4)	-	7,306	182,498	189,804	3,418	1,618,872	1,812,094	12,531	
Construction:									
Land (4)	-	401	16,434	16,835	-	40,940	57,775	172	
Construction-commercial	-	-	-	-	-	16,330	16,330	-	
Construction-residential	-	-	13,849	13,849	-	53,735	67,584	-	

(4)																			
Consumer:																			
Auto loans	83,686	21,352	22,925	127,963	-	966,671	1,094,634	-											
Finance leases	10,176	2,490	4,501	17,167	-	218,948	236,115	-											
Other consumer loans	7,240	9,335	19,114	35,689	1,360	658,789	695,838	3,044											
Total loans held for investment	\$ 117,877	\$ 148,248	\$ 687,479	\$ 953,604	\$ 104,313	\$ 8,257,485	\$ 9,315,402	\$ 127,963											

(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 \$41.4 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 September 30, 2014.

(3) As of September 30, 2014, includes \$24.6 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 \$15.1 million, \$179.0 million, \$40.5 million, \$0.5 million, and \$1.7 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-Impaired	Current	Total loans held for investment	90 days past due and still accruing (2)

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										Loans				
Residential mortgage:														
FHA/VA and other government-guaranteed loans (2) (3) (4)		2,180	\$ 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 consumer	11,710	8,691	20,492	40,893	4,791	663,192	708,876	4,588						

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 September 30, 2014 and December 31, 2013 are summarized below:												
Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness category:												
September 30, 2014	Substandard		Doubtful		Loss		Total Adversely Classified (1)		Total Portfolio			
(In thousands)												
Commercial mortgage	\$ 294,134		\$ 1,710		\$ -		\$ 295,844		\$ 1,812,094			
Construction:												
Land	17,648		-		-		17,648		57,775			
Construction-commercial	11,790		-		-		11,790		16,330			
Construction-residential	13,072		777		-		13,849		67,584			
Commercial and Industrial	225,941		5,515		794		232,250		2,515,384			
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 \$54.6 million (\$7.8 million land, \$39.1 million construction-commercial, \$0.9 million construction-residential and \$6.8 million commercial mortgage) and \$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 September 30, 2014 and December 31, 2013, respectively, of non-performing loans held for sale.											

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.

September 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		\$	154,310	\$	2,380,778	\$	1,071,709	\$	231,614	\$	678,408
Purchased Credit-Impaired (2)			-		99,535		-		-		1,360
Non-performing			-		185,025		22,925		4,501		16,070
Total		\$	154,310	\$	2,665,338	\$	1,094,634	\$	236,115	\$	695,838
(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 \$41.4 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 September 30, 2014.									
(2)		PCI loans are excluded from non-performing statistics due to the application of the accretion method, under 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, under 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		Nine-month Period Ended	
September 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 September 30, 2014									
With no related allowance recorded:									
FHA/VA-Guaranteed loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other residential mortgage loans	88,126	99,529	-	91,683	372	242	829	553	
Commercial:									
Commercial mortgage loans	103,282	116,016	-	105,065	286	536	1,059	1,512	
Commercial and Industrial Loans	44,683	54,955	-	49,686	-	240	-	518	
Construction:									
Land	1,003	1,072	-	1,009	6	4	18	5	
Construction-commercial	-	-	-	-	-	-	-	-	
Construction-residential	4,706	4,802	-	4,681	42	2	125	5	
Consumer:									
Auto loans	-	-	-	-	-	-	-	-	
Finance leases	-	-	-	-	-	-	-	-	
Other consumer loans	1,641	2,939	-	1,637	5	18	19	41	
	\$ 243,441	\$ 279,313	\$ -	\$ 253,761	\$ 711	\$ 1,042	\$ 2,050	\$ 2,634	
With an allowance recorded:									
FHA/VA-Guaranteed loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	333,697	371,553	11,658	337,227	3,713	594	10,864	1,799	

Other residential mortgage loans										
Commercial:										
Commercial mortgage loans	135,050	159,717	14,128	142,484	390	203	1,179	1,126		
Commercial and Industrial Loans	196,730	224,723	21,267	197,862	1,897	24	3,033	380		
Construction:										
Land	11,031	18,929	938	13,517	15	7	42	22		
Construction-commercial	11,790	11,790	790	11,944	-	128	-	344		
Construction-residential	10,911	14,147	1,208	12,322	-	-	-	-		
Consumer:										
Auto loans	15,733	15,733	2,388	16,692	264	-	810	-		
Finance leases	2,163	2,163	170	2,410	44	-	151	-		
Other consumer loans	12,468	13,172	2,737	12,561	537	11	1,192	23		
	\$ 729,573	\$ 831,927	\$ 55,284	\$ 747,019	\$ 6,860	\$ 967	\$ 17,271	\$ 3,694		
Total:										
FHA/VA-Guaranteed loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Other residential mortgage loans	421,823	471,082	11,658	428,910	4,085	836	11,693	2,352		
Commercial:										
Commercial mortgage loans	238,332	275,733	14,128	247,549	676	739	2,238	2,638		
Commercial and Industrial Loans	241,413	279,678	21,267	247,548	1,897	264	3,033	898		
Construction:										
Land	12,034	20,001	938	14,526	21	11	60	27		
Construction-commercial	11,790	11,790	790	11,944	-	128	-	344		
Construction-residential	15,617	18,949	1,208	17,003	42	2	125	5		
Consumer:										
Auto loans	15,733	15,733	2,388	16,692	264	-	810	-		
Finance leases	2,163	2,163	170	2,410	44	-	151	-		
Other consumer loans	14,109	16,111	2,737	14,198	542	29	1,211	64		
	\$ 973,014	\$ 1,111,240	\$ 55,284	\$ 1,000,780	\$ 7,571	\$ 2,009	\$ 19,321	\$ 6,328		

(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 \$8.8 million (\$7.4 million on an accrual basis and \$1.4 million on a cash basis) and \$23.6 million (\$19.3 million on an accrual basis and \$4.3 million on a cash basis) was recognized on impaired loans for the third quarter and nine-month period ended September 30, 2013, respectively.

The following tables show the activity for impaired loans and the related specific reserve for the quarter and nine-month period ended September 30, 2014:							
				Quarter Ended		Nine-Month Period Ended	
September 30, 2014							
(In thousands)							
Impaired Loans:							
Balance at beginning of period				\$	908,858	\$	919,112
Loans determined impaired during the period					118,549		271,792
Charge-offs					(31,263)		(95,948)
Increases to impaired loans-additional disbursements					1,768		2,687
Foreclosures					(5,332)		(13,472)
Loans no longer considered impaired					(1,009)		(18,740)
Paid in full or partial payments					(18,557)		(92,417)
Balance at end of period				\$	973,014	\$	973,014

				Quarter Ended		Nine-Month Period Ended	
September 30, 2014							
(In thousands)							
Specific Reserve:							
Balance at beginning of period				\$	68,358	\$	102,601
Provision for loan losses					18,189		48,631
Charge-offs					(31,263)		(95,948)
Balance at end of period				\$	55,284	\$	55,284

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 purchase 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 PCI 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.

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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:					
		September 30,		December 31,	
		2014		2013	
(In thousands)					
Residential mortgage loans	\$	99,535		\$	-
Commercial mortgage loans		3,418			-
Credit Cards		1,360			4,791
	\$	104,313		\$	4,791

The following tables present PCI loans by past due status as of September 30, 2014 and December 31, 2013:													
As of September 30, 2014		30-59 Days		60-89 Days		90 days or more		Total Past Due		Total PCI loans			
(In thousands)								Current					
Residential mortgage loans (1)		\$	-	\$	11,210	\$	14,963	\$	26,173	\$	73,362	\$	99,535
Commercial mortgage loans (1)			-		290		497		787		2,631		3,418
Credit Cards			79		48		113		240		1,120		1,360
		\$	79	\$	11,548	\$	15,573	\$	27,200	\$	77,113	\$	104,313
(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 \$16.8 million and \$0.7 million, respectively.											
As of December 31, 2013		30-59 Days		60-89 Days		90 days or more		Total Past Due		Total PCI loans			
(In thousands)								Current					
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 the 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 nine months 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.

Changes in the accretable yield of PCI loans for the quarter and nine-month period ended September 30, 2014 and 2013 were as follows:										
	Quarter ended September 30, 2014		Quarter ended September 30, 2013		Nine month period ended September 30, 2014		Nine month period ended September 30, 2013			
(In thousands)										
Balance at beginning of period	\$	86,147	\$	406	\$	-	\$	2,171		
Additions (accretable yield at acquisition of loans from Doral)		-		-		86,759		-		
Accretion recognized in earnings		(1,850)		(406)		(2,462)		(819)		
Reclassification to non accretable		-		-		-		(1,352)		
Balance at end of period	\$	84,297	\$	-	\$	84,297	\$	-		

Changes in the carrying amount of loans accounted for pursuant to ASC 310-30 follows:										
	Quarter Ended				Nine-Month Period Ended					
	September 30, 2014				September 30, 2014					
(In thousands)										
Balance at beginning of period (1)	\$	105,619			\$	4,791				
Additions (2)		-				102,831				
Accretion		1,850				2,462				
Collections and charge-offs		(3,156)				(5,771)				
Ending balance	\$	104,313			\$	104,313				
(1)	For the nine month period ended September 30, 2014, the beginning balance 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 \$137.5 million as of September 30, 2014 (December 2013- \$22.7 million).

Purchases and Sales of Loans

In addition to loans acquired from Doral, during the first nine months of 2014, the Corporation purchased \$115.1 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. Refer to Note 24, Subsequent Events, for additional information related to an additional purchase of approximately \$192.6 million of performing residential mortgage loans from Doral completed on October 2, 2014.

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 \$100.9 million of performing residential mortgage loans to FNMA and FHLMC during the first nine months of 2014. Also, the Corporation securitized \$144.6 million of FHA/VA mortgage loans into GNMA mortgage-backed securities during the first nine months 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 nine months of 2014, the Corporation repurchased pursuant to its repurchase option with GNMA \$6.4 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

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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 \$1.6 million during the first nine months 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 nine months of 2014 related to breaches in representations and warranties and a \$0.5 million charge was recorded related to compensatory fees imposed by GSEs. Historically, losses experienced related to breaches in representations and warranties have been immaterial. As a consequence, as of September 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.

The Corporation sold during the third quarter of 2014, a \$15.0 million participation of a commercial mortgage loan.

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 first nine months 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 nine months 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 nine months 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.

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 loans held for sale participations were paid-off.

The Corporation's primary goal with respect to these sales was 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 \$9.3 billion as of September 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 September 30, 2014, the Corporation had \$364.3 million in credit facilities granted to the Puerto Rico government, its municipalities and public corporations, of which \$316.3 million was outstanding, compared to \$397.8 million outstanding as of December 31, 2013. In addition, the outstanding balance of facilities granted to the government of the Virgin Islands amounted to \$40.8 million as of September 30, 2014, compared to \$60.6 million as of December 31, 2013. Approximately \$201.4 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 \$24.8 million consists of loans to units of the central government, and approximately \$90.1 million consists of loans to public corporations that generally 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 (“PREPA”) for fuel purchases that have priority over senior bonds and other debt. In August 2014, PREPA entered into a forbearance agreement with a group of banks, including FirstBank, to extend further its maturing credit lines to March 31, 2015. As a result of the forbearance, this credit facility was classified as a Trouble debt Restructuring (“TDR”) during the third quarter of 2014. The loan was maintained in accrual status based on the estimated cash flows analysis performed on this noncollateral dependent loan, repayment prospects and compliance with contractual terms. Major 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 \$200.4 million outstanding as of September 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 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

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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 September 30, 2014, the Corporation's total TDR loans held for investment of \$701.1 million consisted of \$348.4 million of residential mortgage loans, \$174.3 million of commercial and industrial loans, \$134.9 million of commercial mortgage loans, \$13.2 million of construction loans, and \$30.2 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to \$0.2 million as of September 30, 2014.

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

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of September 30, 2014, we classified an additional \$11.2 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

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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:													
September 30, 2014													
(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	\$	23,658	\$	6,046	\$	282,922	\$	-	\$	35,820	\$	348,446	
Commercial Mortgage Loans		29,889		12,837		74,364		-		17,844		134,934	
Commercial and Industrial Loans		7,602		80,742		33,051		3,089		49,813		174,297	
Construction Loans:													
Land		811		203		1,714		-		539		3,267	
Construction-residential		6,155		244		3,127		-		434		9,960	
Consumer Loans - Auto		-		441		9,292		-		6,000		15,733	
Finance Leases		-		437		1,726		-		-		2,163	
Consumer Loans - Other		38		155		9,879		509		1,762		12,343	
Total Troubled Debt Restructurings (2)	\$	68,153	\$	101,105	\$	416,075	\$	3,598	\$	112,212	\$	701,143	
(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 \$45.7 million as of September 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	Nine-Month Period Ended			
					September 30, 2014				

Beginning balance of TDRs				\$	628,233		\$	630,258
New TDRs					94,864			149,609
Increases to existing TDRs - additional disbursements					1,197			1,331
Charge-offs post modification					(12,598)			(39,246)
Foreclosures					(768)			(3,369)
Paid-off and partial payments					(9,785)			(37,440)
Ending balance of TDRs				\$	701,143		\$	701,143

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 nine months of 2014.

The following table provides a breakdown between accrual and nonaccrual status of TDRs:								
(In thousands)								
September 30, 2014								
	Accrual			Nonaccrual (1) (2)			Total TDRs	
Non-FHA/VA Residential Mortgage loans	\$	259,749		\$	88,697		\$	348,446
Commercial Mortgage Loans		72,601			62,333			134,934
Commercial and Industrial Loans		127,178			47,119			174,297
Construction Loans:								
Land		972			2,295			3,267
Construction-residential		3,371			6,589			9,960
Consumer Loans - Auto		9,584			6,149			15,733
Finance Leases		1,916			247			2,163
Consumer Loans - Other		9,712			2,631			12,343
Total Troubled Debt Restructurings	\$	485,083		\$	216,060		\$	701,143
<p>(1) Included in non-accrual loans are \$65.8 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.</p> <p>(2) Excludes non-accrual TDRs held for sale with a carrying value of \$45.7 million as of September 30, 2014.</p>								

(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

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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 residential mortgage loans that are guaranteed by the U.S. federal government (i.e., FHA/VA loans) totaling \$72.4 million. The Corporation excludes FHA/VA 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 U.S. federal 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 nine-month period ended September 30, 2014 and 2013 were as follows:

(Dollars in thousands)	Quarter ended September 30, 2014					
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	88		\$ 13,050		\$ 12,856	
Commercial Mortgage Loans	1		589		589	
Commercial and Industrial Loans	4		76,110		76,182	
Construction Loans:						
Land	3		183		143	
Consumer Loans - Auto	214		3,189		3,106	
Finance Leases	13		292		230	
Consumer Loans - Other	352		1,756		1,758	
Total Troubled Debt Restructurings	675		\$ 95,169		\$ 94,864	
(Dollars in thousands)	Nine-Month period ended September 30, 2014					
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	226		\$ 31,776		\$ 30,831	
Commercial Mortgage Loans	5		1,833		1,836	
Commercial and Industrial Loans	16		105,188		104,926	
Construction Loans:						
Land	5		238		200	
Consumer Loans - Auto	423		6,202		6,104	
Finance Leases	33		659		565	
Consumer Loans - Other	1,094		5,172		5,147	
Total Troubled Debt Restructurings	1,802		\$ 151,068		\$ 149,609	

(Dollars in thousands)	Quarter ended September 30, 2013					
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	140		\$ 29,530		\$ 29,984	
Commercial Mortgage Loans	15		4,481		4,586	
Commercial and Industrial Loans	13		8,528		7,925	
Construction Loans:						
Land	3		133		136	
Consumer Loans - Auto	149		2,006		2,006	
Finance Leases	16		334		334	
Consumer Loans - Other	271		1,118		1,118	
Total Troubled Debt Restructurings	607		\$ 46,130		\$ 46,089	
(Dollars in thousands)	Nine-Month period ended September 30, 2013					
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	253		\$ 42,628		\$ 43,106	
Commercial Mortgage Loans	16		4,972		5,077	
Commercial and Industrial Loans	21		76,579		50,588	
Construction Loans:						
Land	7		341		344	
Construction-residential	1		195		195	
Consumer Loans - Auto	434		5,874		5,874	
Finance Leases	54		1,063		1,063	
Consumer Loans - Other	1,001		4,440		4,440	
Total Troubled Debt Restructurings	1,787		\$ 136,092		\$ 110,687	

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 nine-month periods ended September 30, 2014 and September 30, 2013 and had become TDRs during the 12-months preceding the default date were as follows:

(Dollars in thousands)	Quarter ended September 30,							
	2014				2013			
	Number of contracts		Recorded Investment		Number of contracts		Recorded Investment	
Non-FHA/VA Residential Mortgage loans	12		\$ 1,950		11		\$ 1,934	
Commercial Mortgage Loans	2		4,604		-		-	
Commercial and Industrial Loans	1		377		-		-	
Consumer Loans - Auto	21		347		-		-	
Consumer Loans - Other	64		262		-		-	
Finance Leases	4		82		1		18	
Total	104		\$ 7,622		12		\$ 1,952	

(Dollars in thousands)	Nine-Month Period Ended September 30,							
	2014				2013			
	Number of contracts		Recorded Investment		Number of contracts		Recorded Investment	
Non-FHA/VA Residential Mortgage loans	45		\$ 6,769		75		\$ 11,549	
Commercial Mortgage Loans	2		4,604		1		46,102	
Commercial and Industrial Loans	1		377		2		3,829	
Construction Loans:								
Land	1		46		2		66	
Construction-residential	-		-		1		186	
Consumer Loans - Auto	43		672		7		54	

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

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Consumer Loans - Other	162			643		40			219
Finance Leases	4			82		3			38
Total	258		\$	13,193		131		\$	62,043

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 \$59.8 million at September 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 nine months of 2014 and 2013:

	September 30, 2014		September 30, 2013	
(In thousands)				
Principal balance deemed collectible at end of period	\$	59,764	\$	90,914
Amount (recovery) charged off	\$	(7,732)	\$	25,389
(Reductions) charges to the provision for loan losses	\$	(8,719)	\$	567
Allowance for loan losses at end of period	\$	575	\$	1,588

Of the loans comprising the \$59.8 million that have been deemed collectible, approximately \$53.5 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 September 30, 2014									
Allowance for loan and lease losses:									
Beginning balance	\$ 29,755	\$ 48,578	\$ 76,890	\$ 21,292	\$ 64,662	\$ 241,177			
Charge-offs	(5,970)	(2,823)	(17,605)	(7,691)	(19,848)	(53,937)			
Recoveries	236	3,939	1,174	4,486	1,360	11,195			
Provision (release)	5,885	2,721	3,017	(3,652)	19,028	26,999			
Ending balance	\$ 29,906	\$ 52,415	\$ 63,476	\$ 14,435	\$ 65,202	\$ 225,434			
Ending balance: specific reserve for impaired loans	\$ 11,658	\$ 14,128	\$ 21,267	\$ 2,936	\$ 5,295	\$ 55,284			
Ending balance: purchased credit-impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Ending balance: general allowance	\$ 18,248	\$ 38,287	\$ 42,209	\$ 11,499	\$ 59,907	\$ 170,150			
Loans held for investment:									
Ending balance	\$ 2,819,648	\$ 1,812,094	\$ 2,515,384	\$ 141,689	\$ 2,026,587	\$ 9,315,402			
	\$ 421,823	\$ 238,332	\$ 241,413	\$ 39,441	\$ 32,005	\$ 973,014			

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

Ending balance: impaired loans																				
Ending balance: purchased credit-impaired loans	\$	99,535	\$	3,418	\$	-	\$	-	\$	1,360	\$	104,313								
Ending balance: loans with general allowance	\$	2,298,290	\$	1,570,344	\$	2,273,971	\$	102,248	\$	1,993,222	\$	8,238,075								
(In thousands)																				
		Residential Mortgage Loans		Commercial Mortgage Loans		Commercial & Industrial Loans		Construction Loans		Consumer Loans		Total								
Nine-Month period ended September 30, 2014																				
Allowance for loan and lease losses:																				
Beginning balance	\$	33,110	\$	73,138	\$	85,295	\$	35,814	\$	58,501	\$	285,858								
Charge-offs		(17,379)		(22,056)		(59,516)		(11,322)		(56,425)		(166,698)								
Recoveries		605		8,271		2,253		5,158		4,329		20,616								
Provision (release)		13,570		(6,938)		35,444		(15,215)		58,797		85,658								
Ending balance	\$	29,906	\$	52,415	\$	63,476	\$	14,435	\$	65,202	\$	225,434								
Ending balance: specific reserve for impaired loans	\$	11,658	\$	14,128	\$	21,267	\$	2,936	\$	5,295	\$	55,284								
Ending balance: purchased credit-impaired loans	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-								
Ending balance: general allowance	\$	18,248	\$	38,287	\$	42,209	\$	11,499	\$	59,907	\$	170,150								

Loans held for investment:													
Ending balance	\$	2,819,648	\$	1,812,094	\$	2,515,384	\$	141,689	\$	2,026,587	\$	9,315,402	
Ending balance: impaired loans	\$	421,823	\$	238,332	\$	241,413	\$	39,441	\$	32,005	\$	973,014	
Ending balance: purchased credit-impaired loans	\$	99,535	\$	3,418	\$	-	\$	-	\$	1,360	\$	104,313	
Ending balance: loans with general allowance	\$	2,298,290	\$	1,570,344	\$	2,273,971	\$	102,248	\$	1,993,222	\$	8,238,075	

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended September 30, 2013						
Allowance for loan and lease losses:						
Beginning balance	\$ 35,581	\$ 88,013	\$ 87,677	\$ 34,728	\$ 55,048	\$ 301,047
Charge-offs	(8,698)	(5,944)	(7,419)	(1,824)	(15,559)	(39,444)
Recoveries	241	26	1,701	1,895	1,718	5,581
Provision (release)	4,663	(59)	1,090	1,304	15,197	22,195
Ending balance	\$ 31,787	\$ 82,036	\$ 83,049	\$ 36,103	\$ 56,404	\$ 289,379
Ending balance: specific reserve for impaired loans	\$ 17,982	\$ 28,316	\$ 34,438	\$ 21,785	\$ 3,654	\$ 106,175
Ending balance: purchased credit-impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance: general allowance	\$ 13,805	\$ 53,720	\$ 48,611	\$ 14,318	\$ 52,750	\$ 183,204
Loans held for investment:						
Ending balance	\$ 2,519,457	\$ 1,857,794	\$ 2,908,347	\$ 163,610	\$ 2,059,426	\$ 9,508,634
Ending balance: impaired loans	\$ 397,025	\$ 205,654	\$ 200,285	\$ 73,482	\$ 28,063	\$ 904,509
Ending balance: purchased credit-impaired loans	\$ -	\$ -	\$ -	\$ -	\$ 5,963	\$ 5,963
Ending balance: loans with general allowance	\$ 2,122,432	\$ 1,652,140	\$ 2,708,062	\$ 90,128	\$ 2,025,400	\$ 8,598,162
(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Nine-Month period ended September 30,						

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2013													
Allowance for loan and lease losses:													
Beginning balance	\$	68,354	\$	97,692	\$	146,900	\$	61,600	\$	60,868	\$	435,414	
Charge-offs		(25,351)		(25,214)		(54,849)		(30,070)		(46,673)		(182,157)	