FIRST BANCORP /PR/
Form 10-Q
May 12, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

____

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 þ Noo

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 þ Noo

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

Large accelerated filer o	Accelerated filerþ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

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

Common stock: 209,204,337 shares outstanding as of April 30, 2014.

FIRST BANCORP.

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Forward Looking Statements

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

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

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

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

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

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

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

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

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

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

- 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 and budget deficit of the Puerto Rico government and recent credit downgrades of the Puerto Rico government debt;

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

- 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 Puerto Rico government obligations;

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

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

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

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

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

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

- the risk of loss from loan defaults and foreclosures, including the risk of non compliance by Doral Financial in timely paying principal and interest on their outstanding secured loan to the Corporation and/or non compliance with the collateral substitution provision under the loan agreement;

- 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;

- the risk of losses in the value of investments in unconsolidated entities that the Corporation does not control; 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.

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FIRST BANCORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	March 31, 2014			December 31, 2013	
(In thousands, except for share information)					
ASSETS					
Cash and due from banks	$	824,547		$	454,302
Money market investments:					
Time deposits with other financial institutions		300			300
Other short-term investments		16,650			201,069
Total money market investments		16,950			201,369
Investment securities available for sale, at fair value:					
Securities pledged that can be repledged		1,037,523			1,042,482
Other investment securities		994,421			935,800
Total investment securities available for sale		2,031,944			1,978,282
Other equity securities		28,691			28,691
Investment in unconsolidated entity		669			7,279
Loans, net of allowance for loan and lease losses of $266,778					
(2013 - $285,858)		9,300,007			9,350,312
Loans held for sale, at lower of cost or market		78,912			75,969
Total loans, net		9,378,919			9,426,281
Premises and equipment, net		169,189			166,946
Other real estate owned		138,622			160,193
Accrued interest receivable on loans and investments		49,020			54,012
Other assets		180,877			179,570
Total assets	$	12,819,428		$	12,656,925
LIABILITIES					
Non-interest-bearing deposits	$	905,650		$	851,212
Interest-bearing deposits		9,097,035			9,028,712
Total deposits		10,002,685			9,879,924
Securities sold under agreements to repurchase		900,000			900,000
Advances from the Federal Home Loan Bank (FHLB)		300,000			300,000
Other borrowings		231,959			231,959
Accounts payable and other liabilities		128,886			129,184
Total liabilities		11,563,530			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 2,272,395 shares				
(2013-2,521,872 shares outstanding), aggregate liquidation				
value of $56,810 (2013-$63,047)		56,810		63,047
Common stock, $0.10 par value, authorized, 2,000,000,000 shares;				
issued, 209,578,959 shares (2013 - 207,635,157 shares issued)		20,958		20,764
Less: Treasury stock (at par value)		(61)		(57)
Common stock outstanding, 208,967,883 shares outstanding (2013 - 207,068,978				
shares outstanding)		20,897		20,707
Additional paid-in capital		894,247		888,161
Retained earnings		340,141		322,679
Accumulated other comprehensive loss, net of tax of $7,753 (2013- $7,755)		(56,197)		(78,736)
Total stockholders' equity		1,255,898		1,215,858
Total liabilities and stockholders' equity	$	12,819,428	$	12,656,925

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Quarter Ended		
	March 31,		**March 31,**
(In thousands, except per share information)	**2014**		**2013**
Interest and dividend income:			
Loans	$ 144,843		$ 148,643
Investment securities	15,228		11,043
Money market investments	500		539
Total interest income	160,571		160,225
Interest expense:			
Deposits	20,299		25,544
Securities sold under agreements to repurchase	6,368		6,417
Advances from FHLB	824		2,025
Notes payable and other borrowings	1,760		1,746
Total interest expense	29,251		35,732
Net interest income	131,320		124,493
Provision for loan and lease losses	31,915		111,123
Net interest income after provision for loan and lease losses	99,405		13,370
Non-interest income:			
Service charges on deposit accounts	3,203		3,380
Mortgage banking activities	3,368		4,580
Other-than-temporary impairment losses on available-for-sale debt securities:			
Total other-than-temporary impairment losses	-		-
Portion of other-than-temporary impairment losses recognized in other			
comprehensive income	-		(117)
Net impairment losses on available-for-sale debt securities	-		(117)
Equity in loss of unconsolidated entity	(6,610)		(5,538)
Insurance income	2,571		2,020
Other non-interest income	8,818		9,304
Total non-interest income	11,350		13,629
Non-interest expenses:			
Employees' compensation and benefits	32,942		33,554
Occupancy and equipment	14,346		15,070
Business promotion	3,973		3,357
Professional fees	10,040		11,133
Taxes, other than income taxes	4,547		2,989
Insurance and supervisory fees	10,990		12,806

Net loss on other real estate owned (OREO) and OREO operations		5,837		7,310
Credit and debit card processing expenses		3,824		3,077
Communications		1,879		1,814
Other non-interest expenses		4,407		6,900
Total non-interest expenses		92,785		98,010
Income (loss) before income taxes		17,970		(71,011)
Income tax expense		(887)		(1,622)
Net income (loss)	$	17,083	$	(72,633)
Net income (loss) attributable to common stockholders	$	17,462	$	(72,633)
Net income (loss) per common share:				
Basic	$	0.08	$	(0.35)
Diluted	$	0.08	$	(0.35)
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			
		March 31,		March 31,
	2014			2013
(In thousands)				
Net income (loss)	$	17,083	$	(72,633)
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		913		843
Reclassification adjustment for other-than-temporary impairment				
on debt securities included in net income		-		117
All other unrealized holding gains (losses) on available-for-sale securities arising during the period		21,624		(9,570)
Income tax benefit related to items of other comprehensive income		2		-
Other comprehensive income (loss) for the period, net of tax		22,539		(8,610)
Total comprehensive income (loss)	$	39,622	$	(81,243)

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Quarter Ended			
	March 31, 2014		March 31, 2013	
(In thousands)				
Cash flows from operating activities:				
Net income (loss)	$	17,083	$	(72,633)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation		5,453		6,002
Amortization of intangible assets		1,235		1,520
Provision for loan and lease losses		31,915		111,123
Deferred income tax (benefit) expense		(700)		421
Stock-based compensation		717		219
Other-than-temporary impairments on debt securities		-		117
Equity in loss of unconsolidated entity		6,610		5,538
Derivative instruments and financial liabilities measured at fair value, gain		(148)		(295)
Gain on sale of premises and equipment and other assets		(25)		-
Net gain on sales of loans		(2,017)		(1,761)
Net amortization of premiums, discounts and deferred loan fees and costs		(477)		(1,364)
Originations and purchases of loans held for sale		(72,748)		(159,559)
Sales and repayments of loans held for sale		72,865		119,891
Amortization of broker placement fees		1,785		2,155
Net amortization of premium and discounts on investment securities		(284)		3,649
Increase in accrued income tax payable		1,476		971
Decrease (increase) in accrued interest receivable		4,992		(296)
Increase (decrease) in accrued interest payable		2,106		(246)
Decrease in other assets		8,657		5,888
(Decrease) increase in other liabilities		(4,987)		9,358
Net cash provided by operating activities		73,508		30,698
Cash flows from investing activities:				
Principal collected on loans		776,086		643,168
Loans originated and purchased		(774,764)		(660,818)
Proceeds from sales of loans held for investment		16,558		130,296
Proceeds from sales of repossessed assets		12,262		14,640
Purchases of securities available for sale		(76,253)		(444,999)

Proceeds from principal repayments and maturities of securities available for sale		45,422		112,756
Additions to premises and equipment		(7,696)		(2,978)
Proceeds from sale of premises and equipment and other assets		25		-
Net redemptions/sales of other equity securities		-		5,865
Net cash used in investing activities		(8,360)		(202,070)
Cash flows from financing activities:				
Net increase in deposits		120,977		116,868
Net FHLB advances paid		-		(130,000)
Repurchase of outstanding common stock		(246)		-
Issuance costs of common stock issued in exchange for preferred stock Series A through E		(53)		-
Net cash provided by (used in) financing activities		120,678		(13,132)
Net increase (decrease) in cash and cash equivalents		185,826		(184,504)
Cash and cash equivalents at beginning of period		655,671		946,851
Cash and cash equivalents at end of period	$	841,497	$	762,347
Cash and cash equivalents include:				
Cash and due from banks	$	824,547	$	545,719
Money market instruments		16,950		216,628
	$	841,497	$	762,347
The accompanying notes are an integral part of these statements.				

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Quarter Ended				
	March 31, 2014			March 31, 2013	
(In thousands)					
Preferred Stock					
Balance at beginning of period	$	63,047		$	63,047
Exchange of preferred stock- Series A through E		(6,237)			-
Balance at end of period		56,810			63,047
Common Stock outstanding:					
Balance at beginning of period		20,707			20,624
Common stock issued as compensation		6			-
Common stock withheld for taxes		(4)			-
Common stock issued in exchange for Series A through E preferred stock		107			-
Restricted stock grants		81			-
Restricted stock forfeited		-			(1)
Balance at end of period		20,897			20,623
Additional Paid-In-Capital:					
Balance at beginning of period		888,161			885,754
Stock-based compensation		717			219
Common stock withheld for taxes		(242)			-
Common stock issued in exchange for Series A through E preferred stock		5,538			-
Reversal of issuance costs of Series A through E preferred stock exchanged		213			-
Issuance costs of common stock issued in exchange for Series A through E preferred stock		(53)			-
Restricted stock grants		(81)			-
Common stock issued as compensation		(6)			-
Restricted stock forfeited		-			1
Balance at end of period		894,247			885,974
Retained Earnings:					
Balance at beginning of period		322,679			487,166
Net income (loss)		17,083			(72,633)

Excess of carrying amount of Series A though E preferred stock exchanged over					
fair value of new shares of common stock		379			-
Balance at end of period		340,141			414,533
Accumulated Other Comprehensive Income (Loss), net of tax:					
Balance at beginning of period		(78,736)			28,432
Other comprehensive income (loss) , net of tax		22,539			(8,610)
Balance at end of period		(56,197)			19,822
Total stockholders' equity	$	1,255,898		$	1,403,999
The accompanying notes are an integral part of these statements.					

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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 ended March 31, 2014 are not necessarily indicative of the results to be expected for the entire year.

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

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

In July 2013, the FASB updated the Codification to provide explicit guidelines on how to present an unrecognized tax benefit in financial statements when a net operating loss ("NOL") carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle

any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments are effective for public entities with fiscal periods beginning after December 15, 2013. The adoption of this guidance in 2014 did not have an effect on the Corporation's financial statements as the Corporation's NOLs and tax credit carryfowards are not available to settle any additional income taxes that would result from the disallowance of the Corporation's unrecognized tax benefits.

In January 2014, the FASB updated the Codification to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan so that the loan should be derecognized and the real estate property recognized in the financial statements. The Update clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. In addition, creditors are required to disclose on an annual and interim basis both (i) the amount of the foreclosed residential real estate property held and (ii) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for public business entities for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 31, 2015. Early adoption is permitted. The guidance can be implemented using either a modified retrospective transition method or a prospective transition method. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its financial statements.

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

NOTE 2 – EARNINGS PER COMMON SHARE

The calculations of earnings (losses) per common share for the quarters ended on March 31, 2014 and 2013 are as follows:

	Quarter Ended			
	March 31, 2014		March 31, 2013	
	(In thousands, except per share information)			
Net income (loss)	$	17,083	$	(72,633)
Favorable impact from issuing common stock in exchange for				
Series A through E preferred stock		379		-
Net income (loss) attributable to common stockholders	$	17,462	$	(72,633)
Weighted-Average Shares:				
Basic weighted-average common shares outstanding		205,732		205,465
Average potential common shares		1,144		-
Diluted weighted-average number of common shares outstanding		206,876		205,465
Income (loss) per common share:				
Basic	$	0.08	$	(0.35)
Diluted	$	0.08	$	(0.35)

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 first quarter of 2014, net income attributable to common stockholders also includes the one-time effect of the issuance of common stock in exchange for Series A through E preferred stock. This transaction is discussed in Note 17 to the unaudited consolidated financial statements. Basic weighted average common shares outstanding exclude 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 88,640 and 105,363 for the quarters ended March 31, 2014 and 2013, respectively. Warrants outstanding to purchase 1,285,899 shares of common stock and 763,022 unvested shares of restricted stock were excluded from the computation of diluted earnings per share for the quarter ended March 31, 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 quarter ended March 31, 2014 is set forth below:

	Number of Options	**Weighted-Average Exercise Price**		**Weighted-Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value (In thousands)**	
Beginning of period outstanding						
and exercisable	101,435	$	206.95			
Options expired	(12,795)		321.75			
End of period outstanding and						
exercisable	88,640	$	190.38	2.1	$	-

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

The fair value of the shares of restricted stock granted in the first quarter of 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 used 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 the independent directors:

	Quarter Ended March 31, 2014			
	Number of shares of restricted stock			Weighted-Average Grant Date Fair Value
Non-vested shares at beginning of period	1,411,185		$	3.04
Granted	810,138			3.14
Forfeited	(2,000)			6.03
Vested	(67,500)			4.00
Non-vested shares at March 31, 2014	2,151,823		$	3.06

For the quarters ended March 31, 2014 and 2013, the Corporation recognized $0.4 million and $0.2 million, respectively, of stock-based compensation expense related to restricted stock awards. As of March 31, 2014, there was $4.2 million of total unrecognized compensation cost related to non-vested shares of restricted stock. The weighted average period over which the Corporation expects to recognize such cost is 2.1 years.

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, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase in the expense recognized in the financial statements. When unvested options or shares of restricted stock are forfeited, any compensation expense previously recognized on the forfeited awards is reversed in the period of the forfeiture. Approximately $5 thousand of compensation expense was reversed during the first quarter 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 quarter of 2014, the Corporation issued 60,381 shares of common stock with a weighted average market value of $5.26 as salary stock compensation. This resulted in a compensation expense of $0.4 million recorded in the first quarter of 2014. For the quarter ended March 31, 2014, the Corporation withheld 21,342 shares from the common stock paid to certain senior officers as additional compensation and 23,555 shares of restricted stock 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 treat 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 March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014					
		Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized			
	Amortized cost		gains	losses	Fair value	Weighted average yield%
	(Dollars in thousands)					
U.S. Treasury securities:						
Due within one year	$ 7,500	$ -	$ -	$ -	$ 7,500	0.12
Obligations of U.S. government-sponsored agencies:						
After 1 to 5 years	50,000	-	-	1,100	48,900	1.05
After 5 to 10 years	214,259	-	-	10,584	203,675	1.31
Puerto Rico government obligations:						
Due within one year	10,000	-	-	-	10,000	3.50
After 1 to 5 years	39,798	-	-	9,785	30,013	4.49
	910	-	-	-	910	5.20

After 5 to 10 years						
After 10 years	25,485	-	-	5,053	20,432	6.01
United States and Puerto Rico government obligations:	347,952	-	-	26,522	321,430	2.03
Mortgage-backed securities:						
FHLMC certificates:						
After 10 years	345,590	-	374	7,416	338,548	2.21
GNMA certificates:						
After 1 to 5 years	73	-	4	-	77	3.44
After 5 to 10 years	763	-	36	-	799	2.54
After 10 years	412,063	-	19,371	8	431,426	3.83
	412,899	-	19,411	8	432,302	3.82
FNMA certificates:						
After 1 to 5 years	1,255	-	72	-	1,327	4.79
After 5 to 10 years	7,341	-	566	-	7,907	4.09
After 10 years	912,020	-	3,823	25,329	890,514	2.38
	920,616	-	4,461	25,329	899,748	2.40
Collateralized mortgage obligations issued or guaranteed by the FHLMC:						
After 1 to 5 years	46	-	-	1	45	3.01
Other mortgage pass-through trust certificates:						
Over 5 to 10 years	123	-	1	-	124	7.27
After 10 years	53,126	13,397	-	-	39,729	2.22

		53,249		13,397		1		-		39,853	2.22
Total mortgage-backed securities		1,732,400		13,397		24,247		32,754		1,710,496	2.70
Equity securities (without contractual maturity) (1)		35		-		-		17		18	-
Total investment securities available for sale	$	2,080,387	$	13,397	$	24,247	$	59,293	$	2,031,944	2.58

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

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

GNMA certificates:						
	After 1 to 5 years	86	-	4	-	90	3.48
	After 5 to 10 years	800	-	37	-	837	2.47
	After 10 years	425,589	-	18,492	-	444,081	3.82
		426,475	-	18,533	-	445,008	3.82
FNMA certificates:							
	After 1 to 5 years	1,389	-	84	-	1,473	4.82
	After 5 to 10 years	7,765	-	389	-	8,154	4.09
	After 10 years	882,798	-	2,984	33,626	852,156	2.36
		891,952	-	3,457	33,626	861,783	2.38
Collateralized mortgage							
	obligations issued or						
	guaranteed by the FHLMC:						
	After 1 to 5 years	82	-	-	1	81	3.01
Other mortgage pass-through							
trust certificates:							
	Over 5 to 10 years	127	-	1	-	128	7.27
	After 10 years	55,048	14,310	-	-	40,738	2.24
		55,175	14,310	1	-	40,866	2.24
Total mortgage-backed							
	securities	1,706,450	14,310	22,124	44,339	1,669,925	2.69
Equity securities (without							
contractual maturity) (1)		35	-	-	2	33	-
Total investment securities							
	available for sale	$ 2,049,262	$ 14,310	$ 22,125	$ 78,795	$ 1,978,282	2.57

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

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

The following tables show the Corporation's available-for-sale investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 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 March 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
Puerto Rico government obligations	$ 7,656	$ 745	$ 42,789	$ 14,093	$ 50,445	$ 14,838
U.S. government agencies obligations	177,005	7,265	75,570	4,419	252,575	11,684
Mortgage-backed securities:						
FNMA	737,871	25,329	-	-	737,871	25,329
FHLMC	303,169	7,416	-	-	303,169	7,416
GNMA	1,449	8	-	-	1,449	8
Collateralized mortgage						
obligations issued or						
guaranteed by FHLMC	-	-	45	1	45	1
Other mortgage pass-through						
trust certificates	-	-	39,729	13,397	39,729	13,397
Equity securities	18	17	-	-	18	17
	$ 1,227,168	$ 40,780	$ 158,133	$ 31,910	$ 1,385,301	$ 72,690

	As of December 31, 2013					
	Less than 12 months		12 months or more		Total	
		Unrealized		Unrealized		Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
	(In thousands)					
Debt securities:						
Puerto Rico government obligations	$ 23,156	$ 5,977	$ 28,174	$ 13,701	$ 51,330	$ 19,678
U.S. government agencies obligations	175,369	8,913	74,126	5,863	249,495	14,776
Mortgage-backed securities:						
FNMA	748,215	33,626	-	-	748,215	33,626
FHLMC	286,208	10,712	-	-	286,208	10,712
Collateralized mortgage						
obligations issued or						
guaranteed by FHLMC	-	-	81	1	81	1
Other mortgage pass-through						
trust certificates	-	-	40,738	14,310	40,738	14,310
Equity securities	33	2	-	-	33	2
	$ 1,232,981	$ 59,230	$ 143,119	$ 33,875	$ 1,376,100	$ 93,105

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

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 95% of the total available-for-sale portfolio as of March 31, 2014 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation's assessment for OTTI was concentrated mainly on private label mortgage-backed securities ("MBS") with an amortized cost of $53.1 million for which credit losses are evaluated on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

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

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

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

	Private Label MBS				
	Quarter ended March 31,				
	2014			2013	
(In thousands)					
Total other-than-temporary impairment losses	$	-		$	-
Portion of other-than-temporary impairment losses recognized in OCI		-			(117)
Net impairment losses recognized in earnings	$	-		$	(117)

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

	Quarter ended March 31,				
	2014			2013	
(In thousands)					
Credit losses at the beginning of the period	$	5,389		$	5,272
Additions:					
Credit losses on debt securities for which an					
OTTI was previously recognized		-			117
Ending balance of credit losses on debt securities held for					
which a portion of an OTTI was recognized in OCI	$	5,389		$	5,389

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

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

	March 31, 2014				**December 31, 2013**		
	Weighted				**Weighted**		
	Average		**Range**		**Average**		**Range**
Discount rate	14.5%		14.5%		14.5%		14.5%
Prepayment rate	33%		20.31%-100.00%		29%		15.86%-100.00%
Projected Cumulative Loss Rate	8.4%		0.86%-80.00%		6.8%		0.58%-38.16%

No OTTI losses on equity securities held in the available-for-sale investment portfolio were recognized for the quarters ended March 31, 2014 or March 31, 2013.

As of March 31, 2014, the Corporation held approximately $76.2 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 $61.4 million. During the first quarter of 2014, the fair value of these obligation increased by $4.8 million. In February 2014, Standard & Poor’s (“S&P”), Moody’s Investor Service (“Moodys”) and Fitch Ratings (“Fitch”) downgraded the Commonwealth of Puerto Rico general obligations bonds and other obligations of Puerto Rico instrumentalities to non-investment grade categories. The issuers of Puerto Rico government and agencies bonds held by the Corporation have not defaulted, and the contractual payments on these securities have been made as scheduled. The Corporation has the ability and intent to hold these securities until a recovery of the fair value occurs, and it is not more likely than not that the Corporation will be required to sell the securities prior to such recovery. It is uncertain how the financial markets may react to any potential further rating downgrade of Puerto Rico’s debt. However, further deterioration in the fiscal situation, could further adversely affect the value of Puerto Rico’s government obligations. The Corporation will continue to closely monitor Puerto Rico’s political and economic status and evaluate the portfolio for any declines in value that could be considered other-than-temporary.

NOTE 5 – OTHER EQUITY SECURITIES

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

As of March 31, 2014 and December 31, 2013, the Corporation had investments in FHLB stock with a book value of $28.4 million. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the quarters ended March 31, 2014 and 2013 was $0.3 million and $0.4 million, respectively.

The shares of FHLB stock owned by the Corporation were 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 Federal 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 March 31, 2014 and December 31, 2013 was $0.3 million.

NOTE 6 – LOANS HELD FOR INVESTMENT

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Residential mortgage loans, mainly secured by first mortgages	$ 2,548,101	$ 2,549,008
Commercial loans:		
Construction loans	152,579	168,713
Commercial mortgage loans	1,846,016	1,823,608
Commercial and Industrial loans (1)	2,711,962	2,788,250
Loans to local financial institution collateralized by real estate mortgages	235,875	240,072
Commercial loans	4,946,432	5,020,643
Finance leases	246,814	245,323
Consumer loans	1,825,438	1,821,196
Loans held for investment	9,566,785	9,636,170
Allowance for loan and lease losses	(266,778)	(285,858)
Loans held for investment, net (1)	$ 9,300,007	$ 9,350,312

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

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

(In thousands)	March 31, 2014	December 31, 2013
Non-performing loans:		

Residential mortgage	$	172,796	$	161,441
Commercial mortgage		145,535		120,107
Commercial and Industrial		113,996		114,833
Construction:				
Land		20,886		27,834
Construction-commercial		3,883		3,924
Construction-residential		25,618		27,108
Consumer:				
Auto loans		20,471		21,316
Finance leases		3,706		3,082
Other consumer loans		14,884		15,904
Total non-performing loans held for investment (1) (2)	$	521,775	$	495,549

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

(2) Amount excludes purchased-credit impaired ("PCI") loans with a carrying value of approximately $3.4 million and $4.8 million as of March 31, 2014 and December 31, 2013, respectively, acquired as part of the credit card portfolio purchased in the second quarter of 2012, as further discussed below.

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

As of March 31, 2014								
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)	Total Past Due (4)	Purchased Credit-Impaired Loans (4)	Current	Total loans held for investment	90 days past due and still accruing (5)
Residential mortgage:								
FHA/VA and other government-guaranteed								
loans (2) (3) (5)	$ -	$ 11,854	$ 76,142	$ 87,996	$ -	$ 88,866	$ 176,862	$ 76,142
Other residential mortgage loans (3)	-	80,685	180,972	261,657	-	2,109,582	2,371,239	8,176
Commercial:								
Commercial and Industrial loans	27,556	10,458	133,822	171,836	-	2,776,001	2,947,837	19,826
Commercial mortgage loans	-	3,828	153,141	156,969	-	1,689,047	1,846,016	7,606
Construction:								
Land (3)	-	486	23,287	23,773	-	41,941	65,714	2,401

Construction-commercial (3)	-	-	3,883	3,883	-	13,382	17,265	-
Construction-residential (3)	-	-	25,618	25,618	-	43,982	69,600	-
Consumer:								
Auto loans	79,873	21,427	20,471	121,771	-	1,003,466	1,125,237	-
Finance leases	9,744	3,382	3,706	16,832	-	229,982	246,814	-
Other consumer loans	7,394	10,997	18,782	37,173	3,383	659,645	700,201	3,898
Total loans held for investment	$ 124,567	$ 143,117	$ 639,824	$ 907,508	$ 3,383	$ 8,655,894	$ 9,566,785	$ 118,049

(1) Includes non-performing loans and accruing loans which 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) As of March 31, 2014, includes $14.5 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.

(3) 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 $18.5 million, $169.8 million, $26.9 million, $0.9 million, and $1.8 million, respectively.

(4) Purchased credit–impaired loans are excluded from delinquency and non-performing statistics as further discussed below.

(5) 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 $38.4 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 18 months delinquent, and are no longer accruing interest as of March 31, 2014.

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 (4)	Purchased Credit-Impaired Loans (4)	Current	Total loans held for investment	90 days past due and still accruing (5)
Residential mortgage:								
FHA/VA and other government-guaranteed								
loans (2) (3) (5)	$ -	$ 12,180	$ 78,645	$ 90,825	$ -	$ 104,401	$ 195,226	$ 78,645
Other residential mortgage loans (3)	-	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 (3)	-	5,428	126,674	132,102	-	1,691,506	1,823,608	6,567
Construction:								
Land (3)	-	358	27,871	28,229	-	52,145	80,374	37
Construction-commercial (3)	-	-	3,924	3,924	-	12,907	16,831	-
Construction-residential (3)	-	-	27,108	27,108	-	44,400	71,508	-
Consumer:								
Auto loans	79,279	17,944	21,316	118,539	-	993,781	1,112,320	-
	10,275	3,536	3,082	16,893	-	228,430	245,323	-

Finance leases																
Other consumer loans		11,710		8,691		20,492		40,893		4,791		663,192		708,876		4,588
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 which 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) 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.

(3) 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.

(4) Purchased credit-impaired loans are excluded from delinquency and non-performing statistics as further discussed below.

(5) 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, which are over 18 months delinquent, and are no longer accruing interest as of December 31, 2013.

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

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness category:				
March 31, 2014	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 306,947	$ 10,572	$ -	$ 317,519	$ 1,846,016
Construction:					
Land	22,172	-	-	22,172	65,714
Construction-commercial	15,981	-	-	15,981	17,265
Construction-residential	26,895	1,879	-	28,774	69,600
Commercial and Industrial	185,772	1,677	311	187,760	2,947,837

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

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

The Corporation considered 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 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.

March 31, 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	$ 176,862	$ 2,198,443	$ 1,104,766	$ 243,108	$ 681,934
Purchased Credit-Impaired	-	-	-	-	3,383
Non-performing	-	172,796	20,471	3,706	14,884
Total	$ 176,862	$ 2,371,239	$ 1,125,237	$ 246,814	$ 700,201

(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 $38.4 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 18 months delinquent, and are no longer accruing interest as of March 31, 2014.

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	-	-	-	-	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, which are over 18 months delinquent, and are no longer accruing interest as of December 31, 2013.

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

Impaired Loans (In thousands)	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Average Recorded Investment	Interest Income Recognized On Accrual Basis	Interest Income Recognized On Cash Basis
As of March 31, 2014						
With no related allowance recorded:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	251,650	272,706	-	251,951	2,529	533
Commercial:						
Commercial mortgage loans	62,200	68,818	-	62,275	394	116
Commercial and Industrial Loans	21,068	25,015	-	21,287	-	8
Construction:						
Land	654	742	-	680	4	-
Construction-commercial	-	-	-	-	-	-
Construction-residential	14,258	17,234	-	14,386	42	1
Consumer:						
Auto loans	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-
Other consumer loans	6,239	7,151	-	6,263	89	-
	$ 356,069	$ 391,666	$ -	$ 356,842	$ 3,058	$ 658
With an allowance recorded:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	167,658	189,505	17,273	167,772	1,256	435
Commercial:						
	157,660	174,734	29,833	160,537	442	528

Commercial mortgage loans												
Commercial and Industrial Loans		130,585		164,932		19,098		133,296		571		20
Construction:												
Land		14,876		29,561		4,632		14,950		15		5
Construction-commercial		15,981		16,223		8,122		16,001		-		-
Construction-residential		12,867		13,342		2,400		12,993		-		-
Consumer:												
Auto loans		14,378		14,378		2,024		14,784		246		-
Finance leases		2,240		2,240		65		2,299		54		-
Other consumer loans		7,074		7,605		1,569		7,742		302		-
	$	523,319	$	612,520	$	85,016	$	530,374	$	2,886	$	988
Total:												
FHA/VA-Guaranteed loans	$	-	$	-	$	-	$	-	$	-	$	-
Other residential mortgage loans		419,308		462,211		17,273		419,723		3,785		968
Commercial:												
Commercial mortgage loans		219,860		243,552		29,833		222,812		836		644
Commercial and Industrial Loans		151,653		189,947		19,098		154,583		571		28
Construction:												
Land		15,530		30,303		4,632		15,630		19		5
Construction-commercial		15,981		16,223		8,122		16,001		-		-
Construction-residential		27,125		30,576		2,400		27,379		42		1
Consumer:												
Auto loans		14,378		14,378		2,024		14,784		246		-
Finance leases		2,240		2,240		65		2,299		54		-
Other consumer loans		13,313		14,756		1,569		14,005		391		-
	$	879,388	$	1,004,186	$	85,016	$	887,216	$	5,944	$	1,646

Impaired Loans								
(In thousands)								
	Recorded Investment		**Unpaid Principal Balance**		**Related Specific Allowance**		**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 mortage 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 $8.4 million ($6.8 million accrual basis and $1.6 million cash basis) was recognized on impaired loans for the first quarter of 2013.

The following table shows the activity for impaired loans and the related specific reserve during the first quarter of 2014:

	Quarter ended	
	March 31, 2014	
Impaired Loans:		**(In thousands)**
Balance at beginning of period	$	919,112
Loans determined impaired during the period		54,277
Net charge-offs		(32,039)
Increases to impaired loans- additional disbursements		625
Foreclosures		(4,006)
Loans no longer considered impaired		(3,728)
Paid in full or partial payments		(54,853)
Balance at end of period	$	879,388

	Quarter ended	
	March 31, 2014	
Specific Reserve:	(In thousands)	
Balance at beginning of period	$	102,601
Provision for loan losses		14,454
Net charge-offs		(32,039)
Balance at end of period	$	85,016

Acquired loans including PCI Loans

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 an estimated fair value on the acquisition date of $368.9 million. The Corporation concluded that a portion of these acquired loans were PCI loans. PCI loans are acquired loans with evidence of credit quality deterioration since origination for which it is probable at the date of purchase that the Corporation will be unable to collect all contractually required payments. The loans that the Corporation concluded were credit impaired had a contractual outstanding unpaid principal and interest balance at acquisition of $34.6 million and an estimated fair value of $15.7 million. Given that the initial fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, the Corporation's subsequent accounting for PCI loans differs from the accounting for non–PCI loans; therefore, the Corporation separately tracks and reports PCI loans and excludes these loans from delinquency and nonperforming loan statistics.

Initial fair value and accretable yield of PCI loans

At acquisition, the Corporation estimated the cash flows the Corporation expected to collect on credit card loans acquired with a deteriorated credit quality. 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 table below displays the contractually required principal and interest, cash flows expected to be collected and the fair value at acquisition related to the PCI loans the Corporation acquired. The table also displays the nonaccretable difference and the accretable yield at acquisition.

(In thousands)		At acquisition Purchased Credit-Impaired Loans	
Contractually outstanding principal and interest at acquisition		$	34,577
Less: Nonaccretable difference			(15,408)
Cash flows expected to be collected at acquisition			19,169
Less: Accretable yield			(3,451)
Fair value of loans acquired		$	15,718

Outstanding balance and carrying value of PCI loans

The table below presents the outstanding contractual principal balance and carrying value of the PCI loans as of March 31, 2014 and December 31, 2013:

(In thousands)	Purchase Credit-Impaired Loans March 31, 2014			Purchase Credit-Impaired Loans December 31, 2013	
Contractual balance	$	21,449		$	22,748
Carrying value		3,383			4,791

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 quarter of 2014 and 2013, the Corporation did not record charges to the provision for loan losses related to PCI loans.

The following table presents changes in the accretable yield related to the PCI loans acquired from FIA:

(In thousands)				
		PCI Loans		
Accretable yield at acquisition		$	3,451	
Accretion recognized in earnings			(1,280)	
Accretable yield as of December 31, 2012			2,171	
Reclassification to nonaccretable			(1,352)	
Accretion recognized in earnings			(819)	

Accretable yield as of December 31, 2013		$	-	

During 2014, the Corporation purchased $44.4 million of residential mortgage loans consistent with a strategic program established by the Corporation in 2005 to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. Generally, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions, depending upon the Corporation's interest rate risk management strategies. When the Corporation sells such loans, it generally keeps the servicing of the loans.

In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to 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 $35.5 million of performing residential mortgage loans in the secondary market to FNMA and FHLMC during the first quarter of 2014. Also, the Corporation securitized $50.8 million of FHA/VA mortgage loans into GNMA mortgage-backed securities during the first quarter 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 quarter of 2014, the Corporation repurchased pursuant to its repurchase option with GNMA $1.0 million of loans previously sold to GNMA. The principal balance of these loans is fully guaranteed and the risk of loss related to repurchases is generally limited to the difference between the delinquent interest payment advanced to GNMA computed at the loan's interest rate and the interest payments reimbursed by FHA, which are computed at a pre-determined debenture rate. Repurchases of GNMA loans allow the Corporation, among other things, to maintain acceptable delinquency rates on outstanding GNMA pools and remain as a seller and servicer in good standing with GNMA. The Corporation generally remediates any breach of representations and warranties related to the underwriting of such loans according to established GNMA guidelines without incurring losses. The Corporation does not maintain a liability for estimated losses as a result of breaches in representations and warranties.

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

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 $0.6 million during the first quarter 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 $0.3 million loss was recorded in the first quarter of 2014 related to breaches in representations and warranties associated with certain foreclosed loans. Historically, losses experienced on these loans have been immaterial. As a consequence, as of March 31, 2014, the Corporation does not maintain a liability for estimated losses on loans expected to be repurchased as a result of breaches in loan and servicer representations and warranties.

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

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 quarter of 2013. In addition, the Corporation recorded $3.9 million of professional fees specifically related to the bulk sale of assets. This transaction resulted in a total 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 quarter 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 without incurring additional losses.

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

Loan Portfolio Concentration

The Corporation's primary lending area is Puerto Rico. The Corporation's banking subsidiary, First Bank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of $9.6 billion as of March 31, 2014, approximately 84% have credit risk concentration in Puerto Rico, 9% in the United States, and 7% in the USVI and BVI.

As of March 31, 2014, the Corporation had $454.2 million of credit facilities granted to the Puerto Rico government, its municipalities and public corporations, of which $403.9 million was outstanding, compared to $397.8 million outstanding as of December 31, 2013, and $81.0 million outstanding in credit facilities granted to the government of the Virgin Islands, compared to $60.6 million as of December 31, 2013. Approximately $200.3 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 each applicable municipality have been pledged to the repayment of all outstanding bonds and notes. Approximately $84.5 million consists of loans to public corporations that receive revenues from the rates they charge for services or products, such as electric power services, including credit extended to the Puerto Rico Electric Power Authority for fuel purchases that have priority over senior bonds and other debt. Main public corporations have varying degrees of independence from the central government and many receive appropriations or other payments from the Puerto Rico's government general fund. Approximately $119.2 million consists of loans to the central government or units of the central government. 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 $201.7 million outstanding as of March 31, 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 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.

In addition to loans extended to government entities, the largest loan to one borrower as of March 31, 2014 in the amount of $235.9 million is with one mortgage originator in Puerto Rico, Doral Financial Corporation. This commercial loan is secured by individual real-estate loans, mostly 1-4 single-family residential mortgage loans in Puerto Rico. This loan is subject to collateral substitution that requires the borrower to substitute defaulted mortgages past due over 120 days.

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 TDRs. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of March 31, 2014, the Corporation's total TDR loans of $622.3 million consisted of $338.3 million of residential mortgage loans, $89.8 million of commercial and industrial loans, $148.8 million of commercial mortgage loans, $17.2 million of construction loans, and $28.2 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $0.3 million as of March 31, 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 the 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 TDR regardless of whether the borrower enters into a permanent modification. As of March 31, 2014, we classified an additional $11.1 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 the 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 commercial and industrial, commercial mortgage, and construction loan portfolios, the Special Asset Group ("SAG") focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists, and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary. The SAG utilizes its collections infrastructure of workout collection officers, credit work-out specialists, in-house legal counsel, and third-party consultants. In the case of residential construction projects and large commercial loans, the function also utilizes third-party specialized consultants to monitor the residential and commercial construction projects in terms of construction, marketing and sales, and assists with the restructuring of large commercial loans. In addition, the Corporation extends, renews, and restructures loans with satisfactory credit profiles. Many commercial loan facilities are structured as lines of credit, which are mainly one year in term and therefore are required to be renewed annually. Other facilities may be restructured or extended from time to time based upon changes in the borrower's business needs, use of funds, timing of completion of projects, and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals, and restructurings are done in the normal course of business and not considered concessions, and the loans continue to be recorded as performing.

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

	March 31, 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	$ 24,336	$ 6,246	$ 274,375	$ -	$ 33,322	$ 338,279
Commercial Mortgage Loans	31,769	12,933	84,470	-	19,643	148,815
Commercial and Industrial Loans	12,030	4,915	18,486	3,112	51,296	89,839
Construction Loans:						
Land	856	370	1,696	-	512	3,434
Construction-commercial	-	-	3,884	-	-	3,884
Construction-residential	6,099	160	3,156	-	435	9,850
Consumer Loans - Auto	-	621	8,228	-	5,529	14,378
Finance Leases	-	589	1,651	-	-	2,240
Consumer Loans - Other	227	208	9,374	-	1,792	11,601
Total Troubled Debt Restructurings (2)	$ 75,317	$ 26,042	$ 405,320	$ 3,112	$ 112,529	$ 622,320

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

(2) Excludes TDRs held for sale amounting to $45.8 million as of March 31, 2014.

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

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

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

The following table presents the Corporation's TDR activity

(In thousands)					Quarter Ended March 31, 2014
Beginning Balance of TDRs				$	630,258
New TDRs					19,935
Increases to existing TDRs - additional disbursements					27
Charge-offs post modification					(7,982)
Foreclosures					(1,074)
Paid-off, partial payments, and other					(18,844)
Ending balance of TDRs				$	622,320

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 is not required to be reported as a TDR or as 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 quarter of 2014.

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

(In thousands)	March 31, 2014					
		Accrual		Nonaccrual (1)(2)		Total TDRs
Non-FHA/VA Residential Mortgage loans	$	256,605	$	81,674	$	338,279
Commercial Mortgage Loans		78,073		70,742		148,815
Commercial and Industrial Loans		53,995		35,844		89,839
Construction Loans:						
Land		949		2,485		3,434
Construction-commercial		-		3,884		3,884
Construction-residential		3,316		6,534		9,850
Consumer Loans - Auto		8,576		5,802		14,378
Finance Leases		2,134		106		2,240
Consumer Loans - Other		9,299		2,302		11,601
Total Troubled Debt Restructurings	$	412,947	$	209,373	$	622,320

(1) Included in non-accrual loans are $76.3 million in loans that are performing under the terms of a restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability.

(2) Excludes non-accrual TDRs held for sale with a carrying value of $45.8 million as of March 31, 2014.

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

Construction-commercial		-			3,924		3,924
Construction-residential		3,332			7,562		10,894
Consumer Loans - Auto		8,512			5,610		14,122
Finance Leases		2,275			85		2,360
Consumer Loans - Other		8,417			2,448		10,865
Total Troubled Debt Restructurings	$	425,383		$	204,875	$	630,258

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

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

TDRs exclude restructured mortgage loans that are government guaranteed (i.e., FHA/VA loans) totaling $86.2 million. The Corporation excludes government guaranteed loans from TDRs given that, in the event that the borrower defaults on the loan, the principal and interest (debenture rate) are guaranteed by the U.S. government; therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

Loans modifications that are considered TDRs and were completed during the first quarter of 2014 and 2013 were as follows:

(Dollars in thousands)	Quarter ended March 31, 2014						
	Number of contracts		Pre-modification Outstanding Recorded Investment			Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	47		$	7,709		$	7,711
Commercial Mortgage Loans	3			834			837
Commercial and Industrial Loans	5			7,964			7,630
Construction Loans:							
Land	-			-			-
Construction-commercial	-			-			-
Construction-residential	-			-			-
Consumer Loans - Auto	117			1,605			1,605
Finance Leases	10			193			193
Consumer Loans - Other	429			1,959			1,959
Total Troubled Debt Restructurings	611		$	20,264		$	19,935

(Dollars in thousands)	Quarter ended March 31, 2013						
	Number of contracts		Pre-modification Outstanding Recorded Investment			Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	73		$	9,763		$	9,787
Commercial Mortgage Loans	-			-			-
Commercial and Industrial Loans	7			66,886			41,498
Construction Loans:							
Land	-			-			-
Construction-commercial	-			-			-
Construction-residential	1			196			196
Consumer Loans - Auto	143			1,923			1,923
Finance Leases	19			312			312
Consumer Loans - Other	363			1,647			1,647
Total Troubled Debt Restructurings	606		$	80,727		$	55,363

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 modification considered TDRs that defaulted during the quarters ended March 31, 2014 and March 31, 2013 and had become a TDRs during the 12 month preceding the default date, were as follows:

	Quarter ended March 31,			
(Dollars in thousands)	2014		2013	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Non-FHA/VA Residential Mortgage loans	14	$ 2,552	45	$ 7,525
Commercial Mortgage Loans	-	-	1	46,102
Commercial and Industrial Loans	-	-	2	3,829
Construction Loans:				
Land	-	-	-	-
Construction-commercial	-	-	-	-
Construction-residential	-	-	-	-
Consumer Loans - Auto	4	39	2	17
Consumer Loans - Other	45	176	5	82
Finance Leases	-	-	-	-
Total	63	$ 2,767	55	$ 57,555

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 loans being returned to accrual status at the time of the restructuring. In the periods following the calendar year in which a loan was 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 restructure).

The recorded investment in loans held for investment restructured using the A/B note restructure workout strategy was approximately $78.8 million at March 31, 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 quarter of 2014 and 2013:

(In thousands)	March 31, 2014		March 31, 2013
Principal balance deemed collectible at end of period	$	78,833	$	93,897
Amount charged off	$	-	$	25,389
(Reductions) charges to the provision for loan losses	$	(15)	$	1,556
Allowance for loan losses at end of period	$	1,547	$	2,577

Of the loans comprising the $78.8 million that have been deemed collectible, approximately $77.1 million were placed in accruing 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) **Quarter ended March 31, 2014**		**Residential Mortgage Loans**		**Commercial Mortgage Loans**		**Commercial & Industrial Loans**		**Construction Loans**		**Consumer Loans**		**Total**
Allowance for loan and lease losses:												
Beginning balance	$	33,110	$	73,138	$	85,295	$	35,814	$	58,501	$	285,858
Charge-offs		(6,422)		(5,810)		(22,459)		(970)		(18,046)		(53,707)
Recoveries		69		35		663		617		1,328		2,712
Provision		3,751		(851)		16,091		(8,050)		20,974		31,915
Ending balance	$	30,508	$	66,512	$	79,590	$	27,411	$	62,757	$	266,778
Ending balance: specific reserve for impaired loans	$	17,273	$	29,833	$	19,098	$	15,154	$	3,658	$	85,016
Ending balance: purchased credit-impaired loans	$	-	$	-	$	-	$	-	$	-	$	-
Ending balance: general allowance	$	13,235	$	36,679	$	60,492	$	12,257	$	59,099	$	181,762
Loans held for investment:												
Ending balance	$	2,548,101	$	1,846,016	$	2,947,837	$	152,579	$	2,072,252	$	9,566,785
Ending balance: impaired loans	$	419,308	$	219,860	$	151,653	$	58,636	$	29,931	$	879,388
Ending balance: purchased credit-impaired loans	$	-	$	-	$	-	$	-	$	3,383	$	3,383
Ending balance: loans with general allowance	$	2,128,793	$	1,626,156	$	2,796,184	$	93,943	$	2,038,938	$	8,684,014

(In thousands)						**Total**

Quarter ended March 31, 2013	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	
Allowance for loan and lease losses:						
Beginning balance	$ 68,354	$ 97,692	$ 146,900	$ 61,600	$ 60,868	$ 435,414
Charge-offs	(10,697)	(15,999)	(40,942)	(25,859)	(14,764)	(108,261)
Charge-offs related to bulk sales	(1,031)	(40,057)	(44,678)	(12,753)	-	(98,519)
Recoveries	148	20	791	97	1,718	2,774
Provision	7,948	36,397	35,292	21,948	9,538	111,123
Ending balance	$ 64,722	$ 78,053	$ 97,363	$ 45,033	$ 57,360	$ 342,531
Ending balance: specific reserve for						
impaired loans	$ 47,495	$ 36,134	$ 35,383	$ 21,689	$ 3,327	$ 144,028
Ending balance: general allowance	$ 17,227	$ 41,919	$ 61,980	$ 23,344	$ 54,033	$ 198,503
Loans held for investment:						
Ending balance	$ 2,714,083	$ 1,671,269	$ 2,932,371	$ 222,762	$ 2,020,061	$ 9,560,546
Ending balance: impaired loans	$ 579,305	$ 203,500	$ 222,814	$ 68,027	$ 26,619	$ 1,100,265
Ending balance: purchased credit-						
impaired loans	$ -	$ -	$ -	$ -	$ 9,224	$ 9,224
Ending balance: loans with general allowance	$ 2,134,778	$ 1,467,769	$ 2,709,557	$ 154,735	$ 1,984,218	$ 8,451,057

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

As of March 31, 2014, the Corporation maintained a $0.4 million reserve for unfunded loan commitments mainly related to outstanding construction and commercial and industrial loan commitments. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments to borrowers that are experiencing financial difficulties at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statement of financial condition.

NOTE 8 – LOANS HELD FOR SALE

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

	March 31, 2014			**December 31, 2013**	
	(In thousands)				
Residential mortgage loans	$	24,157		$	21,168
Construction loans		47,802			47,802
Commercial mortgage loans		6,953			6,999
Total	$	78,912		$	75,969

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

NOTE 9 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

Interest rate cap agreements - Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Corporation enters into interest rate cap agreements for protection from rising interest rates. Specifically, the interest rate on the Corporation's commercial loan to another financial institution is generally a variable rate limited to the weighted average coupon of the referenced residential mortgage collateral, less a contractual servicing fee.

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

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

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

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

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

	Notional Amounts				
	As of March 31, 2014			As of December 31, 2013	
Undesignated economic hedges:	(In thousands)				
Interest rate contracts:					
Interest rate swap agreements	$	30,970		$	31,080
Written interest rate cap agreements		38,082			38,391
Purchased interest rate cap agreements		38,082			38,391
Forward Contracts:					
Sale of TBA GNMA MBS pools		24,000			25,000
	$	131,134		$	132,862

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

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

	Asset Derivatives						Liability Derivatives				
	Statement of Financial Condition Location		March 31, 2014 Fair Value		December 31, 2013 Fair Value		Statement of Financial Condition Location		March 31, 2014 Fair Value		December 31, 2013 Fair Value
	(In thousands)										

Undesignated economic hedges:						
Interest rate contracts:						
Interest rate swap agreements	Other assets	$ 131	$ 162	Accounts payable and other liabilities	$ 3,621	$ 3,965
Written interest rate cap agreements	Other assets	-	-	Accounts payable and other liabilities	39	58
Purchased interest rate cap agreements	Other assets	39	58	Accounts payable and other liabilities	-	-
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets	29	174	Accounts payable and other liabilities	20	-
		$ 199	$ 394		$ 3,680	$ 4,023

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

(In thousands)	Location of Gain or (loss) Recognized in Income on Derivatives		Gain (or Loss) Quarter Ended March 31, 2014			2013
				(In thousands)		
UNDESIGNATED ECONOMIC HEDGES:						
Interest rate contracts:						
Interest rate swap agreements	Interest income - Loans		$	313	$	390
Written and purchased interest rate cap agreements	Interest income - loans			-		10
Forward contracts:						
Sales of TBA GNMA MBS pools	Mortgage Banking Activities			(165)		(105)
Total gain on derivatives			$	148	$	295

Derivative instruments, such as interest rate swaps, are subject to market risk. As is the case with investment securities, the market value of derivative instruments is largely a function of the financial market's expectations regarding the future direction of interest rates. Accordingly, current market values are not necessarily indicative of the future impact of derivative instruments on earnings. This will depend, for the most part, on the shape of the yield curve and the level of interest rates, as well as the expectations for rates in the future.

A summary of interest rate swaps is as follows:

	As of March 31, 2014		As of December 31, 2013	
	(Dollars in thousands)			
Pay fixed/receive floating :				
Notional amount	$	30,970	$	31,080
Weighted-average receive rate at period end		1.84%		1.85%
Weighted-average pay rate at period end		6.77%		6.77%
Floating rates range from 167 to 187 basis points over 3-month LIBOR				

As of March 31, 2014, the Corporation has not entered into any derivative instrument containing credit-risk-related contingent features.

NOTE 10 – OFFSETTING OF ASSETS AND LIABILITIES

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

Offsetting of Financial Assets and Derivative Assets

In thousands

As of March 31, 2014						
				Gross Amounts Not Offset in the Statement of Financial Position		
Description	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Statement of Financial Position**	**Net Amounts of Assets Presented in the Statement of Financial Position**	**Financial Instruments**	**Cash Collateral Received**	**Net Amount**
Derivatives	$ 39	$ -	$ 39	$ (39)	$ -	$ -

As of December 31, 2013						
				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of	**Gross Amounts Offset in**	**Net Amounts of Assets Presented**	**Financial**	**Cash**	

Description	Recognized Assets	the Statement of Financial Position	in the Statement of Financial Position	Instruments	Collateral	Net Amount
Derivatives	$ 58					

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