FIRST BANCORP /PR/
Form 10-Q
November 12, 2013
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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 September 30, 2013

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

COMMISSION FILE NUMBER 001-14793

FIRST BANCORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico	**66-0561882**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification number)**

1519 Ponce de León Avenue, Stop 23

Santurce, Puerto Rico	**00908**
(Address of principal executive offices)	**(Zip Code)**

(787) 729-8200

(Registrant s telephone number, including area code)

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common stock: 207,067,156 shares outstanding as of October 31, 2013.

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Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q or future filings by First BanCorp. (the Corporation) with the Securities and Exchange Commission (SEC), in the Corporation s press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the word or phrases would be, will allow, intends to, will likely result, are expected to, should, anticipate and similar expressio meant to identify forward-looking statements.

Such forward-looking statements, which speak only as of the date made, and 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, the 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 the deferred tax asset;

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

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;

a credit default by the Puerto Rico government or any of its public corporations or other instrumentalities, and recent and/or future downgrades of the long-term debt ratings of the Puerto Rico government, which could adversely affect economic conditions in Puerto Rico;

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;

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- 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;

- uncertainty about the effectiveness of the various actions undertaken to stimulate the U.S. economy and stabilize the U.S. financial markets, and the impact such actions may have on the Corporation s business, financial condition and results of operations;

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

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

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

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

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

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

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

- the risk of losses in the value of the Corporation s investment in an unconsolidated entity 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 of the 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, 2012, 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)

(In thousands, except for share information)	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 623,019	$ 730,016
Money market investments:		
Time deposits with other financial institutions	300	505
Other short-term investments	201,065	216,330
Total money market investments	201,365	216,835
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	1,050,006	1,070,968
Other investment securities	997,324	660,109
Total investment securities available for sale	2,047,330	1,731,077
Other equity securities	32,096	38,757
Investment in unconsolidated entity	13,172	23,970
Loans, net of allowance for loan and lease losses of $289,379 (2012 - $435,414)	9,219,255	9,618,700
Loans held for sale, at lower of cost or market	114,592	85,394
Total loans, net	9,333,847	9,704,094
Premises and equipment, net	172,371	181,363
Other real estate owned	133,284	185,764
Accrued interest receivable on loans and investments	49,848	51,671
Other assets	181,118	236,194
Total assets	$ 12,787,450	$ 13,099,741
LIABILITIES		
Non-interest-bearing deposits	$ 845,917	$ 837,387
Interest-bearing deposits	9,108,280	9,027,159
Total deposits	9,954,197	9,864,546
Securities sold under agreements to repurchase	900,000	900,000

Advances from the Federal Home Loan Bank (FHLB)		353,440		508,440
Other borrowings		231,959		231,959
Accounts payable and other liabilities		127,261		109,773
Total liabilities		11,566,857		11,614,718
STOCKHOLDERS EQUITY				
Preferred stock, authorized, 50,000,000 shares:				
Non-cumulative Perpetual Monthly Income Preferred Stock: issued - 22,004,000 shares, outstanding 2,521,872 shares, aggregate liquidation value of $63,047		63,047		63,047
Common stock, $0.10 par value, authorized, 2,000,000,000 shares; issued, 207,588,787 shares (2012 - 206,730,318 shares issued)		20,759		20,673
Less: Treasury stock (at par value)		(55)		(49)
Common stock outstanding, 207,042,785 shares outstanding (2012 - 206,235,465 shares outstanding)		20,704		20,624
Additional paid-in capital		887,437		885,754
Retained earnings		307,890		487,166
Accumulated other comprehensive (loss) income, net of tax expense of $7,757 (2012 - $7,749)		(58,485)		28,432
Total stockholders equity		1,220,593		1,485,023
Total liabilities and stockholders equity	$	12,787,450	$	13,099,741

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

(In thousands, except per share information)	Quarter Ended September 30, 2013	Quarter Ended September 30, 2012	Nine-Month Period Ended September 30, 2013	Nine-Month Period Ended September 30, 2012
Interest income:				
Loans	$ 147,325	$ 155,225	$ 443,954	$ 437,990
Investment securities	14,422	11,344	37,650	33,513
Money market investments	456	395	1,494	1,220
Total interest income	162,203	166,964	483,098	472,723
Interest expense:				
Deposits	21,453	29,953	70,915	100,176
Securities sold under agreements to repurchase	6,531	6,707	19,418	21,825
Advances from FHLB	1,524	2,953	5,180	9,222
Notes payable and other borrowings	1,790	1,848	5,299	5,426
Total interest expense	31,298	41,461	100,812	136,649
Net interest income	130,905	125,503	382,286	336,074
Provision for loan and lease losses	22,195	28,952	220,782	90,033
Net interest income after provision for loan and lease losses	108,710	96,551	161,504	246,041
Non-interest income (loss):				
Service charges on deposit accounts	3,157	3,267	9,635	9,754
Mortgage banking activities	3,521	4,728	12,924	13,260
Net gain (loss) on sale of investments (includes $42 accumulated other comprehensive income reclassification for other-than-temporary impairment on equity securities for the nine-month period ended September 30, 2013)		10	(42)	36
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		(557)	(117)	(1,933)
Net impairment losses on available-for-sale debt securities		(557)	(117)	(1,933)
Equity in loss of unconsolidated entity	(5,908)	(2,199)	(10,798)	(10,926)
Impairment of collateral pledged to Lehman			(66,574)	

Insurance income	1,303	1,429	4,831	4,221
Other non-interest income	7,987	8,448	22,167	23,211
Total non-interest income (loss)	10,060	15,126	(27,974)	37,623
Non-interest expenses:				
Employees compensation and benefits	32,823	31,058	99,493	93,770
Occupancy and equipment	15,134	15,208	45,150	46,065
Business promotion	3,538	4,004	10,726	10,026
Professional fees	11,840	7,469	36,707	19,768
Taxes, other than income taxes	4,693	3,499	13,921	10,350
Insurance and supervisory fees	11,513	13,023	37,018	39,333
Net loss on other real estate owned (OREO) and OREO operations	7,052	8,686	29,191	18,915
Credit and debit card processing expenses	2,682	2,574	8,040	3,516
Communications	1,866	1,797	5,565	5,276
Other non-interest expenses	8,013	4,525	22,676	16,959
Total non-interest expenses	99,154	91,843	308,487	263,978
Income (loss) before income taxes	19,616	19,834	(174,957)	19,686
Income tax expense	(3,676)	(761)	(4,319)	(4,439)
Net income (loss)	$ 15,940	$ 19,073	$ (179,276)	$ 15,247
Net income (loss) attributable to common stockholders	$ 15,940	$ 19,073	$ (179,276)	$ 15,247
Net earnings (loss) per common share:				
Basic	$ 0.08	$ 0.09	$ (0.87)	$ 0.07
Diluted	$ 0.08	$ 0.09	$ (0.87)	$ 0.07
Dividends declared per common share	$	$	$	$

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(In thousands)	Quarter Ended September 30, 2013	Quarter Ended September 30, 2012	Nine-Month Period Ended September 30, 2013	Nine-Month Period Ended September 30, 2012
Net income (loss)	$ 15,940	$ 19,073	$ (179,276)	$ 15,247
Available-for-sale debt securities on which other-than-temporary impairment has been recognized:				
Subsequent unrealized gain on debt securities on which an other-than-temporary impairment has been recognized	1,304	898	2,739	4,443
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income		557	117	1,933
All other unrealized gains and losses on available-for-sale securities:				
All other unrealized holding (losses) gains arising during the period	(20,061)	14,868	(89,807)	17,009
Reclassification adjustment for other-than-temporary impairment on equity securities			42	
Income tax benefit (expense) related to items of other comprehensive income	414	(442)	(8)	(92)
Other comprehensive (loss) income for the period, net of tax	(18,343)	15,881	(86,917)	23,293
Total comprehensive (loss) income	$ (2,403)	$ 34,954	$ (266,193)	$ 38,540

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Nine-Month Period Ended September 30, 2013	September 30, 2012
Cash flows from operating activities:		
Net (loss) income	$ (179,276)	$ 15,247
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	17,911	18,404
Amortization and impairment of intangible assets	4,558	2,311
Provision for loan and lease losses	220,782	90,033
Deferred income tax (benefit) expense	(2,577)	775
Stock-based compensation	2,088	395
Other-than-temporary impairments on debt securities	117	1,933
Other-than-temporary impairments on equity securities	42	
Equity in loss of unconsolidated entity	10,798	10,926
Impairment of collateral pledged to Lehman	66,574	
Derivative instruments and financial liabilities measured at fair value, gain	(762)	(955)
(Gain) loss on sale of premises and equipment and other assets	(4)	259
Net gain on sales of loans	(1,603)	(3,155)
Net amortization of premiums, discounts and deferred loan fees and costs	(3,248)	1,126
Originations and purchases of loans held for sale	(400,614)	(295,607)
Sales and repayments of loans held for sale	456,860	304,750
Loans held for sale valuation adjustment	6,553	
Amortization of broker placement fees	6,094	7,607
Net amortization of premium and discounts on investment securities	7,473	10,087
Increase (decrease) in accrued income tax payable	1,130	(1,048)
Decrease (increase) in accrued interest receivable	1,823	(909)
Increase (decrease) in accrued interest payable	1,345	(293)
Decrease in other assets	22,400	20,819
Increase in other liabilities	24,076	8,059
Net cash provided by operating activities	262,540	190,764
Cash flows from investing activities:		
Principal collected on loans	2,081,371	2,227,673
Loans originated and purchased	(2,362,492)	(2,284,750)
Proceeds from sale of loans held for investment	309,024	22,203
Proceeds from sale of repossessed assets	70,805	59,442
Purchases of securities available for sale	(690,377)	(788,191)
Proceeds from principal repayments and maturities of securities available for sale	280,694	1,127,667

Additions to premises and equipment	(8,919)	(7,494)
Proceeds from sale of premises and equipments and other assets	4	1,040
Proceeds from securities litigation settlement and other proceeds		36
Net redemptions (purchases) of other equity securities	6,661	(1,705)
Net cash (used in) provided by investing activities	(313,229)	355,921
Cash flows from financing activities:		
Net increase (decrease) in deposits	83,557	(19,611)
Net repayments of securities sold under agreements to repurchase		(100,000)
Net FHLB advances (paid) proceeds	(155,000)	151,000
Repurchase of outstanding common stock	(335)	
Repayments of medium-term notes		(21,957)
Proceeds from common stock sold		1,037
Net cash (used in) provided by financing activities	(71,778)	10,469
Net (decrease) increase in cash and cash equivalents	(122,467)	557,154
Cash and cash equivalents at beginning of period	946,851	446,566
Cash and cash equivalents at end of period	$ 824,384	$ 1,003,720
Cash and cash equivalents include:		
Cash and due from banks	$ 623,019	$ 786,788
Money market instruments	201,365	216,932
	$ 824,384	$ 1,003,720

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

(In thousands)	Nine-Month Period Ended September 30, 2013	Nine-Month Period Ended September 30, 2012
Preferred Stock	$ 63,047	$ 63,047
Common Stock outstanding:		
Balance at beginning of period	20,624	20,513
Common stock issued as compensation	15	
Repurchase of common stock	(5)	
Common stock sold		29
Restricted stock grants	74	76
Restricted stock forfeited	(4)	
Balance at end of period	20,704	20,618
Additional Paid-In-Capital:		
Balance at beginning of period	885,754	884,002
Restricted stock grants	(74)	(76)
Restricted stock forfeited	4	
Common stock sold		1,008
Stock-based compensation	2,088	395
Repurchase of common stock	(335)	
Balance at end of period	887,437	885,329
Retained Earnings:		
Balance at beginning of period	487,166	457,384
Net (loss) income	(179,276)	15,247
Balance at end of period	307,890	472,631
Accumulated Other Comprehensive Income (Loss), net of tax:		
Balance at beginning of period	28,432	19,198
Other comprehensive (loss) income, net of tax	(86,917)	23,294
Balance at end of period	(58,485)	42,492
Total stockholders equity	$ 1,220,593	$ 1,484,117

The accompanying notes are an integral part of these statements.

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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, 2012. 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, 2012, included in the Corporation s 2012 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 September 30, 2013 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 December 2011, the FASB updated the Accounting Standards Codification (the Codification) to enhance and require converged disclosures about financial and derivative instruments that are either offset on the balance sheet, or are subject to an enforceable master netting arrangement (or other similar arrangement). Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB updated the Codification to clarify the scope of the disclosure to include only derivatives, including bifurcated embedded derivatives, repurchase agreements, reverse repurchase agreements, and securities lending that are either offset or subject to an enforceable master netting agreement or similar agreement. The amendments in this Update are effective for interim and annual periods beginning on or after January 1, 2013. The Corporation adopted this guidance in 2013. Refer to Note 10 for required disclosures about offsetting assets and liabilities.

In February 2013, the FASB updated the Codification to improve the reporting of reclassifications out of accumulated other comprehensive income (OCI). The amendments in this Update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated OCI on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated OCI is reclassified to a balance sheet account (for example, inventory) instead of directly to income or expense in the same reporting period. The amendments in this Update are effective prospectively for reporting periods beginning after December 31, 2012. The Corporation adopted this guidance in 2013 with no effect on the Corporation s financial condition or results of operations since it impacted presentation only. The reclassifications out of accumulated other comprehensive income of the Corporation during the first nine-months of 2013 and 2012 were primarily related to credit losses on debt securities for which other-than-temporary impairment (OTTI) was previously recognized. The disclosure of credit losses on debt securities, and required identification in the statement of income (loss), is already required by Accounting Standard Codification (ASC) 320-10-50.

In July 2013, the FASB updated the Codification to add the Fed Funds Effective Swap Rates (or Overnight Index Swap Rate) as a U.S. benchmark interest rate for hedge accounting purposes. Previously, only the direct Treasury obligations of the U.S. government and the London Interbank Offered Rate (LIBOR) swap rate were used. This Update is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this guidance did not have an effect on the Corporation s financial condition or results of operations as the Corporation s derivative instruments are not designated or do not qualify for hedge accounting.

In July 2013, the FASB updated the Codification to provide explicit guidelines on how to present an unrecognized tax benefit in a financial statement when a net operating loss 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

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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. Early adoption is permitted. The Corporation is currently evaluating the impact of the adoption of this guidance on its financial statements.

NOTE 2 EARNINGS PER COMMON SHARE

The calculations of earnings (losses) per common share for the quarters and nine month periods ended September 30, 2013 and 2012 are as follows:

	Quarter Ended		Nine-Month Period Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(In thousands, except per share information)			
Net income (loss)	$ 15,940	$ 19,073	$ (179,276)	$ 15,247
Net income (loss) attributable to common stockholders	$ 15,940	$ 19,073	$ (179,276)	$ 15,247
Weighted-Average Shares:				
Basic weighted-average common shares outstanding	205,579	205,415	205,512	205,349
Average potential common shares	1,737	508		348
Diluted weighted-average number of common shares outstanding	207,316	205,923	205,512	205,697
Earnings (Loss) per common share:				
Basic	$ 0.08	$ 0.09	$ (0.87)	$ 0.07
Diluted	$ 0.08	$ 0.09	$ (0.87)	$ 0.07

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 preferred stock dividends, including dividends declared, cumulative dividends related to the current dividend period that have not been declared as of the end of the period, and the accretion of discount on preferred stock issuances, if any. 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 104,499 and 114,757 for the quarters and nine-month periods ended September 30, 2013 and 2012, respectively. Warrants outstanding to purchase 1,285,899 shares of common stock and 1,435,220 unvested shares of restricted stock were excluded from the computation of diluted earnings per share for the nine-month period ended September 30, 2013 because the Corporation reported a net loss attributable to common stockholders for the period and their inclusion would have an antidilutive effect.

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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. The maximum term to exercise these options is 10 years.

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

The activity of stock options granted under the 1997 stock option plan for the nine-month period ended September 30, 2013 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	113,158	$	206.96			
Options expired	(7,795)		192.90			
Options cancelled	(864)		222.05			
End of period outstanding and exercisable	104,499	$	207.94	2.3	$	

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 third quarter of 2013, 22,218 shares of restricted stock were awarded to the Corporation s independent directors subject to a one-year vesting period. In addition, during the first nine months of 2013, the Corporation issued 716,405 shares of restricted stock that will vest based on the employees continued service with the Corporation. Fifty percent (50%) of those shares vest in two years from the grant date and the remaining 50% vest in three years from the grant date. Included in those 716,405 shares of restricted stock are 582,905 shares granted to certain senior officers consistent with the requirements of 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 certain 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. Hence, notwithstanding the vesting period mentioned above, the employees covered by TARP are restricted from transferring the shares. 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).

The fair value of the shares of restricted stock granted in 2013 was based on the market price of the Corporation s outstanding common stock on the date of the grant. For the 582,905 shares of restricted stock granted under the TARP requirements, the market price was discounted due to post-vesting restrictions. For purposes of computing the discount, the Corporation estimated an appreciation of 13% 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 a holding period by the Treasury of its outstanding common stock of the Corporation of 2 years, resulting in a fair value of $3.02 for restricted shares granted under the TARP requirements. Also, the Corporation uses empirical data to estimate employee termination; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes.

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The following table summarizes the restricted stock activity in 2013 under the Omnibus Plan for both executive officers covered by the TARP requirements and other employees as well as for independent directors:

	Nine-Month Period Ended September 30, 2013	
	Number of shares of restricted stock	Weighted-Average Grant Date Fair Value
Non-vested shares at beginning of year	770,507	$ 2.51
Granted	738,623	3.69
Forfeited	(36,485)	3.82
Vested	(37,425)	3.34
Non-vested shares at September 30, 2013	1,435,220	$ 3.07

For the quarter and nine-month period ended September 30, 2013, the Corporation recognized $0.5 million and $1.1 million, respectively, of stock-based compensation expense related to restricted stock awards, compared to $0.2 million and $0.4 million for the same periods in 2012. As of September 30, 2013, there was $2.7 million of total unrecognized compensation cost related to nonvested shares of restricted stock. The weighted average period over which the Corporation expects to recognize such cost is 1.8 years.

During the third quarter of 2012, 44,910 shares of restricted stock were awarded to the Corporation s independent directors subject to a one-year vesting period. In addition, early in 2012, the Corporation issued 719,500 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 719,500 shares of restricted stock are 557,000 shares granted to certain senior officers consistent with the requirements of TARP. The employees covered by TARP are restricted from transferring the shares, subject to certain conditions as explained above.

The fair value of the shares of restricted stock granted in 2012 was based on the market price of the Corporation s outstanding common stock on the date of the grant, $3.34 for restricted stocks granted during the third quarter of 2012 and $4.00 for the restricted stocks granted earlier in 2012. For the 557,000 shares of restricted stock granted under the TARP requirements, the market price was discounted due to post-vesting restrictions. For purposes of computing the discount, the Corporation assumed appreciation of 25% in the value of the common stock and a holding period by the Treasury of its outstanding common stock of the Corporation of 3 years, resulting in a fair value of $2.00 for restricted shares granted under the TARP requirements in 2012.

Stock-based compensation accounting guidance requires the Corporation to develop an estimate of the number of share-based awards that will be forfeited due to employee or director turnover. Quarterly changes in the estimated forfeiture rate may have a significant effect on share-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period in which the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease in the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase in the expense recognized in the financial statements. When unvested options or shares of restricted stock are forfeited, any compensation expense previously recognized on the forfeited awards is reversed in the period of the forfeiture. Approximately $0.1 million of compensation expense was reversed in 2013 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 for fiscal year 2013 primarily by paying the increased salary amounts in the form of shares of the Corporation s common stock, instead of cash. During the first nine months of 2013, the Corporation issued 156,331 shares of common stock with a weighted average market value of $6.43 for compensation according to this determination. This resulted in a compensation expense of $1.0 million recorded in the first nine-months of 2013.

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NOTE 4 INVESTMENT SECURITIES

Investment Securities Available for Sale

The amortized cost, non-credit loss component of OTTI recorded in OCI, gross unrealized gains and losses recorded in OCI, approximate fair value, weighted average yield and contractual maturities of investment securities available for sale as of September 30, 2013 and December 31, 2012 were as follows:

	September 30, 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	$ 7,495	$	$ 3	$	$ 7,498	0.12
Obligations of U.S. government-sponsored agencies:						
After 1 to 5 years	50,000			1,207	48,793	1.05
After 5 to 10 years	214,284			11,394	202,890	1.31
Puerto Rico government obligations:						
Due within one year	10,000			235	9,765	3.50
After 5 to 10 years	39,779			14,569	25,210	4.49
After 10 years	21,210			6,986	14,224	5.79
United States and Puerto Rico government obligations	342,768		3	34,391	308,380	1.96
Mortgage-backed securities:						
FHLMC certificates:						
After 10 years	341,854		750	6,924	335,680	2.15
	341,854		750	6,924	335,680	2.15
GNMA certificates:						
After 1 to 5 years	97		4		101	3.51
After 5 to 10 years	745		38		783	2.59
After 10 years	442,842		23,460		466,302	3.82
	443,684		23,502		467,186	3.81
FNMA certificates:						
After 1 to 5 years	1,533		70		1,603	4.88

After 5 to 10 years	8,207		491		8,698	4.11
After 10 years	902,038		4,450	23,052	883,436	2.34
	911,778		5,011	23,052	893,737	2.36
Collateralized mortgage obligations issued or guaranteed by the FHLMC:						
After 1 to 5 years	122			1	121	3.01
	122			1	121	3.01
Other mortgage pass-through trust certificates:						
Over 5 to 10 years	132		1		133	7.27
After 10 years	57,683	15,631			42,052	2.25
	57,815	15,631	1		42,185	2.25
Total mortgage-backed securities	1,755,253	15,631	29,264	29,977	1,738,909	2.68
Equity securities (without contractual maturity) [1]	36		5		41	
Total investment securities available for sale	$ 2,098,057	$ 15,631	$ 29,272	$ 64,368	$ 2,047,330	2.56

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

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	December 31, 2012					
	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
U.S. Treasury securities:						
Due within one year	$ 7,497	$	$ 2	$	$ 7,499	0.17
Obligations of U.S. government-sponsored agencies:						
After 1 to 5 years	25,650		7		25,657	0.35
After 5 to 10 years	214,323		8	415	213,916	1.31
Puerto Rico government obligations:						
After 1 to 5 years	10,000				10,000	3.50
After 5 to 10 years	39,753			553	39,200	4.49
After 10 years	21,099		948	47	22,000	5.78
United States and Puerto Rico government obligations	318,322		965	1,015	318,272	1.97
Mortgage-backed securities:						
FHLMC certificates:						
Due within one year	63				63	3.34
After 10 years	125,747		3,430		129,177	2.13
	125,810		3,430		129,240	2.13
GNMA certificates:						
After 1 to 5 years	143		7		150	3.57
After 5 to 10 years	479		37		516	3.52
After 10 years	564,376		39,630		604,006	3.98
	564,998		39,674		604,672	3.98
FNMA certificates:						
Due within one year	119				119	2.93
After 1 to 5 years	2,270		149		2,419	4.88
After 5 to 10 years	10,963		874		11,837	3.91
After 10 years	602,623		10,638		613,261	2.49
	615,975		11,661		627,636	2.52
Collateralized mortgage obligations issued or guaranteed by the FHLMC:						
After 5 to 10 years	301			1	300	3.01
	301			1	300	3.01

Other mortgage pass-through trust certificates:						
Over 5 to 10 years	143		1		144	7.27
After 10 years	69,269	18,487			50,782	2.29
	69,412	18,487	1		50,926	2.29
Total mortgage-backed securities	1,376,496	18,487	54,766	1	1,412,774	3.07
Equity securities (without contractual maturity) [(1)]	77			46	31	
Total investment securities available for sale	$ 1,694,895	$ 18,487	$ 55,731	$ 1,062	$ 1,731,077	2.87

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

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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 noncredit loss component of OTTI are presented as part of OCI.

The following tables show the Corporation s available-for-sale investments fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2013 and December 31, 2012. It also includes debt securities for which an OTTI was recognized and only the amount related to a credit loss was recognized in earnings. Unrealized losses for which OTTI had been recognized have been reduced by any subsequent recoveries in fair value.

	As of September 30, 2013					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
Puerto Rico government obligations	$ 47,956	$ 20,946	$ 1,243	$ 844	$ 49,199	$ 21,790
US government agencies obligations	251,683	12,601			251,683	12,601
Mortgage-backed securities:						
FNMA	722,735	23,052			722,735	23,052
FHLMC	263,628	6,924			263,628	6,924
Collateralized mortgage obligations issued or guaranteed by FHLMC			121	1	121	1
Other mortgage pass-through trust certificates			42,052	15,631	42,052	15,631
	$ 1,286,002	$ 63,523	$ 43,416	$ 16,476	$ 1,329,418	$ 79,999

	As of December 31, 2012					
	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	$ 41,243	$ 600	$	$	$ 41,243	$ 600
US government agencies obligations	183,709	415			183,709	415
Mortgage-backed securities:						
Collateralized mortgage obligations issued or guaranteed by FHLMC	300	1			300	1
Other mortgage pass-through trust certificates			50,782	18,487	50,782	18,487
Equity securities	31	46			31	46

$ 225,283	$ 1,062	$ 50,782	$ 18,487	$ 276,065	$ 19,549

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Assessment for OTTI

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

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

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

Debt securities issued by U.S. government agencies, government-sponsored entities and the Treasury accounted for approximately 96% of the total available-for-sale portfolio as of September 30, 2013 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation s assessment was concentrated mainly on private label mortgage-backed securities with an amortized cost of $57.7 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 September 30, 2013	Private Label MBS Quarter ended September 30, 2012	Private Label MBS Nine-Month Period Ended September 30, 2013	Private Label MBS Nine-Month Period Ended September 30, 2012
(In thousands)				
Total other-than-temporary impairment losses	$	$	$	$
Credit loss on debt securities for which an OTTI was not previously recognized				
Portion of other-than-temporary impairment losses recognized in OCI		(557)	(117)	(1,933)
Net impairment losses recognized in earnings	$	$ (557)	$ (117)	$ (1,933)

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

	Quarter ended September 30,		Nine-Month Period Ended September 30,	
	2013	2012	2013	2012
(In thousands)				
Credit losses at the beginning of the period	$ 5,389	$ 5,199	$ 5,272	$ 3,823
Additions:				
Credit losses on debt securities for which an OTTI was previously recognized		557	117	1,933
Ending balance of credit losses on debt securities held for which a portion of an OTTI was recognized in OCI	$ 5,389	$ 5,756	$ 5,389	$ 5,756

During the first nine months of 2013, the $0.1 million credit-related impairment loss was related to private label MBS, which are collateralized by fixed-rate mortgages on single-family, residential properties in the United States. The interest rate on these private-label MBS is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The underlying mortgages are fixed-rate single-family loans with original high FICO scores (over 700) and moderate original loan-to-value ratios (under 80%), as well as moderate delinquency levels.

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

	September 30, 2013		December 31, 2012	
	Weighted Average	Range	Weighted Average	Range
Discount rate	14.5%	14.5%	14.5%	14.5%
Prepayment rate	32%	20.41%-100.00%	32%	21.85%-69.97%
Projected Cumulative Loss Rate	6.6%	.69%-38.58%	8%	0.73%-38.79%

The Corporation recorded OTTI losses of $42,000 on equity securities held in the available-for-sale investment portfolio in the first nine months of 2013. No OTTI losses on equity securities were recognized in the nine-month period ended September 30, 2012.

As of September 30, 2013, the Corporation held approximately $71.0 million of Puerto Rico government and agencies bond obligations as part of its available-for-sale investment securities portfolio that were reflected at their aggregate fair value of $49.2 million, down $18.2 million from June 30, 2013. In May, the 30-year general obligation bonds of the Puerto Rico government, which are widely held by mutual funds, carried a yield of about 5.3%, which increased during the third quarter, surpassing 10% at one point in September amid a general run-up in interest rates and significant selling by investors after Detroit filed for the largest municipal bankruptcy in United States history. The debt carried a yield of approximately 8.5% as of September 30, 2013. The debt ratings have suffered downgrades in the last ten months, and such downgrades could have an adverse impact on economic conditions, but the ultimate impact is unpredictable and may not be immediately apparent. The Commonwealth of Puerto Rico debt is rated Baa3 with a negative outlook by Moody s Investor Service (Moody s), BBB- with a negative outlook by Standard & Poor s (S&P), and BBB- with a negative outlook by Fitch, Inc., all one notch above noninvestment grade. Based on the Corporation s ability and intent to hold these securities until a recovery of the fair value occurs, the unrealized losses are considered temporary. 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.

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

As of September 30, 2013 and December 31, 2012, the Corporation had investments in FHLB stock with a book value of $30.8 million and $37.5 million, respectively. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the quarter and nine-month period ended September 30, 2013 was $0.3 million and $1.0 million, respectively, compared to $0.3 million and $1.1 million for the comparable periods in 2012.

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

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of September 30, 2013 and December 31, 2012 was $1.3 million.

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NOTE 6 LOANS HELD FOR INVESTMENT

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

	September 30, 2013	December 31, 2012
	(In thousands)	
Residential mortgage loans, mainly secured by first mortgages	$ 2,519,457	$ 2,747,217
Commercial loans:		
Construction loans (1)	163,610	361,875
Commercial mortgage loans (1)	1,857,794	1,883,798
Commercial and Industrial loans (1) (2)	2,663,793	2,793,157
Loans to local financial institutions collateralized by real estate mortgages	244,554	255,390
Commercial loans	4,929,751	5,294,220
Finance leases	243,553	236,926
Consumer loans	1,815,873	1,775,751
Loans held for investment	9,508,634	10,054,114
Allowance for loan and lease losses	(289,379)	(435,414)
Loans held for investment, net (3)	$ 9,219,255	$ 9,618,700

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

(2) As of September 30, 2013, includes $1.2 billion of commercial loans that are secured by real estate (owner-occupied commercial loans secured by real estate) but are not dependent upon the real estate for repayment.

(3) During the first half of 2013, the Corporation completed two separate bulk sales of assets including: (i) non-performing residential mortgage loans with a book value before allowance for loan losses of $203.8 million, and (ii) adversely classified loans, mainly commercial loans, with a book value before allowance for loan losses of $211.4 million. In addition the Corporation transferred $181.6 million of commercial non-performing

loans to held for sale as further discussed below.

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

(In thousands)	**September 30, 2013**	**December 31, 2012**
Non-performing loans:		
Residential mortgage	$ 142,002	$ 313,626
Commercial mortgage	127,374	214,780
Commercial and Industrial	127,584	230,090
Construction	64,241	178,190
Consumer:		
Auto loans	19,481	19,210
Finance leases	2,603	3,182
Other consumer loans	15,100	16,483
Total non-performing loans held for investment [1] [2]	$ 498,385	$ 975,561

(1) As of September 30, 2013 and December 31, 2012, excludes $80.2 million and $2.2 million, respectively, in non-performing loans held for sale.

(2) Amount excludes purchased credit impaired (PCI) loans with a carrying value of approximately $6.0 million and $10.6 million as of September 30, 2013 and December 31, 2012, respectively, acquired as part of the credit card portfolio purchased in the second quarter of 2012.

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

As of September 30, 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)	$	$ 9,857	$ 78,925	$ 88,782	$	$ 115,385	$ 204,167	$ 78,925
Other residential mortgage loans (3)		85,819	155,090	240,909		2,074,381	2,315,290	13,088
Commercial:								
Commercial and Industrial loans	18,419	16,336	150,692	185,447		2,722,900	2,908,347	23,108
Commercial mortgage loans (3)		2,399	135,734	138,133		1,719,661	1,857,794	8,360
Construction loans (3)		318	64,368	64,686		98,924	163,610	127
Consumer:								
Auto loans	77,243	15,616	19,481	112,340		986,796	1,099,136	
Finance leases	9,870	2,645	2,603	15,118		228,435	243,553	
Other consumer loans	12,486	9,227	19,227	40,940	5,963	669,834	716,737	4,127
Total loans held for investment	$ 118,018	$ 142,217	$ 626,120	$ 886,355	$ 5,963	$ 8,616,316	$ 9,508,634	$ 127,735

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

(2) As of September 30, 2013, includes $7.8 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 on two or more monthly payments. FHA/VA government guaranteed loans, other residential mortgage loans, commercial mortgage loans and construction loans past due 30-59 days amounted to $23.8 million, $199.6 million, $80.4 million and $1.5 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 $36.9 million of residential mortgage loans insured by the FHA or guaranteed by the VA, that are over 18 months delinquent, and are no longer accruing interest as of

September 30, 2013.

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As of December 31, 2012 (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)	$	$ 10,592	$ 93,298	$ 103,890	$	$ 104,723	$ 208,613	$ 93,298
Other residential mortgage loans (3)		83,807	324,965	408,772		2,129,832	2,538,604	11,339
Commercial:								
Commercial and Industrial loans	22,323	8,952	258,989	290,264		2,758,283	3,048,547	28,899
Commercial mortgage loans (3)		6,367	218,379	224,746		1,659,052	1,883,798	3,599
Construction loans (3)		843	178,876	179,719		182,156	361,875	686
Consumer:								
Auto loans	64,991	15,446	19,210	99,647		926,579	1,026,226	
Finance leases	10,938	2,682	3,182	16,802		220,124	236,926	
Other consumer loans	12,268	6,850	20,674	39,792	10,602	699,131	749,525	4,191
Total loans held for investment	$ 110,520	$ 135,539	$ 1,117,573	$ 1,363,632	$ 10,602	$ 8,679,880	$ 10,054,114	$ 142,012

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

(2) As of December 31, 2012, includes $14.8 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 on two or more monthly payments. FHA/VA government guaranteed loans, other residential mortgage loans, commercial mortgage loans, and construction loans past due 30-59 days amounted to $22.2 million, $186.3 million, $164.9 million, and $21.1 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 $35.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA, that are over 18 months delinquent, and are no longer accruing interest as of December 31, 2012.

The Corporation s credit quality indicators by loan type as of September 30, 2013 and December 31, 2012 are summarized below:

September 30, 2013	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness category: Substandard	Doubtful	Loss	Total Adversely Classified (1)(2)	Total Portfolio
	(In thousands)				
Commercial mortgage	$ 325,334	$ 15,426	$	$ 340,760	$ 1,857,794
Construction	74,475	9,179		83,654	163,610
Commercial and Industrial	181,343	25,576	1,185	208,104	2,908,347

December 31, 2012	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness category: Substandard	Doubtful	Loss	Total Adversely Classified (1)(2)	Total Portfolio
	(In thousands)				
Commercial mortgage	$ 401,597	$ 6,867	$	$ 408,464	$ 1,883,798
Construction	184,977	14,556	605	200,138	361,875
Commercial and Industrial	372,100	30,651	1,143	403,894	3,048,547

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(1) During the first quarter of 2013, the Corporation completed a bulk sale of assets, mainly commercial adversely classified loans with a book value before allowance for loan losses of $211.4 million and, in addition, transferred $181.6 million of non-performing loans to held for sale as further discussed below.
(2) Excludes $80.2 million ($30.4 million commercial mortgage; $49.8 million construction) and $2.2 million ($1.1 million commercial mortgage and $1.1 million commercial and industrial) as of September 30, 2013 and December 31, 2012, respectively, of non-performing loans held for sale.

The Corporation considers a loan to be 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.

September 30, 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	$ 204,167	$ 2,173,288	$ 1,079,655	$ 240,950	$ 695,674
Purchased Credit-Impaired					5,963
Non-performing		142,002	19,481	2,603	15,100
Total	$ 204,167	$ 2,315,290	$ 1,099,136	$ 243,553	$ 716,737

(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 $36.9 million of residential mortgage loans insured by the FHA or guaranteed by the VA, that are over 18 months delinquent, and are no longer accruing interest as of September 30, 2013.

December 31, 2012	**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	$ 208,613	$ 2,224,978	$ 1,007,016	$ 233,744	$ 722,440
Purchased Credit-Impaired					10,602
Non-performing		313,626	19,210	3,182	16,483
Total	$ 208,613	$ 2,538,604	$ 1,026,226	$ 236,926	$ 749,525

(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 $35.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA, that are over 18 months delinquent, and are no longer accruing interest as of December 31, 2012.

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

Impaired Loans
(In thousands)

	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Year-To-Date Average Recorded Investment	Quarter ended September 30, 2013 Interest Income Recognized Accrual Basis	Quarter ended September 30, 2013 Interest Income Recognized Cash Basis	Nine-month Period Ended September 30, 2013 Interest Income Recognized Accrual Basis	Nine-month Period Ended September 30, 2013 Interest Income Recognized Cash Basis
As of September 30, 2013								
With no related allowance recorded:								
FHA/VA-Guaranteed loans	$	$	$	$	$	$	$	$
Other residential mortgage loans	219,685	232,295		222,764	2,768	255	7,359	1,013
Commercial:								
Commercial mortgage loans	45,489	46,384		46,126	307	243	767	467
Commercial and Industrial Loans	36,095	76,965		40,092	14	37	22	49
Construction Loans	16,418	19,001		18,918	9	8	13	25
Consumer:								
Auto loans								
Finance leases								
Other consumer loans	2,997	4,418		3,261	31	14	81	42
	$ 320,684	$ 379,063	$	$ 331,161	$ 3,129	$ 557	$ 8,242	$ 1,596
With an allowance recorded:								
FHA/VA-Guaranteed loans	$	$	$	$	$	$	$	$
Other residential mortgage loans	177,340	191,181	17,982	179,713	1,518	310	4,251	870
Commercial:								
Commercial mortgage loans	160,165	167,579	28,316	167,019	444	500	1,230	1,480
Commercial and Industrial Loans	164,190	180,335	34,438	178,565	1,285	7	2,955	115
Construction Loans	57,064	69,448	21,785	59,519	256	51	676	234
Consumer:								

Auto loans	13,731	13,731	2,364	12,607	242		726	
Finance leases	2,290	2,290	77	2,183	57		167	
Other consumer loans	9,045	9,595	1,213	8,982	421	16	1,050	28
	$ 583,825	$ 634,159	$ 106,175	$ 608,588	$ 4,223	$ 884	$ 11,055	$ 2,727
Total:								
FHA/VA-Guaranteed loans	$	$	$	$	$	$	$	$
Other residential mortgage loans	397,025	423,476	17,982	402,477	4,286	565	11,610	1,883
Commercial:								
Commercial mortgage loans	205,654	213,963	28,316	213,145	751	743	1,997	1,947
Commercial and Industrial Loans	200,285	257,300	34,438	218,657	1,299	44	2,977	164
Construction Loans	73,482	88,449	21,785	78,437	265	59	689	259
Consumer:								
Auto loans	13,731	13,731	2,364	12,607	242		726	
Finance leases	2,290	2,290	77	2,183	57		167	
Other consumer loans	12,042	14,013	1,213	12,243	452	30	1,131	70
	$ 904,509	$ 1,013,222	$ 106,175	$ 939,749	$ 7,352	$ 1,441	$ 19,297	$ 4,323

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(In thousands)

	Recorded Investments	Unpaid Principal Balance	Related Specific Allowance	Year-To-Date Average Recorded Investment
As of December 31, 2012				
With no related allowance recorded:				
FHA/VA-Guaranteed loans	$	$	$	$
Other residential mortgage loans	122,056	130,306		148,125
Commercial:				
Commercial mortgage loans	44,495	54,753		45,420
Commercial and Industrial Loans	35,673	41,637		22,780
Construction Loans	21,179	44,797		35,379
Consumer:				
Auto loans				
Finance leases				
Other consumer loans	2,615	3,570		2,443
	$ 226,018	$ 275,063	$	$ 254,147
With an allowance recorded:				
FHA/VA-Guaranteed loans	$	$	$	$
Other residential mortgage loans	462,663	518,446	47,171	447,491
Commercial:				
Commercial mortgage loans	310,030	330,117	50,959	316,535
Commercial and Industrial Loans	284,357	363,012	80,167	239,757
Construction Loans	159,504	275,398	39,572	154,680
Consumer:				
Auto loans	11,432	11,432	1,456	11,090
Finance leases	2,019	2,019	78	1,987
Other consumer loans	9,271	10,047	2,346	8,912
	$ 1,239,276	$ 1,510,471	$ 221,749	$ 1,180,452
Total:				
FHA/VA-Guaranteed loans	$	$	$	$
Other residential mortgage loans	584,719	648,752	47,171	595,616
Commercial:				
Commercial mortgage loans	354,525	384,870	50,959	361,955
Commercial and Industrial Loans	320,030	404,649	80,167	262,537
Construction Loans	180,683	320,195	39,572	190,059
Consumer:				
Auto loans	11,432	11,432	1,456	11,090
Finance leases	2,019	2,019	78	1,987
Other consumer loans	11,886	13,617	2,346	11,355
	$ 1,465,294	$ 1,785,534	$ 221,749	$ 1,434,599

Interest income of approximately $8.7 and $24.2 million was recognized on impaired loans for the third quarter and nine-month period ended September 30, 2012, respectively.

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The following tables show the activity for impaired loans and the related specific reserve for the quarter and nine-month period ended September 30, 2013:

	Quarter Ended	Nine-Month Period Ended
	September 30, 2013 (In thousands)	
Impaired Loans:		
Balance at beginning of period	$ 908,245	$ 1,465,294
Loans determined impaired during the period	57,520	208,298
Net charge-offs	(19,703)	(291,675)
Loans sold, net of charge-offs		(201,409)
Increases to impaired loans- additional disbursements	383	6,403
Transfer of loans to held for sale, net of charges-offs		(147,100)
Foreclosures	(2,306)	(25,151)
Loans no longer considered impaired	(12,412)	(38,201)
Paid in full or partial payments	(27,218)	(71,950)
Balance at end of period	$ 904,509	$ 904,509

	Quarter Ended	Nine-Month Period Ended
	September 30, 2013 (In thousands)	
Specific Reserve:		
Balance at beginning of period	$ 114,953	$ 221,749
Provision for loan losses	10,925	176,101
Net charge-offs	(19,703)	(291,675)
Balance at end of period	$ 106,175	$ 106,175

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 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 non-performing 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 of PCI loans that the Corporation acquired. The table also displays the nonaccretable difference and the accretable yield at acquisition.

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(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 balance and carrying value of the PCI Loans as of September 30, 2013 and December 31, 2012:

(In thousands)	Purchased Credit-Impaired Loans (September 30, 2013)	Purchased Credit-Impaired Loans (December 31, 2012)
Contractual balance	$ 23,921	$ 28,778
Carrying value	5,963	10,602

Changes in accretable yield of acquired loans

Subsequent to acquisition, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation s provision for loan and lease losses, resulting in an increase to the allowance for loan losses. During the first nine months of 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 September 30, 2013	$

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During the first nine months of 2013, the Corporation purchased $185.4 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 whether the Corporation wants to retain high-yielding loans and improve net interest margins or generate profits by selling loans. When the Corporation sells such loans, it generally keeps the servicing of the loans.

In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to the Government National Mortgage Association (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 $189.8 million of performing residential mortgage loans to FNMA and FHLMC during the first nine months of 2013. Also, the Corporation securitized $300.2 million of FHA/VA mortgage loans into GNMA mortgage-backed securities during the first nine months of 2013. 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, once the Corporation has the unilateral ability to repurchase the delinquent loan, it is considered to have regained effective control over the loan and is required to recognize the loan and a corresponding repurchase liability on the balance sheet regardless of the Corporation s intent to repurchase the loan.

During the first nine months of 2013, the Corporation repurchased pursuant to its repurchase option with GNMA $27.6 million of loans previously sold to GNMA. The principal balance of these loans is fully guaranteed and the risk of loss related to repurchases is generally limited to the difference between the delinquent interest payment advanced to GNMA computed at the loan s interest rate and the interest payments reimbursed by FHA, which are computed at a pre-determined debenture rate. Repurchases of GNMA loans allow the Corporation, among other things, to maintain acceptable delinquency rates on outstanding GNMA pools and remain as a seller and servicer in good standing with GNMA. The Corporation generally remediates any breach of representations and warranties related to the underwriting of such loans according to established GNMA guidelines without incurring losses. The Corporation does not maintain a liability for estimated losses as a result of breaches in representations and warranties.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation repurchased at par loans previously sold to FNMA and FHLMC in the amount of $4.0 million during the first nine months of 2013. 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. The amount of loan repurchases over the last three years represents less than 2% of total sales of loans to FNMA and FHLMC and subsequent losses are estimated to have been less than $0.3 million. As a consequence, the Corporation does not maintain a liability for estimated losses on loans expected to be repurchased as a result of breaches in loan and servicer representations and warranties.

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

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

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

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

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

In a separate transaction during the second quarter, the Corporation entered into an agreement to receive foreclosed real estate in partial satisfaction of debt related to one of the loans written-off and transferred to held for sale in the first quarter. The remaining balance of such partially satisfied commercial mortgage loan held for sale was restructured, resulting in a loss of $3.4 million recorded as part of Other income in the second quarter of 2013.

Furthermore, in the third quarter of 2013, approximately $6.4 million of construction loan held for sale participations were paid-off, resulting in a gain of $0.3 million included as part of Other income in the third quarter of 2013.

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

Loan Portfolio Concentration

The Corporation s primary lending area is Puerto Rico. The Corporation s banking subsidiary, First Bank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of $9.5 billion as of September 30, 2013, approximately 85% have credit risk concentration in Puerto Rico, 9 % in the United States, and 6 % in the USVI and BVI.

As of September 30, 2013, the Corporation had $326.7 million outstanding in credit facilities granted to the Puerto Rico government, its municipalities and public corporations, compared to $158.4 million as of December 31, 2012, and $40.9 million granted to the government of the Virgin Islands, compared to $35.5 million as of December 31, 2012. Approximately $199.0 million of the granted facilities to the Puerto Rico government or political subdivisions consists of loans to municipalities for which, in most cases, the good faith, credit, and unlimited taxing power of the applicable municipality has been pledged to their repayment. Approximately $79.6 million consists of loans to public corporations that obtain revenues from rates charged for services or products, such as electric power. Public corporations have varying degrees of independence from the central government and many receive appropriations or other payments from it. Approximately $48.1 million consists of loans to units of the Puerto Rico central government. Furthermore, the Corporation had $198.9 million outstanding as of September 30, 2013 in financing to the hotel industry in Puerto Rico guaranteed by the Puerto Rico Tourism Development Fund.

The Puerto Rico economy has been in a recession since March 2006. For fiscal years 2007, 2008, 2009, 2010 and 2011, the Puerto Rico s real gross national product decreased by 1.2%, 2.9%, 3.8%, 3.6%, and 1.6%, respectively. According to the latest information and projections issued by the Puerto Rico Planning Board, in fiscal year 2012, the Puerto Rico s real gross national product, increased by 0.1% and, is projected to decrease by 0.03% for fiscal year 2013 and 0.8% for 2014.

The Puerto Rico government has faced fiscal challenges, including an imbalance between its General Fund total revenues and expenditures. The imbalance reached its highest level in fiscal year 2009, when the deficit was approximately $2.86 billion. Since that time, the Puerto Rico government has been able to reduce its deficit every year, except fiscal year 2012, through various measures designed to increase revenues and reduce expenses. The projected deficit for fiscal year 2014 is expected to decline to $820 million.

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 September 30, 2013 in the amount of $244.6 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.

Troubled Debt Restructurings

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico that is similar to the U.S. government s Home Affordable Modification Program guidelines. Depending upon the nature of borrowers financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction, and residential mortgage loans in the U.S. mainland fit the definition of a troubled debt restructuring (a TDR). A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor s financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of September 30, 2013, the Corporation s total TDR loans held for investment of $636.9 million consisted of $335.0 million of residential mortgage loans, $102.0 million of commercial and industrial loans, $154.5 million of commercial mortgage loans, $19.3 million of construction loans, and $26.2 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $0.8 million as of September 30, 2013.

The Corporation s loss mitigation programs for residential mortgage and consumer loans can provide for one or a combination of the following: movement of interest past due to the end of the loan, extension of the loan term, deferral of principal payments for a significant period of time, and reduction of interest rates either permanently (offered up to 2010) or for a period of up to two years (step-up rates). Additionally, in certain cases, the restructuring may provide for the forgiveness of contractually due principal or interest. Uncollected interest is added to the end of the loan term at the time of the restructuring and not recognized as income until collected or when the loan is paid off.

These programs are available only to those borrowers who have defaulted, or are likely to default, permanently on their loan and would lose their homes in a foreclosure action absent some lender concession. Nevertheless, if the Corporation is not reasonably assured that the borrower will comply with its contractual commitment, properties are foreclosed.

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of September 30, 2013, we classified an additional $3.2 million of residential mortgage loans as TDRs that were participating in or had been offered a trial modification.

For the commercial real estate, commercial and industrial, and construction portfolios, at the time of a restructuring, the Corporation determines, on a loan-by-loan basis, whether a concession was granted for economic or legal reasons related to the borrower s financial difficulty. Concessions granted for commercial loans could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waivers of borrower covenants; forgiveness of principal or interest; or other contract changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collections function. The function s objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of the commercial and industrial, commercial mortgage and construction loan portfolios, the 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.

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

	September 30, 2013					
(In thousands)	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Other (1)	Total
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	$ 22,907	$ 6,455	$ 273,691	$	$ 31,902	$ 334,955
Commercial Mortgage Loans	37,960	13,033	84,989	7	18,471	154,460
Commercial and Industrial Loans	12,304	16,371	7,188	7,365	58,728	101,956
Construction Loans	6,911	2,212	8,996		1,207	19,326
Consumer Loans - Auto		773	8,446		4,511	13,730
Finance Leases		1,066	1,224			2,290
Consumer Loans - Other	356	309	7,778		1,699	10,142
Total Troubled Debt Restructurings(2)	$ 80,438	$ 40,219	$ 392,312	$ 7,372	$ 116,518	$ 636,859

(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) Included in the bulk sales of assets completed during the first half of 2013 was $188.1 million of TDRs, and the transfer of loans to held for sale included TDRs with a book value of $158.4 million at the time of the transfer. The carrying value of TDRs held for sale amounted to $71.0 million as of September 30, 2013.

	December 31, 2012						
(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	Forbearance agreement (1)	Other (2)	Total
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	$ 21,288	$ 4,178	$ 338,731	$	$	$ 47,687	$ 411,884

Commercial Mortgage Loans	103,203	15,578	105,695	46,855		16,332	287,663
Commercial and Industrial Loans	28,761	15,567	26,054	11,951	9,492	41,244	133,069
Construction Loans	6,441	4,195	9,160		61,898	4,499	86,193
Consumer Loans - Auto		1,012	7,452			2,968	11,432
Finance Leases		1,512	507				2,019
Consumer Loans - Other	451	438	6,472			2,109	9,470
Total Troubled Debt Restructurings	$ 160,144	$ 42,480	$ 494,071	$ 58,806	$ 71,390	$ 114,839	$ 941,730

(1) Mainly related to one construction relationship amounting to $53.4 million transferred to held for sale in 2013.

(2) 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.

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The following table presents the Corporation s TDR activity:

(In thousands)	Quarter Ended	Nine-Month Period Ended
	September 30, 2013	
Beginning balance of TDRs	$ 613,129	$ 941,730
New TDRs	46,089	110,687
Increases to existing TDRs - additional disbursements	284	2,802
Charge-offs post modification	(1,497)	(125,257)
Sales, net of charge-offs		(104,915)
Foreclosures	(1,425)	(7,537)
Removed from TDR classification	(185)	(6,603)
TDRs transferred to held for sale		(131,649)
Paid-off and partial payments	(19,536)	(42,399)
Ending balance of TDRs	$ 636,859	$ 636,859

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure generally for a minimum of six months and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loans being returned to accrual at the time of the restructuring or after a shorter performance period. If the borrower s ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. Loan modifications increase the Corporation s interest income by returning a non-performing loan to performing status, if applicable, increase cash flows by providing for payments to be made by the borrower, and avoid increases in foreclosure and OREO costs. The Corporation continues to consider a modified loan as an impaired loan for purposes of estimating the allowance for loan and lease losses. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms. During the nine-month period ended September 30, 2013, $6.6 million was removed from the TDR classification, as reflected in the table above.

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

(In thousands)	September 30, 2013		
	Accrual	Nonaccrual (1)(2)	Total TDRs
Non-FHA/VA Residential Mortgage loans	$ 270,211	$ 64,744	$ 334,955
Commercial Mortgage Loans	83,572	70,888	154,460
Commercial and Industrial Loans	53,664	48,292	101,956
Construction Loans	1,164	18,162	19,326
Consumer Loans - Auto	8,163	5,567	13,730
Finance Leases	2,207	83	2,290

Consumer Loans - Other	8,163	1,979	10,142
Total Troubled Debt Restructurings	$ 427,144	$ 209,715	$ 636,859

(1) Included in non-accrual loans are $78.4 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability.

(2) Excludes non-accrual TDRs held for sale with a carrying value of $71.0 million as of September 30, 2013.

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(In thousands)	December 31, 2012		
	Accrual	Nonaccrual (1)	Total TDRs
Non- FHA/VA Residential Mortgage loans	$ 287,198	$ 124,686	$ 411,884
Commercial Mortgage Loans	163,079	124,584	287,663
Commercial and Industrial Loans	36,688	96,381	133,069
Construction Loans	2,554	83,639	86,193
Consumer Loans - Auto	6,615	4,817	11,432
Finance Leases	1,900	119	2,019
Consumer Loans - Other	6,744	2,726	9,470
Total Troubled Debt Restructurings	$ 504,778	$ 436,952	$ 941,730

(1) Included in non-accrual loans are $197.2 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability.

TDRs exclude restructured mortgage loans that are government guaranteed (i.e., FHA/VA loans) in an amount totaling $94.4 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.

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Loan modifications that are considered TDRs completed during the quarter and nine-month period ended September 30, 2013 and 2012 were as follows:

(Dollars in thousands)	Quarter ended September 30, 2013		
	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	140	$ 29,530	$ 29,984
Commercial Mortgage Loans	15	4,481	4,586
Commercial and Industrial Loans	13	8,528	7,925
Construction Loans	3	133	136
Consumer Loans - Auto	149	2,006	2,006
Finance Leases	16	334	334
Consumer Loans - Other	271	1,118	1,118
Total Troubled Debt Restructurings	607	$ 46,130	$ 46,089

(Dollars in thousands)	Nine-Month period ended September 30, 2013		
	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	253	$ 42,628	$ 43,106
Commercial Mortgage Loans	16	4,972	5,077
Commercial and Industrial Loans	21	76,579	50,588
Construction Loans	8	536	539
Consumer Loans - Auto	434	5,874	5,874
Finance Leases	54	1,063	1,063
Consumer Loans - Other	1,001	4,440	4,440
Total Troubled Debt Restructurings	1,787	$ 136,092	$ 110,687

(Dollars in thousands)	Quarter ended September 30, 2012		
	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	147	$ 23,421	$ 23,431
Commercial Mortgage Loans	14	57,100	57,100
Commercial and Industrial Loans	11	1,278	1,271

Construction Loans	3	4,380	4,380
Consumer Loans - Auto	156	2,044	2,044
Finance Leases	24	462	462
Consumer Loans - Other	304	1,986	1,986
Total Troubled Debt Restructurings	659	$ 90,671	$ 90,674

(Dollars in thousands)	**Nine-Month period ended September 30, 2012**		
	Number of contracts	**Pre-modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	403	$ 64,412	$ 64,773
Commercial Mortgage Loans	35	100,036	100,072
Commercial and Industrial Loans	47	33,162	29,593
Construction Loans	8	9,671	9,661
Consumer Loans - Auto	445	5,473	5,430
Finance Leases	76	1,384	1,384
Consumer Loans - Other	827	5,289	5,289
Total Troubled Debt Restructurings	1,841	$ 219,427	$ 216,202

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

Loan modifications considered TDRs that defaulted during the quarters and nine-month periods ended September 30, 2013 and September 30, 2012 and had become TDRs during the 12-months preceding the default date were as follows:

(Dollars in thousands)	Quarter ended September 30, 2013		2012	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Non-FHA/VA Residential Mortgage loans	11	$ 1,934	49	$ 8,031
Commercial Mortgage Loans			1	338
Commercial and Industrial Loans			1	1,910
Construction Loans				
Consumer Loans - Auto			3	38
Consumer Loans - Other			6	37
Finance Leases	1	18		
Total	12	$ 1,952	60	$ 10,354

(Dollars in thousands)	Nine-Month Period Ended September 30, 2013		2012	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Non-FHA/VA Residential Mortgage loans	75	$ 11,549	137	$ 20,841
Commercial Mortgage Loans	1	46,102	9	5,549
Commercial and Industrial Loans	2	3,829	5	8,189
Construction Loans	3	252	2	8,382
Consumer Loans - Auto	7	54	39	431
Consumer Loans - Other	40	219	12	155
Finance Leases	3	38	1	27
Total	131	$ 62,043	205	$ 43,574

For certain TDRs, the Corporation splits the loans into two new notes, A and B notes. The A note is restructured to comply with the Corporation s lending standards at current market rates, and is tailored to suit the customer s ability to make timely interest and principal payments. The B note includes the granting of the concession to the borrower and varies by situation. The B note is charged off but the obligation is not forgiven to the borrower, and any payments collected are accounted for as recoveries. At the time of restructuring, the A note is identified and classified as a TDR.

If the loan performs for at least six months according to the modified terms, the A note may be returned to accrual status. The borrower s payment performance prior to the restructuring is included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of the restructuring. In the periods following the calendar year in which a loan is restructured, the A note may no longer be reported as a TDR if it is on accrual, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the restructure).

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The recorded investment in loans held for investment restructured using the A/B note restructure workout strategy was approximately $90.9 million at September 30, 2013. The following table provides additional information about the volume of this type of loan restructuring and the effect on the allowance for loan and lease losses in the first nine months of 2013 and 2012:

(In thousands)	September 30, 2013	September 30, 2012
Principal balance deemed collectible at end of period	$ 90,914	$ 128,651
Amount charged off	$ 25,389	$ 2,735
Charges to the provision for loan losses	$ 567	$ 1,939
Allowance for loan losses at end of period	$ 1,588	$ 5,951

Of the loans held for investment comprising the $90.9 million that have been deemed collectible, approximately $89.1 million were placed in accrual status as the borrowers have exhibited a period of sustained performance. These loans continue to be individually evaluated for impairment purposes.

NOTE 7 ALLOWANCE FOR LOAN AND LEASE LOSSES

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

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended September 30, 2013						
Allowance for loan and lease losses:						
Beginning balance	$ 35,581	$ 88,013	$ 87,677	$ 34,728	$ 55,048	$ 301,047
Charge-offs	(8,698)	(5,944)	(7,419)	(1,824)	(15,559)	(39,444)
Recoveries	241	26	1,701	1,895	1,718	5,581
Provision	4,663	(59)	1,090	1,304	15,197	22,195
Ending balance	$ 31,787	$ 82,036	$ 83,049	$ 36,103	$ 56,404	$ 289,379
Ending balance: specific reserve for impaired loans	$ 17,982	$ 28,316	$ 34,438	$ 21,785	$ 3,654	$ 106,175
Ending balance: purchased credit-impaired loans	$	$	$	$	$	$
	$ 13,805	$ 53,720	$ 48,611	$ 14,318	$ 52,750	$ 183,204

Ending balance: general allowance						
Loans held for investment:						
Ending balance	$ 2,519,457	$ 1,857,794	$ 2,908,347	$ 163,610	$ 2,059,426	$ 9,508,634
Ending balance: impaired loans	$ 397,025	$ 205,654	$ 200,285	$ 73,482	$ 28,063	$ 904,509
Ending balance: purchased credit-impaired loans	$	$	$	$	$ 5,963	$ 5,963
Ending balance: loans with general allowance	$ 2,122,432	$ 1,652,140	$ 2,708,062	$ 90,128	$ 2,025,400	$ 8,598,162

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(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Nine-Month period ended September 30, 2013						
Allowance for loan and lease losses:						
Beginning balance	$ 68,354	$ 97,692	$ 146,900	$ 61,600	$ 60,868	$ 435,414
Charge-offs	(25,351)	(25,214)	(54,849)	(30,070)	(46,673)	(182,157)
Charge-offs related to bulk sales	(98,972)	(40,057)	(44,678)	(12,784)		(196,491)
Recoveries	868	64	3,460	2,042	5,397	11,831
Provision	86,888	38,860	41,656	16,566	36,812	220,782
Reclassification (1)		10,691	(9,440)	(1,251)		
Ending balance	$ 31,787	$ 82,036	$ 83,049	$ 36,103	$ 56,404	$ 289,379
Ending balance: specific reserve for impaired loans	$ 17,982	$ 28,316	$ 34,438	$ 21,785	$ 3,654	$ 106,175
Ending balance: purchased credit-impaired loans	$	$	$	$	$	$
Ending balance: general allowance	$ 13,805	$ 53,720	$ 48,611	$ 14,318	$ 52,750	$ 183,204
Loans held for investment:						
Ending balance	$ 2,519,457	$ 1,857,794	$ 2,908,347	$ 163,610	$ 2,059,426	$ 9,508,634
Ending balance: impaired loans	$ 397,025	$ 205,654	$ 200,285	$ 73,482	$ 28,063	$ 904,509
Ending balance: purchased credit-impaired loans	$	$	$	$	$ 5,963	$ 5,963
Ending balance: loans with general allowance	$ 2,122,432	$ 1,652,140	$ 2,708,062	$ 90,128	$ 2,025,400	$ 8,598,162

(1) Refer to Note 6 for information about the reclassification of certain loans between commercial and industrial, construction, and commercial mortgage made in the second quarter of 2013.

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total

Quarter ended September 30, 2012						
Allowance for loan and lease losses:						
Beginning balance	$ 67,440	$ 100,846	$ 166,021	$ 67,858	$ 54,988	$ 457,153
Charge-offs	(7,586)	(5,681)	(12,795)	(9,012)	(9,444)	(44,518)
Recoveries	228	679	534	686	1,817	3,944
Provision (release)	9,083	(6,617)	8,117	6,379	11,990	28,952
Ending balance	$ 69,165	$ 89,227	$ 161,877	$ 65,911	$ 59,351	$ 445,531
Ending balance: specific reserve for impaired loans	$ 49,640	$ 51,351	$ 57,001	$ 33,349	$ 2,813	$ 194,154
Ending balance: purchased credit-impaired loans	$	$	$	$	$	$
Ending balance: general allowance	$ 19,525	$ 37,876	$ 104,876	$ 32,562	$ 56,538	$ 251,377
Loans held for investment:						
Ending balance	$ 2,762,418	$ 1,459,118	$ 3,627,646	$ 352,891	$ 1,986,091	$ 10,188,164
Ending balance: impaired loans	$ 594,788	$ 363,533	$ 238,512	$ 178,462	$ 24,843	$ 1,400,138
Ending balance: purchased credit-impaired loans	$	$	$	$	$ 12,741	$ 12,741
Ending balance: loans with general allowance	$ 2,167,630	$ 1,095,585	$ 3,389,134	$ 174,429	$ 1,948,507	$ 8,775,285

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(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Nine-Month period ended September 30, 2012						
Allowance for loan and lease losses:						
Beginning balance	$ 68,678	$ 108,991	$ 164,490	$ 91,386	$ 60,372	$ 493,917
Charge-offs	(27,976)	(15,588)	(35,494)	(42,908)	(29,327)	(151,293)
Recoveries	676	721	2,179	4,004	5,294	12,874
Provision	27,787	(4,897)	30,702	13,429	23,012	90,033
Ending balance	$ 69,165	$ 89,227	$ 161,877	$ 65,911	$ 59,351	$ 445,531
Ending balance: specific reserve for impaired loans	$ 49,640	$ 51,351	$ 57,001	$ 33,349	$ 2,813	$ 194,154
Ending balance: purchased credit-impaired loans	$	$	$	$	$	$
Ending balance: general allowance	$ 19,525	$ 37,876	$ 104,876	$ 32,562	$ 56,538	$ 251,377
Loans held for investment:						
Ending balance	$ 2,762,418	$ 1,459,118	$ 3,627,646	$ 352,891	$ 1,986,091	$ 10,188,164
Ending balance: impaired loans	$ 594,788	$ 363,533	$ 238,512	$ 178,462	$ 24,843	$ 1,400,138
Ending balance: purchased credit-impaired loans	$	$	$	$	$ 12,741	$ 12,741
Ending balance: loans with general allowance	$ 2,167,630	$ 1,095,585	$ 3,389,134	$ 174,429	$ 1,948,507	$ 8,775,285

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

As of September 30, 2013, the Corporation maintained a $0.9 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 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:

	September 30, 2013	December 31, 2012
	(In thousands)	
Residential mortgage loans	$ 34,358	$ 82,753
Construction loans	49,824	
Commercial and Industrial loans		1,178
Commercial mortgage loans	30,410	1,463
Total	$ 114,592	$ 85,394

Non-performing loans held for sale totaled $80.2 million as of September 30, 2013 ($30.4 million commercial mortgage and $49.8 million construction loans) and $2.2 million ($1.1 million commercial and industrial and $1.1 million commercial mortgage) as of December 31, 2012. As previously discussed, during the first quarter of 2013, the Corporation transferred to held for sale $181.6 million of non-performing loans. In connection with the transfer, the Corporation recorded charge-offs of $36.0 million in 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 a separate transaction during the second quarter, the Corporation entered into an agreement to receive foreclosed real estate in partial satisfaction of debt related to one of the loans written-off and transferred to held for sale in the first quarter. The remaining balance of such partially satisfied commercial mortgage loan held for sale was restructured, resulting in a loss of $3.4 million recorded as part of Other income in the second quarter of 2013.

Furthermore, in the third quarter of 2013 approximately $6.4 million of construction loan held for sale participations were paid-off, resulting in a gain of $0.3 million, recorded as part of Other income in the third quarter of 2013.

The Corporation continues with its effort to resolve and dispose its non-performing commercial and construction loans held for sale.

NOTE 9 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

The Corporation designates a derivative as a fair value hedge, a cash flow hedge or an economic undesignated hedge when it enters into the derivative contract. As of September 30, 2013 and December 31, 2012, 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 certain of the Corporation s commercial loans to other financial institutions 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 September 30, 2013 and December 31, 2012, 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 non-hedging derivative instrument.

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

	Notional Amounts As of September 30, 2013	Notional Amounts As of December 31, 2012
	(In thousands)	
Economic undesignated hedges:		
Interest rate contracts:		
Interest rate swap agreements used to hedge loans	$ 31,187	$ 38,097
Written interest rate cap agreements	38,697	
Purchased interest rate cap agreements	38,697	
Forward Contracts:		
Sale of TBA GNMA MBS pools	33,500	6,000
	$ 142,081	$ 44,097

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

The following table summarizes the fair value of derivative instruments and the location of the derivative instruments in the Statement of Financial Condition:

	Asset Derivatives			Liability Derivatives		
	Statement of Financial Condition Location	September 30, 2013 Fair Value	December 31, 2012 Fair Value	Statement of Financial Condition Location	September 30, 2013 Fair Value	December 31, 2012 Fair Value
				(In thousands)		
Economic undesignated hedges:						
Interest rate contracts:						
Interest rate swap agreements used to hedge loans	Other assets	$ 193	$ 288	Accounts payable and other liabilities	$ 4,350	$ 5,776
Written interest rate cap agreements	Other assets			Accounts payable and other liabilities	80	
Purchased interest rate cap agreements	Other assets	79		Accounts payable and other liabilities		
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets	2	3	Accounts payable and other liabilities	582	5
		$ 274	$ 291		$ 5,012	$ 5,781

The following table summarizes the effect of derivative instruments on the Statement of Income (Loss):

Location of Gain or (loss) Recognized in Income on	Gain (or Loss) Quarter Ended	Gain (or Loss) Nine-Month Period Ended