BLACKROCK MUNI ENHANCED FUND INC
Form SC 13G/A
October 08, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

UNDER THE SECURITIES EXCHANGE ACT OF 1934
(Amendment No. 6)*

BlackRock MuniEnhanced Fund Inc

(Name of Issuer)

AUCTION RATE PREFERRED

(Title of Class of Securities)

09253Y209

See Item 2(e)

(CUSIP Number)

September 30, 2010

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the Rule pursuant to which this Schedule is filed:

[X] Rule 13d – 1(b)
[ ] Rule 13d – 1(c)
[ ] Rule 13d – 1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, *see* the *Notes*.)

1 NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY):

Bank of America Corporation 56-0906609

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)
(a) [ ]
(b) [ ]

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**5** SOLE VOTING POWER	
	6 SHARED VOTING POWER	2209
	7 SOLE DISPOSITIVE POWER	
	8 SHARED DISPOSITIVE POWER	2209

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2209

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (See Instructions)

[ ]

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

38.7%

12 TYPE OF REPORTING PERSON (See Instructions)

HC

1	NAMES OF REPORTING PERSONS I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY): Bank of America, NA 94-1687665		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)		(a) [ ] (b) [ ]
3	SEC USE ONLY		
4	CITIZENSHIP OR PLACE OF ORGANIZATION		United States
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**5** SOLE VOTING POWER		
	6 SHARED VOTING POWER	692	
	7 SOLE DISPOSITIVE POWER		
	8 SHARED DISPOSITIVE POWER	692	
	9	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	692
	10	CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (See Instructions)	[ ]
	11	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)	12.1%
12	TYPE OF REPORTING PERSON (See Instructions)		BK

1 NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY):

Blue Ridge Investments, L.L.C 56-1970824

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) [ ]

(b) [ ]

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**5** SOLE VOTING POWER		1515
	6 SHARED VOTING POWER		
	7 SOLE DISPOSITIVE POWER		1515
	8 SHARED DISPOSITIVE POWER		
	9	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	1515
	10	CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (See Instructions)	[ ]
	11	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)	26.6%

12 TYPE OF REPORTING PERSON (See Instructions)

OO

1 NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY):

Merrill Lynch, Pierce, Fenner & Smith Incorporated 13-5674085

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) [ ]

(b) [ ]

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**5** SOLE VOTING POWER	2
	6 SHARED VOTING POWER	
	7 SOLE DISPOSITIVE POWER	2
	8 SHARED DISPOSITIVE POWER	

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (See Instructions)

[ ]

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.0%

12 TYPE OF REPORTING PERSON (See Instructions)

BD, IA

Item 1(a). Name of Issuer:

BlackRock MuniEnhanced Fund Inc

Item 1(b). Address of Issuer's Principal Executive Offices:

100 BELLEVUE PARKWAY WILMINGTON DE 19809

Item 2(a). Name of Person Filing:

Bank of America Corporation
Bank of America, NA
Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS")
Blue Ridge Investments, L.L.C

Item 2(b). Address of Principal Business Office or, if None, Residence:

The address of the principal business office of Bank of America and BANA is:

Bank of America Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255

The address of the principal business office of MLPFS is:

4 World Financial Center
250 Vesey Street
New York, New York 10080

The address of the principal business office of Blue Ridge is:

214 North Tyron Street
Charlotte, NC 28255

Item 2(c). Citizenship:

Bank of America Corporation	Delaware
Bank of America, NA	United States
Merrill Lynch, Pierce, Fenner & Smith Incorporated	Delaware
Blue Ridge Investments, L.L.C.	Delaware

Item 2(d). Title of Class of Securities:

Auction Rate Preferred

Item 2(e).CUSIP Number: 09253Y209, 09253Y308, 09253Y407, 09253Y506

Item 3. If This Statement is Filed Pursuant to Rule 13d-1(b), or 13d-2(b) or (c),

Check Whether the Person Filing is a:

(a) [ ] Broker or dealer registered under Section 15 of the Exchange Act.

(b) [ ] Bank as defined in Section 3(a)(6) of the Exchange Act.

(c) [ ] Insurance company as defined in Section 3(a)(19) of the Exchange Act.

(d) [ ] Investment company registered under Section 8 of the Investment Company Act.

(e) [ ] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E).

(f) [ ] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F).

(g) [X] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G).

(h) [ ] A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act.

(i) [ ] A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act.

(j) [ ] Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

If this statement is filed pursuant to Rule 13d-1(c), check this box. [ ]

Item 4. Ownership:

With respect to the beneficial ownership of the reporting person, see Items 5 through 11 of the cover pages to this Schedule 13G, which are incorporated herein by reference.

Item 5. Ownership of 5 Percent or Less of a Class:

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [ ].

Item 6. Ownership or More than Five Percent on Behalf of Another Person:

Not Applicable.

Item 7. Identification and Classification of the Subsidiary Which Acquired the

Security Being Reported on by the Parent Holding Company or Control Person:

With respect to the beneficial ownership of the reporting person, see Items 5 through 11 of the cover pages to this Schedule 13G, which are incorporated herein by reference.

Item 8. Identification and Classification of Members of the Group:

Not Applicable.

Item 9. Notice of Dissolution of Group:

Not Applicable.

Item 10. Certification:

By signing below each of the undersigned certifies that, to the best of such undersigned's knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: October ___, 2010

Bank of America Corporation

Bank of America, N.A.

By:

____

Angelina L. Richardson

Vice President

Merrill Lynch, Pierce, Fenner & Smith Incorporated

By:

____

Lawrence Emerson

Attorney-In-Fact

Blue Ridge Investments, L.L.C.

By:

____

John Hiebendahl

Vice President and Controller

Exhibit 99.1

EXHIBIT 99.1 - JOINT FILING AGREEMENT

The undersigned hereby agree that they are filing this statement jointly pursuant to Rule 13d-1(k)(1). Each of them is responsible for the timely filing of such Schedule 13G and any amendments thereto, and for the completeness and accuracy of the information concerning such person contained therein; but none of them is responsible for the completeness or accuracy of the information concerning the other persons making the filing, unless such person knows or has reason to believe that such information is inaccurate.

In accordance with Rule 13d-1(k)(1) promulgated under the Securities and Exchange Act of 1934, as amended, the undersigned hereby agree to the joint filing with each other on behalf of each of them of to such a statement on Schedule 13G with respect to the common stock of beneficially owned by each of them. This Joint Filing Agreement shall be included as an exhibit to such Schedule 13G.

Dated: October ___, 2010

Bank of America Corporation

Bank of America, N.A.

By:

____

Angelina L. Richardson

Vice President

Merrill Lynch, Pierce, Fenner & Smith Incorporated

By:

____

Lawrence Emerson

Attorney-In-Fact

Blue Ridge Investments, L.L.C.

By:

____

John Hiebendahl

Vice President and Controller

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5.74%

	698,762
	777,229
Commercial	
	56,315
	88,679
	11.11%
	8.29%
	677,570
	1,430,953
Consumer	
	11,939

16,354

13.60%

11.96%

117,379

182,806

Auto

37,635

46,745

8.65%

6.77%

581,888

923,135

Total acquired non-covered loans

134,248

185,148

8.65%

7.47%

2,075,599

3,314,122

Total non-covered loans

260,969

259,566

7.49%

	7.39%
	4,660,504
	4,693,425
Loans covered under shared loss agreements with the FDIC	
	69,153
	65,884
	26.92%
	23.34%
	343,467
	377,350
Total loans	
	330,122

325,450

8.82%

8.58%

5,003,971

5,070,775

Total interest earning assets

369,275

361,574

7.00%

6.39%

7,051,561

7,569,249

88

	Interest		Average rate		Average balance	
	September 2014	September 2013	September 2014	September 2013	September 2014	September 2013
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	-	-	0.00%	0.00%	707,519	797,378
Now Accounts	6,349	8,486	0.59%	0.81%	1,438,818	1,408,649
Savings and money market	6,268	7,134	0.73%	1.06%	1,150,871	898,619
Individual retirement accounts	2,904	3,696	1.17%	1.36%	331,283	362,032
Retail certificates of deposits	5,301	8,788	1.40%	1.79%	506,653	658,080
Total core deposits	**20,822**	**28,104**	**0.67%**	**0.91%**	**4,135,144**	**4,124,758**
Institutional deposits	3,942	7,982	1.44%	1.62%	366,167	657,818
Brokered deposits	4,384	5,458	0.81%	0.87%	720,208	837,916
	8,326	**13,440**	**1.02%**	**1.20%**	**1,086,375**	**1,495,734**
Deposits fair value premium amortization	(4,349)	(12,032)	0.00%	0.00%	-	-
Core deposit intangible amortization	1,005	1,244	0.00%	0.00%	-	-
Total deposits	**25,804**	**30,756**	**0.66%**	**0.73%**	**5,221,519**	**5,620,492**
Borrowings:						
Securities sold under agreements to repurchase	22,237	21,570	2.81%	2.09%	1,058,378	1,382,670
Advances from FHLB and other borrowings	6,897	5,366	2.56%	1.74%	360,884	412,313
FDIC-guaranteed term notes	-	909	0.00%	5.56%	-	21,875
Subordinated capital notes	2,990	3,973	3.98%	4.67%	100,551	113,693
Total borrowings	**32,124**	**31,818**	**2.83%**	**2.20%**	**1,519,813**	**1,930,551**
Total interest bearing liabilities	**57,928**	**62,574**	**1.15%**	**1.11%**	**6,741,332**	**7,551,043**
Net interest income / spread	**$ 311,347**	**$ 299,000**	**5.85%**	**5.28%**		
Interest rate margin			**5.90%**	**5.28%**		

Excess of average interest-earning assets over average interest-bearing liabilities				**$ 310,229**	**$ 18,206**
Average interest-earning assets to average interest-bearing liabilities ratio				**104.60%**	**100.24%**
C - CHANGES IN NET INTEREST INCOME DUE TO:					
	Volume	**Rate**	**Total**		
	(In thousands)				
Interest Income:					
Investments	$ (6,519)	$ 9,548	$ 3,029		
Loans	(7,737)	12,409	4,672		
Total interest income	(14,256)	21,957	7,701		
Interest Expense:					
Deposits	(2,183)	(2,769)	(4,952)		
Repurchase agreements	(5,059)	5,726	667		
Other borrowings	(1,617)	1,256	(361)		
Total interest expense	(8,859)	4,213	(4,646)		
Net Interest Income	**$** (5,397)	**$** 17,744	**$** 12,347		

89

Net Interest Income

Comparison of quarters ended September 30, 2014 and 2013

Net interest income of $101.9 million slightly increased 2.8% compared with $99.1 million reported in the third quarter of 2013, reflecting a decrease of 16.3% in interest expense partially offset by a slight decrease of 0.7% in interest income from loans.

Interest rate spread increased to 50 basis points from 5.28% to 5.78%. This increase is mainly due to the net effect of a 43 basis point increase in the average yield of interest-earning assets from 6.46% to 6.89%, and a 7 basis point decrease in the average cost of funds from 1.18% to 1.11%.

Interest income decreased to $120.3 million from $121.1 million in the same quarter in 2013. Such decrease reflects a $6.7 million decrease in the volume of interest-earning assets partially offset by an increase of $5.9 million in interest rate. Interest income from loans decreased 0.7% to $108.5 million, primarily reflecting a decrease in volume of $5.0 million, partially offset by $4.3 million in interest rate. Interest income from investments remained level at $11.8 million in both periods.

Interest expense decreased 16.3% to $18.4 million, primarily because of a $2.7 million decrease in the volume of interest-bearing liabilities and a decrease of $891 thousand in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease in repurchase agreements volume of $1.5 million, and a decrease in deposits volume of $1.1 million and interest rate of $2.6 million. The cost of deposits before fair value amortization and core deposit intangible amortization decreased 25 basis points to 0.68% for the third quarter of 2014, compared to 0.93% for the third quarter of 2013. The decrease in the cost of deposits was partially offset by an increase in the cost of borrowings, which increased 49 basis points to 2.93% from 2.44%.

The average balance of total interest-earning assets was $6.923 billion, a decrease of 6.9% from the same period in 2013. The decrease in average balance of interest-earning assets was mainly attributable to a decrease of 13.8% in average investments, resulting from redemptions and maturities during 2014. The average yield on interest-earning assets was 6.89% compared to 6.46% for the same quarter in 2013. This was mainly due to higher average yields in the loan portfolio, which increased to 8.72% from 8.44%, and in the investment portfolio, which increased to 2.35% from 2.03%.

Comparison of nine-month periods ended September 30, 2014 and 2013

Net interest income increased 4.1% to $311.3 million as compared to $299.0 million for the same period in 2013. The change reflects a decrease of 7.4% in interest expense and increases of 1.4% in interest income from loans and 8.4% in interest income from investment securities.

Interest rate spread increased 57 basis points to 5.85% from 5.28% in the same period for 2013. This increase is mainly due to the net effect of a 61 basis point increase in the average yield of interest-earning assets from 6.39% to 7.00% and a 4 basis point increase in the average cost of funds from 1.11% to 1.15%.

Interest income increased 2.1% to $369.3 million when compared to $361.6 million for the same period in 2013. Results reflect an increase of $22.0 million in interest-earning asset interest rate partially offset by a $14.3 million decrease in volume. Interest income from loans increased 1.4% to $330.1 million, reflecting an increase in interest rate of $12.4 million, partially offset by a $7.7 million decrease in volume. Interest income from investments increased 8.4% to $39.2 million, reflecting an increase in interest earning rate of $9.6 million, partially offset by a $6.5 million decrease in volume.

Interest expense decreased 7.4% to $57.9 million, primarily the result of an $8.9 million decrease in the volume of interest-bearing liabilities, partially offset by a $4.2 million increase in interest rate. The decrease in interest-bearing liabilities is mostly due to the decrease in deposit volume of $2.2 million and a $2.8 million increase in interest rate. The cost of deposits before fair value amortization and core deposit intangible amortization decreased 24 basis points to 0.75%, compared to 0.99% for the same period in 2013. The decrease in the cost of deposits was partially offset by an increase in the cost of borrowings, which increased 63 basis points to 2.83% from 2.20%.

Average balance of total interest-earning assets was $7.052 billion, a decrease of 6.8% from the same period in 2013. The decrease in average balance of interest-earning assets was mainly attributable to a decrease of 18.0% in average investments, resulting from redemptions and maturities, to the sale of available for sale securities during the current period amounting to $184.9 million, and to a reduction of 1.3% in the average loan portfolio primarily due to maturities and repayments. The average yield on interest-earning assets was 7.00% compared to 6.39% for the same period in 2013. This was mainly due to higher average yields in the investment portfolio, which increased to 2.56% from 1.93%, and in the loan portfolio, which increased to 8.82% from 8.58%.

TABLE 2 - NON-INTEREST INCOME SUMMARY														
	Quarter Ended September 30,							**Nine-Month Period Ended September 30,**						
	2014			**2013**		**Variance**			**2014**			**2013**		**Variance**
	(Dollars in thousands)													
Banking service revenue	$	9,753	$	12,146		-19.7%	$	30,305		$	36,491		-17.0%	
Wealth management revenue		7,113		7,394		-3.8%		21,316			23,084		-7.7%	
Mortgage banking activities		2,097		2,334		-10.2%		5,346			9,299		-42.5%	
Total banking and financial service revenue		**18,963**		**21,874**		**-13.3%**		**56,967**			**68,874**		-17.3%	
FDIC shared-loss expense, net:														
FDIC indemnification asset expense		(16,059)		(15,198)		-5.7%		(51,180)			(46,623)		-9.8%	
Change in true-up payment obligation		(875)		(767)		-14.0%		(2,596)			(2,178)		-19.2%	
		(16,934)		(15,965)		-6.1%		(53,776)			(48,801)		-10.2%	
Net gain (loss) on:														
Sale of securities available for sale		-		-		0.0%		4,366			-		100.0%	
Derivatives		7		(811)		100.9%		(463)			(1,746)		73.5%	
Early extinguishment of debt		-		-		0.0%		-			1,061		-100.0%	
Other non-interest income		455		(1,775)		125.6%		1,133			575		97.0%	
		(16,472)		(18,551)		11.2%		(48,740)			(48,911)		0.3%	

Total non-interest income, net	**$**	**2,491**		**$**	**3,323**		**-25.0%**			**8,227**			**19,963**		-58.8%	

Non-Interest Income

Non-interest income is affected by the level of trust assets under management, transactions generated by clients' financial assets serviced by the securities broker-dealer and insurance agency subsidiaries, the level of mortgage banking activities, and the fees generated from loans and deposit accounts. It is also affected by the FDIC shared-loss expense, which varies depending on the results of the on-going evaluation of expected cash flows of the loan portfolio acquired in the FDIC-assisted acquisition. In addition, it is affected by the amount of securities, derivatives and trading transactions.

Comparison of quarters ended September 30, 2014 and 2013

As shown in Table 2 above, the Company recorded non-interest income in the amount of $2.5 million, compared to $3.3 million for the same period in 2013, a decrease of $832 thousands.

The FDIC shared-loss expense, net, increased to $16.9 million as compared to $16.0 million for the same period in 2013, which resulted from the ongoing evaluation of expected cash flows of the covered loan portfolio and from changes in the fair value of the true-up payment obligation, also known as a clawback liability.

During the quarters ended September 30, 2014 and 2013 the FDIC indemnification asset expense increased to $16.1 million from $15.2 million for the same period in 2013. The majority of the FDIC indemnification asset is recorded for projected claimable losses on non-single family residential loans whose loss share period ends by the third quarter of 2015, although the recovery share period extends for an additional three-year period.

During the quarters ended September 30, 2014 and 2013 the true-up payment obligation increased to $875 thousand as compared to $767 thousand for the same period in 2013. The true-up payment obligation may increase if actual and expected losses decline. The Company measures the true-up payment obligation at fair value.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, decreased 19.7% to $9.8 million, from $12.1 million for the same period in 2013. The decrease in banking services revenues is mostly due to the reclassification of auto loan late charges into interest income during the last quarter of 2013 amounting to $2.7 million. For the quarter ended September 30, 2013, these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013.

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 3.8% to $7.1 million, compared to $7.4 million for the same period in 2013. This decrease is mainly due to local market conditions, which has resulted in lower investment activity.

Income generated from mortgage banking activities decreased 10.2% to $2.1 million, compared to $2.3 million for the same period in 2013. The decrease in mortgage banking activities is mainly due to higher losses in repurchased loans and a decrease in sales when compared to same period in 2013.

Comparison of nine-month periods ended September 30, 2014 and 2013

Non-interest income decreased $11.7 million to $8.2 million from $20.0 million in the nine-month period ended September 30, 2013.

The FDIC shared-loss expense, net increased 10.2% to $53.8 million, as compared to $48.8 million for the same period in 2013, as a result of the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced projected losses expected to be collected from the FDIC and improved the accretable yield on the covered loans, and from changes in the fair value of the true-up payment obligation.

During the nine-month period ended September 30, 2014, the FDIC indemnification asset expense increased 9.8% to $51.2 million, as compared to $46.6 million for the same period in 2013. The reduction in claimable losses amortizes the FDIC indemnification asset through the life of the shared loss agreements. This amortization is net of the accretion of the discount recorded to reflect the expected claimable loss at its net present value. During the nine-month period ended September 30, 2014, the net amortization included $7.7 million of additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction and leasing loan pools. Additional amortization of the FDIC indemnification asset may be recorded, should the Company continue to experience reduced expected losses.

During the nine-period ended September 30, 2014, the true-up payment obligation increased 19.2% to $2.6 million, as compared to $2.2 million for the same period in 2013. The Company measures the true-up payment obligation at fair value.

The FDIC shared-loss expense bears an inverse relationship with a change in the yield of covered pools in accordance with ASC 310-30. ASC 310-30 dictates that such pools should be subject to increases in their yield when the present value of the expected cash flows is higher than the pool's carrying balance. When the increases in cash flow expectations are driven by reductions in the expected credit losses, the Bank recognizes that such losses are no longer expected to be collected from the FDIC. Accordingly, the Bank reduces the FDIC indemnification asset by amortizing the reduction in expected collections throughout the remaining life of the underlying pools. This amortization is recognized in the FDIC shared-loss expense.

The underlying factors that caused an increase in the expected cash flows and resulting reduction in projected losses are derived from the pool-level cash flow forecasts. Credit loss assumptions used to develop each pool-level cash flow forecast are based on the behavior of defaults, recoveries and losses of the corresponding pool of covered loans.

Banking service revenue decreased 17.0% to $30.3 million from $36.5 million for the same period in 2013. The decrease in banking services revenues is mostly due to the reclassification of auto loan late charges into interest income during the last quarter of 2013 amounting to $2.7 million. For the nine-month period ended September 30, 2013, these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013. In addition, a non-recurring prepayment penalty was received during the first quarter of 2013 of approximately $1 million. Lower overdrawn and non-sufficient fund fees of $1.1 million and lower retail checking fees of $987 thousand also contributed to the decrease.

Wealth management revenue decreased 7.7% to $21.3 million, compared to $23.1 million for the same period in 2013. This decrease is mainly due to local market conditions, which has resulted in lower investment activity.

Income generated from mortgage banking activities decreased 42.5% to $5.3 million, compared to $9.3 million for the same period in 2013. The decrease in mortgage banking activities is mainly due to higher losses in repurchased loans and a decrease in sales when compared to same period in 2013.

Gains from the sale of securities increased to $4.4 million from the same period in 2013, in which no gain or loss from the sale of securities was recorded. Losses from derivative activities were $463 thousand, as compared to $1.7 million for the same period in 2013. During the nine-month period ended September 30, 2014, the Company did not have a gain or loss on extinguishment of debt, as compared to the same period in 2013 in which the Company had a gain of $1.1 million.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY												
	Quarter Ended September 30,						**Nine-Month Period Ended September 30,**					
		2014		**2013**	**Variance %**			**2014**		**2013**		**Variance %**
	(Dollars in thousands)											
Compensation and employee benefits	$	18,592	$	22,590	-17.7%		$	61,086	$	69,927		-12.6%
Professional and service fees		3,807		4,409	-13.7%			11,525		16,262		-29.1%
Occupancy and equipment		8,770		8,270	6.0%			25,684		25,552		0.5%
Insurance		2,099		1,828	14.8%			6,506		7,229		-10.0%
Electronic banking charges		4,637		3,694	25.5%			14,085		11,458		22.9%
Information technology expenses		1,289		2,729	-52.8%			4,589		7,708		-40.5%
Advertising, business promotion, and strategic initiatives		1,825		1,471	24.1%			5,274		4,550		15.9%
Merger and restructuring charges		-		2,252	-100.0%			-		13,060		-100.0%
Foreclosure, repossession and other real estate expenses		7,842		5,703	37.5%			20,783		12,603		64.9%
Loan servicing and clearing expenses		1,870		2,133	-12.3%			5,598		5,493		1.9%
Taxes, other than payroll and income taxes		3,494		4,024	-13.2%			11,005		11,778		-6.6%
Communication		820		782	4.9%			2,590		2,481		4.4%
Printing, postage, stationery and supplies		620		824	-24.8%			1,820		2,841		-35.9%

Director and investor relations		250			230		8.7%		794			843	-5.8%
Other operating expenses		3,660			2,295		59.5%		9,488			6,748	40.6%
Total non-interest expenses	**$**	**59,575**		**$**	**63,234**		**-5.8%**	**$**	**180,827**	**$**		**198,533**	**-8.9%**
Relevant ratios and data:													
Efficiency ratio		**49.30%**			**52.27%**				**49.10%**			**53.97%**	
Compensation and benefits to non-interest expense		**31.21%**			**35.72%**				**33.78%**			**35.22%**	
Compensation to average total assets owned		**0.97%**			**1.07%**				**1.04%**			**1.08%**	
Average number of employees		**1,574**			**1,562**				**1,564**			**1,569**	
Average compensation per employee	**$**	**11.8**		**$**	**14.5**			**$**	**39.1**	**$**		**44.6**	
Average loans per average employee	**$**	**3,138**		**$**	**3,289**			**$**	**3,199**	**$**		**3,232**	

93

Non-Interest Expenses

Comparison of quarters ended September 30, 2014 and 2013

Non-interest expense reached $59.6 million, representing a decrease of 5.8% compared to $63.2 million for the same period in the previous year. The decrease is due mainly to the non-recurring merger and restructuring charges of $2.3 million incurred during the quarter ended September 30, 2013 for the BBVAPR Acquisition and to the decrease of $4.0 million in compensation and employee benefits.

Compensation and employee benefits decreased 17.7% to $18.6 million from $22.6 million for the same periods in 2013. The decrease is due mainly to the impact of the assessment of employee bonuses required pursuant to the BBVAPR Acquisition of $2.1 million for the quarter ended September 30, 2013, a decrease in incentives of $590 thousand, and a decrease of $300 thousand in commissions paid by the securities broker-dealer.

Professional and service fees decreased 13.7% to $3.8 million, as compared to $4.4 million for the same period in 2013. Professional and service fees primarily comprise legal expenses and consulting and outsourcing expenses. For the quarter ended September 30, 2014, legal expenses amounted to $1.4 million compared to $872 thousand for the same period in 2013. The decrease in professional and service fees is mainly related consulting and outsourcing expenses which amounted to $759 thousand, compared to $1.3 million for the same period in 2013, and a decrease in audit fees which amounted to $438 thousand compared to $877 thousand for the same period in 2013.

Information technology expenses decreased 52.8% to $1.3 million, as compared to $2.7 million, mostly due to a decrease in data processing expenses.

The decreases in the foregoing non-interest expenses were partially offset by increases in foreclosure, repossession and other real estate expenses and in electronic banking charges.

Foreclosure, repossession and other real estate expenses increased 37.5% to $7.8 million, as compared to $5.7 million in the same period for the previous year, principally due to an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic conditions.

Electronic banking charges increased 25.5% to $4.6 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business.

The decrease in non-interest expenses resulted in an improved efficiency ratio of 49.30%, from 52.27% for the same period in 2013. The efficiency ratio measures how much of the Company’s revenue is used to pay operating expenses. The Company computes its efficiency ratio by dividing non-interest expenses by the sum of its net interest income and non-interest income, but excluding gains on the sale of investment securities, derivatives gains or losses, credit-related other-than-temporary impairment losses, FDIC shared-loss expense, losses on the early extinguishment of debt, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those items permits consistent comparability. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation amounted to losses of $16.5 million, compared to $18.6 million for the same period in 2013. Revenue for purposes of the efficiency ratio amounted to $120.8 million, compared to $121.0 million for the same period in 2013.

94

Comparison of nine-month periods ended September 30, 2014 and 2013

Non-interest expense decreased 8.9% to $180.8 million, compared to $198.5 for the same period in 2013. The decrease is due mainly to the non-recurring merger and restructuring charges of $13.1 million incurred during the nine-month period ended September 30, 2013 for the BBVAPR Acquisition and the implementation of expense reduction measures.

Compensation and employee benefits decreased 12.6% to $61.1 million from $69.9 million for the same period in 2013. The decrease is due mainly to the impact in 2013 of the assessment of employee bonuses required pursuant to the BBVAPR Acquisition of $4.5 million, a decrease in average total employees during the nine-month period ended September 30, 2014, compared to the same period in 2013, and a decrease in commissions paid by the securities broker-dealer of $1.4 million.

Professional and service fees decreased 29.1% to $11.5 million, as compared to $16.3 million for the same period in 2013. Legal expenses amounted to $3.7 million, compared to $3.4 million for the same period in 2013. Consulting and outsourcing expenses amounted to $2.6 million, compared to $4.1 million for the same period in 2013. Decrease in professional and service fees is mainly related to loan servicing fees amounting to $3.0 million for a third party loan servicer whose contract was terminated during the quarter ended June 30, 2013.

Information technology expenses decreased 40.5% to $4.6 million, as compared to $7.7 million, mostly due to decrease in data processing expenses.

The decreases in the foregoing non-interest expenses were partially offset by increases in electronic banking charges and foreclosure, repossession and other real estate expenses.

Electronic banking charges increased 22.9% to $14.1 million, as compared to $11.5 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business.

Foreclosure, repossession and other real estate expenses increased 64.9% to $20.8 million, as compared to $12.6 million for the same period in 2013, principally due to an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic conditions.

The decrease in non-interest expenses resulted in an improved efficiency ratio of 49.1% from 54.0%. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation amounted to losses of $48.7 million, compared to $48.9 million for the same period in 2013. Revenue for purposes of the efficiency ratio amounted to $368.3 million, compared to $367.9 million for the same period in 2013.

Provision for Loan and Lease Losses

Comparison of quarters ended September 30, 2014 and 2013

Provision for non-covered loan and lease losses increased 63.1% to $16.1 million from $9.9 million when compared with the same period in 2013. Provision for covered loan and lease losses decreased 63.7% to $1.1 million from $3.1 million when compared to the same period in 2013. Based on an analysis of the credit quality and the composition of the Company's loan portfolio, management determined that the provision for the quarter ended September 30, 2014 was adequate in order to maintain the allowance for loan and lease losses at an adequate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for non-covered loans, excluding acquired loans, increased 23.7% to $8.6 million from $6.9 million when compared with the same period in 2013. This was the result of an increase in the provision for auto and leasing of 130.2% to $7.2 million, partially offset by a decrease in the provision for mortgage loans of 10.1% to $1.2 million, an increase in the recapture for commercial loans of 225.2% to $2.3 million, a decrease in the provision for consumer loans of 19.7% to $2.3 million, and a decrease in the unallocated provision of 78.6% to $43 thousand. At September 30, 2014, the auto portfolio has been increasing as new originations are ramping up balances outstanding. After almost two years from the BBVAPR Acquisition, this portfolio is beginning to reflect normal delinquency and charge-off levels as a seasoned portfolio.

Total charge-offs on non-covered loans, excluding acquired loans, increased 101.7% to $11.6 million, as compared to $5.8 million for the same period in 2013. This was the result of a 466.5% increase in auto and leasing charge-offs to $7.4 million and a 240.9% increase in consumer charge-offs to $1.4 million, partially offset by a 11.1% decrease in mortgage charge-offs to $1.6 million and a 51.6% decrease in commercial charge-offs to $1.1 million.

Total recoveries increased from $704 thousand to $2.7 million. As a result, the recoveries to charge-offs ratio increased from 12.22% to 23.18%. Net credit losses, excluding acquired loans, increased $3.9 million to $8.9 million, representing 1.34% of average non-covered loans outstanding versus 1.02% for the same period in 2013, annualized.

The non-covered acquired loans accounted for under ASC 310-20 required a provision for loan and lease losses of $3.7 million, as compared to $3.0 million for the same period in 2013. Non-covered acquired loans accounted for under ASC 310-30 required a provision for loan and lease losses of $3.8 million. This portfolio did not require a provision for loan and leases losses for the same period in 2013. The provision for the quarter ended September 30, 2014, reflects the Company’s revision of the expected cash flows in the non-covered acquired loan portfolio considering actual experiences and changes in the Company’s expectations for the remaining term of the loan pools. Provision for covered loan and lease losses was $1.1 million, compared to $3.1 million for the same period in 2013, reflecting the Company’s revision of the expected cash flows in the covered loan portfolio considering actual experiences and changes in the Company’s expectations for the remaining terms of the loan pools.

Comparison of nine-month periods ended September 30, 2014 and 2013

Provision for non-covered loan and lease losses decreased $15.9 million to $39.4 million when compared to $55.3 million, which included the impact of a $21.0 million additional provision due to the reclassification to held-for-sale of non-performing residential mortgage loans. Provision for covered loan and lease losses decreased $618 thousand, when compared to the same period in 2013. Based on an analysis of the credit quality and the composition of the Company’s loan portfolio, management determined that the provision for the nine-month period ended September 30, 2014, was adequate in order to maintain the allowance for loan and lease losses at an adequate level to provide for probable losses based upon an evaluation of known and inherent risks.

Provision for non-covered loans, excluding acquired loans, decreased 55.8% to $21.6 million from $48.6 million when compared with the same period in 2013. This was the result of decrease in the provision for mortgage loans of 93.0% to $2.3 million, an increase in the recapture for commercial loans of 232.4% to $4.0 million, and an increase in the unallocated recapture of 134.9% to $193 thousand, partially offset by an increase in the provision for auto and leasing of 155.1% to $17.4 million and an increase in the provision for consumer loans of 24.7% to $6.1 million. At September 30, 2014, the auto and consumer portfolios have been increasing as new originations are ramping up balances outstanding. After almost two years from the BBVAPR Acquisition, these portfolios are beginning to reflect normal delinquency and charge-off levels as seasoned portfolios.

Total charge-offs on non-covered loans, excluding acquired loans, decreased 34.7% to $27.6 million, as compared to $42.3 million for the same period in 2013. This was the result of an 88.9% decrease in mortgage charge-offs to $3.8 million and a 64.0% decrease in commercial charge-offs to $2.0 million, partially offset by a 754.8% increase in auto and leasing charge-offs to $18.0 million and a 269.4% increase in consumer charge-offs to $3.8 million.

Total recoveries increased from $1.3 million to $7.2 million. As a result, the recoveries to charge-offs ratio increased from 3.05% to 26.05%. Net credit losses, excluding acquired loans, decreased $20.6 million to $20.4 million, representing 1.05% of average non-covered loans outstanding versus 3.96% in the same period in 2013, annualized. The credit losses for the nine-month period ended September 30, 2013 included a $27 million charge-off from nonperforming mortgage loans transferred into the loan held-for-sale category. Isolating this credit charge-off, the net credit losses for the nine-month period ended September 30, 2013 would have been $14.0 million, representing 1.35% of average non-covered loans outstanding, annualized.

The non-covered acquired loans accounted for under ASC 310-20 required a provision for loan and lease losses of $10.5 million, as compared to $6.7 million for the same period in 2013. Non-covered acquired loans accounted for under ASC 310-30 required a provision for loan and lease losses of $7.3 million for the nine-month period ended September 30, 2014. This portfolio did not require provision for loan and leases losses for the same period in 2013. The provision for the nine-month period ended September 30, 2014 reflects the Company’s revision of the expected cash flows in the non-covered acquired loan portfolio considering actual experiences and changes in the Company’s expectations for the remaining term of the loan pools. Provision for covered loan and lease losses was $4.3 million, compared to $5.0 million for the same period in 2013, reflecting the Company’s revision of the expected cash flows in the covered loan portfolio considering actual experiences and changes in the Company's expectations for the remaining terms of the loan pools.

Please refer to the "Allowance for Loan and Lease Losses and Non-Performing Assets" section in this MD&A and Table 8 through Table 12 below for more detailed information concerning the allowances for the loan and lease losses, net credit losses and credit quality statistics.

Income Taxes

Comparison of quarters ended September 30, 2014 and 2013

Income tax expense increased $1.4 million to $8.0 million, compared to an income tax expense of $6.6 million for the same period in 2013. The increase is caused by the change in enacted tax rates for capital gains during the quarter ended September 30, 2014 from 15% to 20%.

Comparison of nine-month periods ended September 30, 2014 and 2013

Income tax expense increased to $30.4 million, compared to an income tax benefit of $18.2 million for the same period in 2013. The income tax benefit for the nine-month period ended September 30, 2013 included a $38.6 million benefit from the effect in deferred taxes due to the increase in tax rates from 30.0% to 39.0% due to enacted law in 2013. Effective July 1, 2014 the capital gains tax rate was increased from 15% to 20%, which results in a net increase of the income tax expense for 2014.

Business Segments

The Company segregates its businesses into the following major reportable segments: Banking, Wealth Management, and Treasury. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Company's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Company measures the performance of these reportable segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated. The Company's methodology for allocating non-interest expenses among segments is based on several factors such as revenue, employee headcount, occupied space, dedicated services or time, among others.

Comparison of quarters ended September 30, 2014 and 2013

Banking

Net interest income of the Company's Banking segment slightly increased $2.3 million for the third quarter of 2014, or 2.4%, reflecting a decrease of 28.2% in interest expense, partially offset by a slight decrease of 0.7% in interest income from loans. The decrease of $3.1 million in interest expenses mainly reflects the lower cost of deposits before fair value amortization and core deposit intangible amortization (0.68% vs. 0.93%) due to the continuing progress in the repricing of the Company's core retail deposits.

Provision for non-covered loans losses increased $6.2 million when compared to $9.9 million for the third quarter of 2013, while provision for covered loans losses decreased $2.0 million when compared to the third quarter of 2013.

Banking service revenues decreased $2.4 million to $9.8 million. The decrease is mostly due to the reclassification of loan late charges into interest income during the last quarter of 2013. For the quarter ended September 30, 2013, these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013.

For the quarter ended September 30, 2013, the Company recognized a realized loss of $1.5 million from the sale of performing and non-performing residential mortgage loans, which was not the case in the current quarter.

Non-interest expense of $53.7 million increased 2.0% when compared to the same period in 2013. The increase in non-interest expense is mainly due to an increase in foreclosure, repossession and other real estate expenses of $2.1 million to $7.8 million, principally caused by an increase in foreclosures and a decrease in the fair value of real estate as a result of current local economic conditions. Also, there was an increase in electronic banking charges of $943 thousand to $4.6 million, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from the continued growth of our banking business. This increase was partially offset by the $2.3 million in merger and restructuring charges during the quarter ended September 30, 2013, compared to none in the current quarter.

Wealth Management

Wealth management revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, decreased 12.7% to $6.2 million, compared to $7.1 million for the same period in 2013. This decrease is mainly due to local market conditions, which has resulted in lower investment activity.

Non-interest expenses decreased 27.3% to $4.5 million, mainly as commissions paid by the securities broker-dealer decreased when compared to the same quarter in 2013.

Treasury

Average investments decreased 13.8% resulting from redemptions and maturities during 2014. Nevertheless, interest income from investments remained level at $11.7 million as the yield increased to 2.35% from 2.03%. Interest expenses remained constant at $11 million when compared to the same period in 2013, reflecting lower borrowings at higher costs.

Non-interest expenses, mainly composed of indirect expenses allocated from support departments, decreased 68.0% to $1.4 million as part of the Company's cost reduction strategy.

Comparison of nine-month periods ended September 30, 2014 and 2013

Banking

Net interest income increased $10.0 million for the third quarter of 2014, or 3.4%, reflecting an increase of 1.4% in interest income from loans and a decrease of 16.7% in interest expense. The decrease of $5.3 million in interest expenses when compared to the same period in 2013 mainly reflects the lower cost of deposits fair value amortization and core deposit intangible amortization (0.75% vs. 0.99%) due to the continuing progress in the repricing of the Company's core retail deposits and other reductions in its cost of funds.

Provision for non-covered loan losses decreased $15.9 million when compared to $55.3 million, which included the impact of a $21.0 million additional provision due to the reclassification to held-for-sale of non-performing residential mortgage loans. Provision for covered loan losses decreased $618 thousand when compared to the same period in 2013.

Banking service revenues decreased 17.0% to $30.3 million from $36.5 million for the same period in 2013. The decrease in banking service revenues is mostly due to the reclassification of auto loan late charges into interest income during the last quarter of 2013 amounting to $2.7 million. For the nine-month period ended September 30, 2013, these revenues were included as part of banking activities, since the reclassification was not reflected until late 2013. In addition, a non-recurring prepayment penalty was received during the first quarter of 2013 of approximately $1 million. Lower overdrawn and non-sufficient fund fees by approximately $1.1 million and lower retail checking fees by approximately $987 thousand also contributed to the decrease.

Net FDIC shared- loss expense increased $5.0 million to $53.8 million from $48.8 million for the same period in 2013.

For the nine-month period ended September 30, 2013, the Company recognized a realized loss of $1.5 million from the sale of performing and non-performing residential mortgage loans, which did not have an impact in 2014.

Non-interest expense of $156.9 million decreased 6.7% when compared to the same period in 2013. The decrease is due mainly to the non-recurring merger and restructuring charges of $13.1 million incurred during the nine-month period ended September 30, 2013 for the BBVAPR Acquisition.

Wealth Management

Wealth management revenue decreased 11.7% to $20.2 million, compared to $22.9 million for the same period in 2013. This decrease is mainly due to local market conditions, which has resulted on lower investment activity.

Non-interest expenses decreased 17.5% to $15.6 million from $18.9 million for the same period in 2013. Commissions paid by the securities broker-dealer decreased $1.4 million when compared to the same period in 2013.

Treasury

Average investments decreased 18.0% resulting from redemptions and maturities and the sale of available for sale securities during the current period amounting to $184.9 million. Nevertheless, interest income from investments increased 8.7% to $39.0 million as yield increased to 2.56% from 1.93%. Interest expenses slightly increased to $31.7 million from $31.1 million for the same period in 2013, reflecting lower borrowings at higher costs.

Non-interest expenses, mainly composed of indirect expenses allocated from support departments, decreased 27.4% to $8.3 million as part of the Company's cost reduction strategy.

ANALYSIS OF FINANCIAL CONDITION

Assets Owned

At September 30, 2014, the Company's total assets amounted to $7.673 billion representing a decrease of 5.9% when compared to $8.158 billion at December 31, 2013. This reduction is mainly due to a decrease in investment securities available-for-sale of 19.8% from $1.588 billion to $1.274 billion, partially offset by a $144.3 million increase in investment securities held-to-maturity.

At September 30, 2014, loans represented 77% of total interest-earning assets while investments represented 23%, compared to 75% and 25%, respectively, at December 31, 2013.

The Company's loan portfolio is comprised of residential mortgage loans, commercial loans collateralized by mortgages on real estate located in Puerto Rico, other commercial and industrial loans, consumer loans, and auto loans. At September 30, 2014, the Company's loan portfolio decreased by 3.2% to $4.857 billion compared to $5.019 billion at December 31, 2013. At September 30, 2014, the covered loan portfolio decreased $45.3 million, or 12.7% from December 31, 2013 as the loans continue to pay down. At September 30, 2014, the non-covered loan portfolio decreased $117.2 million or 2.5%, primarily due to maturities and early pay downs of some commercial loans.

The FDIC indemnification asset amounted to $120.6 million at September 30, 2014 and $189.2 million as of December 31, 2013, representing a 36.3% reduction. The decrease in the FDIC indemnification asset is mainly related to the amortization of the FDIC indemnification asset by $51.2 million during the nine-month period ended September 30, 2014.

Investments principally consist of U.S. government and agency bonds, mortgage-backed securities, and Puerto Rico government and agency bonds. At September 30, 2014, the investment portfolio decreased 10.8% to $1.441 billion from $1.615 billion at December 31, 2013. This decrease is mostly due to net effect of a reduction of $98.7 million in Puerto Rico government obligations and a reduction of $20.5 million in other debt securities due to redemptions and maturities. In addition, during the nine-month period ended September 30, 2014, the Company sold $110.8 million of mortgage-backed available for sale securities taking advantage of market opportunities to realize gains and reduce some interest rate sensitivity. Recent purchases of investment securities were categorized as held-to-maturity. The Company's management will determine the category of following investment securities purchases based on the Company's approach at that time.

Financial Assets Managed

The Company's financial assets managed include those managed by the Company's trust division, retirement plan administration subsidiary, and assets gathered by its broker-dealer subsidiary. The Company's trust division offers various types of IRAs and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while the retirement plan administration subsidiary, CPC, manages private retirement plans. At September 30, 2014, total assets managed by the Company's trust division and CPC amounted to $2.852 billion, compared to $2.797 billion at December 31, 2013. Oriental Financial Services offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money

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management wrap-fee programs. At September 30, 2014, total assets gathered by Oriental Financial Services from its customer investment accounts decreased to $2.484 billion, compared to $2.493 billion at December 31, 2013. Changes in trust and broker-dealer related assets primarily reflect an increase in portfolio and differences in market values.

TABLE 4 - ASSETS SUMMARY AND COMPOSITION						
	September 30, 2014		December 31, 2013		Variance %	
	(Dollars in thousands)					
Investments:						
FNMA and FHLMC certificates	$	1,200,940	$	1,217,330	-1.3%	
Obligations of US government-sponsored agencies		7,761		10,649	-27.1%	
CMOs issued by US government-sponsored agencies		184,958		214,394	-13.7%	
GNMA certificates		5,568		7,816	-28.8%	
Puerto Rico government and political subdivisions		15,446		114,190	-86.5%	
FHLB stock		21,189		24,450	-13.3%	
Other debt securities		3,511		24,047	-85.4%	
Other investments		1,752		1,933	-9.4%	
Total investments		**1,441,125**		**1,614,809**	**-10.8%**	
Loans:						
Non-covered loans		4,593,311		4,670,227	-1.6%	
Allowance for loan and lease losses on non-covered loans		(64,859)		(54,298)	-19.5%	
Non-covered loans receivable, net		**4,528,452**		**4,615,929**	**-1.9%**	
Mortgage loans held for sale		16,757		46,529	-64.0%	
Total non-covered loans, net		**4,545,209**		**4,662,458**	**-2.5%**	
Covered loans		373,920		409,690	-8.7%	
Allowance for loan and lease losses on covered loans		(62,227)		(52,729)	-18.0%	
Total covered loans, net		**311,693**		**356,961**	-12.7%	
Total loans, net		**4,856,902**		**5,019,419**	**-3.2%**	
Securities purchased under agreements to resell		-		60,000	**-100.0%**	
Total securities and loans		**6,298,027**		**6,694,228**	**-5.9%**	
Other assets:						
Cash and due from banks		696,369		696,501	0.0%	
Money market investments		7,777		6,967	11.6%	
FDIC indemnification asset		120,619		189,240	-36.3%	
Foreclosed real estate		100,564		90,024	11.7%	
Accrued interest receivable		19,665		18,734	5.0%	
Deferred tax asset, net		121,217		137,564	-11.9%	

Premises and equipment, net		82,099		82,903	-1.0%
Servicing assets		13,986		13,801	1.3%
Derivative assets		8,445		20,502	-58.8%
Goodwill		86,069		86,069	0.0%
Other assets		118,502		121,482	-2.5%
Total other assets		**1,375,312**		**1,463,787**	**-6.0%**
Total assets	**$**	**7,673,339**	**$**	**8,158,015**	**-5.9%**
Investments portfolio composition:					
FNMA and FHLMC certificates		83.4%		75.4%	
Obligations of US government-sponsored agencies		0.5%		0.7%	
CMOs issued by US government-sponsored agencies		12.8%		13.3%	
GNMA certificates		0.4%		0.5%	
Puerto Rico government and political subdivisions		1.1%		7.1%	
FHLB stock		1.5%		1.5%	
Other debt securities and other investments		0.3%		1.5%	
		100.0%		**100.0%**	

101

TABLE 5 — LOANS RECEIVABLE COMPOSITION

	September 30,			**December 31,**		**Variance**
	2014			**2013**		**%**
	(Dollars in thousands)					
Non-covered loans:						
Originated and other loans and leases held for investment:						
Mortgage	$	791,106	$	766,265		3.2%
Commercial		1,217,235		1,127,657		7.9%
Consumer		175,882		127,744		37.7%
Auto and leasing		542,892		379,874		42.9%
Total originated and other loans and leases held for investment		**2,727,115**		**2,401,540**		**13.6%**
Acquired loans:						
Accounted for under ASC 310-20						
Commercial		26,984		77,681		-65.3%
Consumer		47,284		56,174		-15.8%
Auto		210,808		301,584		-30.1%
		285,076		**435,439**		**-34.5%**
Accounted for under ASC 310-30						
Mortgage		670,188		717,904		-6.6%
Commercial		485,444		545,117		-10.9%
Construction		108,694		126,427		-14.0%
Consumer		36,470		63,620		-42.7%
Auto		276,749		379,145		-27.0%
		1,577,545		**1,832,213**		**-13.9%**
		1,862,621		**2,267,652**		**-17.9%**
		4,589,736		**4,669,192**		**-1.7%**
Deferred loans fees, net		3,575		1,035		245.4%
Loans receivable		**4,593,311**		**4,670,227**		**-1.6%**
Allowance for loan and lease losses on non-covered loans		(64,859)		(54,298)		-19.5%
Loans receivable, net		**4,528,452**		**4,615,929**		**-1.9%**
Mortgage loans held-for-sale		16,757		46,529		-64.0%
Total non-covered loans, net		**4,545,209**		**4,662,458**		**-2.5%**
Covered loans:						
Loans secured by 1-4 family residential properties		121,658		121,748		-0.1%
Construction and development secured by 1-4 family residential properties		18,947		17,304		9.5%

Commercial and other construction		228,410			264,249		-13.6%
Consumer		4,905			6,119		-19.8%
Leasing		-			270		-100.0%
Total covered loans		**373,920**			**409,690**		**-8.7%**
Allowance for loan and lease losses on covered loans		(62,227)			(52,729)		-18.0%
Total covered loans, net		**311,693**			**356,961**		**-12.7%**
Total loans receivable, net	**$**	**4,856,902**		**$**	**5,019,419**		**-3.2%**

102

As shown in Table 5 above, total loans, net, amounted to $4.857 billion at September 30, 2014 and $5.019 billion at December 31, 2013.

The Company’s originated and other loans held-for-investment portfolio composition and trends were as follows:

- Mortgage loan portfolio amounted to $791.1 million (29.0% of the gross originated loan portfolio) compared to $766.3 million (31.9% of the gross originated loan portfolio) at December 31, 2013. Mortgage loan production totaled $55.3 million and $158.1 million for the quarter and nine-month period ended September 30, 2014, respectively, which represents a decrease of 8.9% and 48.4 % from $60.7 million and $306.6 million for the same periods in 2013. Mortgage loans included delinquent loans in the GNMA buy-back option program amounting to $40.1 million and $34.9 million for the periods ended September 30, 2014, and December 31, 2013, respectively. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

- Commercial loan portfolio amounted to $1.217 billion (44.6% of the gross originated loan portfolio) compared to $1.128 billion (47.0% of the gross originated loan portfolio) at December 31, 2013. Commercial loan production decreased 75.3% to $90.1 million for the third quarter of 2014, and 75.0% to $175.3 million for the nine-month period ended September 30, 2014, from $365.3 million and $700.8 million for the same periods in 2013, respectively.

- Consumer loan portfolio amounted to $175.9 million (6.4% of the gross originated loan portfolio) compared to $127.7 million (5.3% of the gross originated loan portfolio) at December 31, 2013. Consumer loan production increased 0.3% to $28.7 million for the quarter ended September 30, 2014, and decreased 10.2% to $91.0 million for the nine-month period ended September 30, 2014 from $28.6 million and $101.4 million for the same periods in 2013, respectively.

- Auto loans and leasing portfolio amounted to $542.9 million (20.0% of the gross originated loan portfolio) compared to $379.9 million (15.8% of the gross originated loan portfolio) at December 31, 2013. Auto production was $68.5 million for the quarter ended September 30, 2014 and $251.9 million for the nine-month period ended September 30, 2014, compared to $95.0 million and $375.3 million for the same periods in 2013, respectively.

At September 30, 2014 and December 31, 2013, the Company's non-covered acquired loan portfolio composition was as follows:									
	September 30, 2014					**December 31, 2013**			
Portfolio Type		**Carrying Amounts**		**% of Gross Non-Covered Acquired Loan Portfolio**			**Carrying Amounts**		**% of Gross Non-Covered Acquired Loan Portfolio**

	(Dollars in thousands)							
Mortgage	$	670,188		36.0%	$	717,904		31.7%
Commercial		621,122		33.3%		749,225		33.0%
Consumer		83,754		4.5%		119,794		5.3%
Auto		487,557		26.2%		680,729		30.0%
	$	**1,862,621**		**100.00%**	$	**2,267,652**		**100.00%**

103

TABLE 6 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	September 30, 2014								
	Higher-Risk Residential Mortgage Loans*								
							High Loan-to-Value Ratio Mortgages		
	Junior Lien Mortgages			Interest Only Loans			LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 14,074	$ 233	1.66%	$ 22,722	$ 984	4.33%	$ 91,438	$ 1,975	2.16%
90 - 119 days	99	4	4.04%	113	5	4.42%	1,002	38	3.79%
120 - 179 days	14	0	0.00%	-	-	0.00%	491	16	3.26%
180 - 364 days	80	1	1.25%	510	69	13.53%	495	21	4.24%
365+ days	509	48	9.43%	563	272	48.31%	2,273	231	10.16%
Total	$ 14,776	$ 286	1.94%	$ 23,908	$ 1,330	5.56%	$ 95,699	$ 2,281	2.38%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.49%			0.79%			3.16%		
Refinanced or Modified Loans:									
Amount	$ 2,235	$ 179	8.01%	$ -	$ -	0.00%	$ 14,234	$ 1,089	7.65%
Percentage of Higher-Risk Loan Category	15.13%			0.00%			14.87%		
Loan-to-Value Ratio:									
Under 70%	$ 9,043	$ 191	2.11%	$ 2,457	$ 226	9.20%	$ -	$ -	-
70% - 79%	2,776	49	1.77%	3,238	206	6.36%	-	-	-
80% - 89%	766	20	2.61%	7,116	355	4.99%	-	-	-
90% and over	2,191	26	1.19%	11,097	543	4.89%	95,699	2,281	2.38%
	$ 14,776	$ 286	1.94%	$ 23,908	$ 1,330	5.56%	$ 95,699	$ 2,281	2.38%

* Loans may be included in more than one higher-risk loan category and excludes acquired residential mortgage loans.

104

The following table includes the Company's lending and investment exposure to the Puerto Rico government, including its agencies, instrumentalities, municipalities and public corporations:

TABLE 7 - PUERTO RICO GOVERNMENT RELATED LOANS AND SECURITIES

September 30, 2014									
					Maturity				
Loans and Securities:		**Carrying Value**		**Less than 1 Year**		**1 to 3 Years**		**More than 3 Years**	**Comments**
	(In thousands)								
Central government	$	32,662	$	7,733	$	-	$	24,929	Repayment sources include all available revenues of the Commonwealth
Public corporations		382,069		299,982		1,296		80,791	$80.8 million which mature in more than 3 years, with pledged securities (rating > A)
Municipalities		212,100		-		1,174		210,926	Repayment from property taxes
Investment securities		20,915		-		439		20,476	
Total	**$**	**647,746**	**$**	**307,715**	**$**	**2,909**	**$**	**337,122**	

Some highlights follow on the data included above:

- Loans to municipalities are backed by their unlimited taxing power or real and personal property taxes.
- 48% of loans and securities balances mature in 12-months or less.
- Deposits from municipalities, central government and other government entities totaled $359.2 million at September 30, 2014. However, this amount may decline as a result of recently enacted legislation to improve the liquidity of the Government Development Bank for Puerto Rico (“GDB”) by requiring the Commonwealth’s agencies,

instrumentalities and public corporations to maintain certain deposits at GDB.

- The Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") enacted in the second quarter of 2014 establishes procedures for the adjustment of debts of certain public corporations. Significantly all of the Company's public corporation debtors are authorized to seek relief under the Recovery Act.

- Oriental Bank is part of a four bank syndicate providing a $550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of the Puerto Rico Electric Power Authority ("PREPA"), a public corporation authorized to seek relief under the Recovery Act. The Bank's participation in the line of credit has an unpaid principal balance of $200.0 million as of September 30, 2014. As part of the bank syndicate, the Company agreed during the quarter to extend its credit facility with PREPA to March 31, 2015. In connection with such extension, PREPA appointed a Chief Restructuring Officer to work alongside the Executive Director to develop, organize and manage a financial and operational restructuring of PREPA subject to the approval of PREPA's Board. PREPA also committed to delivering a comprehensive business plan by December 15, 2014 and a full debt restructuring plan by March 2, 2015. After the extension, the Company classified the credit as substandard and a troubled-debt restructuring. The Company conducted an impairment analysis considering the probability of collection of principal and interest and concluded that the loan should be maintained in accrual status requiring no impairment.

Credit Risk Management

Allowance for Loan and Lease Losses

The Company maintains an allowance for loan and lease losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Company's allowance for loan and lease losses policy provides for a detailed quarterly analysis of probable losses. Tables 8 through 12 set forth an analysis of activity in the allowance for loan and lease losses and present selected loan loss statistics. In addition, Table 5 sets forth the composition of the loan portfolio. As part of the Company's continuous enhancement to the allowance for loan and lease losses methodology, during the quarter ended March 31, 2014, an assessment of the look-back period and historical loss factor was performed for auto and leasing and consumer loan portfolios based on the trends observed and their relation with the economic cycle as of the period ended March 31, 2014. As a result, the look-back period was changed to 24 months from the previously determined 12 months. In addition, during the quarter ended June 30, 2014, an assessment of environmental factors was performed for commercial, auto, and consumer portfolios. As a result, the environmental factors continue to reflect our assessment of the impact to our portfolio, taking into consideration the current evolution of the portfolio and expected impact, due to recent economic developments, changes in values of collateral and delinquencies, among others. These changes in the allowance for loan and lease losses' look back period for the consumer and auto and leasing portfolios, and economic factors for the commercial, auto, and consumer portfolios are considered a change in accounting estimate as per ASC 250-10 provisions, where adjustments should be made prospectively.

At September 30, 2014, the Company's allowance for non-covered loan and lease losses amounted to $64.9 million, an increase from $54.3 million at December 31, 2013. At September 30, 2014, $50.3 million of the allowance corresponded to originated and other loans held for investment, or 1.84% of total non-covered originated and other loans held for investment, compared to $49.1 million or 2.04% of total non-covered originated and other loans held for investment at December 31, 2013. The allowance increased as a result of a $21.6 million provision for loan and lease losses and $7.2 million of recoveries, which were partially offset by charge-offs of $27.6 million during the nine-month period ended September 30, 2014. The allowance for residential mortgage loans and commercial loans decreased by 5.3% (or $1.1 million), and 38.8% (or $5.8 million), respectively, when compared with the balances recorded at December 31, 2013. The allowance for consumer loans and auto and leases increased by 45.0% (or $2.7 million) and 70.4% (or $5.5 million), respectively, when compared with the balances recorded at December 31, 2013. The unallocated allowance at September 30, 2014 decreased by 51.4%, or $193 thousand, when compared with the balance recorded at December 31, 2013. Changes are related to the evolution and the current trends of the portfolio. In the mortgage and commercial portfolios, losses have decreased, therefore less reserve was required. In the consumer and auto portfolios, losses had increased, therefore higher reserve was required.

Allowance for loan and lease losses recorded for acquired non-covered loans accounted for under the provisions of ASC 310-20 at September 30, 2014 was $4.5 million compared to $2.4 million at December 31, 2013, a 89.5% increase. The allowance increased as a result of a $10.5 million provision for loan and lease losses and $1.9 million of recoveries, which were partially offset by $10.4 million in charge-offs during the nine-month period ended September

30, 2014. The allowance for commercial loans decreased by 70.8% (or $656 thousand), when compared with the balance recorded at December 31, 2013. The allowance for consumer and auto loans increased by 100% (or $1.0 million) and 121.2% (or $1.7 million), respectively, when compared with the balances recorded at December 31, 2013, due to the normal amortization of credit discount of these acquired loans.

Allowance for loan and lease losses recorded for acquired non-covered loans accounted for under ASC-310-30 at September 30, 2014 was $10.1 million as compared to $2.9 million at December 31, 2013. The allowance increased as a result of a $7.3 million provision for loan and lease losses during the nine-month period ended September 30, 2014. The allowance for commercial loans increased by 490.5% (or $8.4 million), when compared with the balance recorded at December 31, 2013. The allowance for consumer and auto loans decreased by 98.8% (or $413 thousand) and 100% (or $732 thousand), respectively, when compared with the balances recorded at December 31, 2013.

Allowance for loan and lease losses recorded for covered loans at September 30, 2014 was $62.2 million as compared to $52.7 million at December 31, 2013. The allowance increased as a result of a $4.3 million provision for loan and lease losses and $5.2 million of FDIC shared-loss portion of provision for covered loan and lease losses during the nine-month period ended September 30, 2014. The allowance for loan and lease losses on covered loans is accounted under the provisions of ASC 310-30. Under this accounting guidance, the allowance for loan and lease losses on covered loans is evaluated at each financial reporting period, based on forecasted cash flows. Credit related decreases in expected cash flows, compared to those previously forecasted, are recognized by recording a provision for credit losses on covered loans when it is probable that all cash flows expected at acquisition will not be collected. The portion of the loss on covered loans reimbursable from the FDIC is recorded as an offset to the provision for credit losses and increases the FDIC indemnification asset.

Please refer to the “Provision for Loan and Lease Losses” section in this MD&A for a more detailed analysis of provisions for loan and lease losses.

Non-performing Assets

The Company’s non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At September 30, 2014 and December 31, 2013, the Company had $103.7 million and $86.2 million, respectively, of non-accrual loans, including acquired loans accounted under ASC 310-20 (loans with revolving feature and/or acquired at a premium). At September 30, 2014 and December 31 2013, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $273.6 million and $66.5 million, respectively.

Covered loans and loans acquired in the BBVAPR Acquisition with credit deterioration are considered to be performing due to the application of the accretion method under ASC 310-30, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses. Credit related decreases in expected cash flows, compared to those previously forecasted are recognized by recording a provision for credit losses on non-covered loans when it is probable that all cash flows expected at acquisition will not be collected.

At September 30, 2014, the Company’s non-performing assets increased by 13.4% to $176.1 million (3.07% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) from $155.3 million (2.61% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) at December 31, 2013. The Company does not expect non-performing loans to result in significantly higher losses as most are well-collateralized with adequate loan-to-value ratios. At September 30, 2014, the allowance for non-covered originated loan and lease losses to non-performing loans coverage ratio was 50.50% (61.52% at December 31, 2013).

The Company follows a conservative residential mortgage lending policy, with more than 90% of its residential mortgage portfolio consisting of fixed-rate, fully amortizing, fully documented loans that do not have the level of risk associated with subprime loans offered by certain major U.S. mortgage loan originators. Furthermore, the Company has never been active in negative amortization loans or adjustable rate mortgage loans, including those with teaser rates.

The following items comprise non-performing assets:

- Originated and other loans held for investment:

Mortgage loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the collateral underlying the loan, except for FHA and VA insured mortgage loans which are placed in non-accrual when they become 18 months or more past due. At September 30, 2014, the Company's originated non-performing mortgage loans totaled \$67.0 million (64.6% of the Company's non-performing loans), a 31.3% increase from \$51.1 million (59.4% of the Company's non-performing loans) at December 31, 2013. Non-performing loans in this category are primarily residential mortgage loans.

Commercial loans — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At September 30, 2014, the Company's originated non-performing commercial loans amounted to \$22.3 million (21.5% of the Company's non-performing loans), a 2.4% decrease from \$22.8 million at December 31, 2013 (26.5% of the Company's non-performing loans). Most of this portfolio is collateralized by commercial real estate properties.

Consumer loans — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 120 days in personal loans and 180 days in credit cards and personal lines of credit. At September 30, 2014, the Company's originated non-performing consumer loans amounted to \$1.2 million (1.2% of the Company's total non-performing loans), a 54.2% increase from \$805 thousand at December 31, 2013 (0.9% of the Company's total non-performing loans).

Auto loans and leases — are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At September 30, 2014, the Company's originated non-performing auto loans and leases amounted to $9.0 million (8.7% of the Company's total non-performing loans), an increase of 77.0% from $5.1 million at December 31, 2013 (5.9% of the Company's total non-performing loans).

- Acquired loans accounted for under ASC 310-20 (loans with revolving features and/or acquired at premium):

Commercial revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days or more past due and are written-down, if necessary, based on the specific evaluation of the underlying collateral, if any. At September 30, 2014, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $1.0 million (1.0% of the Company's non-performing loans), a 59.9% decrease from $2.5 million at December 31, 2013 (3.0% of the Company's non-performing loans).

Consumer revolving lines of credit and credit cards — are placed on non-accrual status when they become 90 days past due and written-off when payments are delinquent 180 days. At September 30, 2014, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $1.4 million (1.4% of the Company's non-performing loans), a 36.8% decrease from $2.2 million at December 31, 2013 (2.6% of the Company's non-performing loans).

Auto loans acquired at premium - are placed on non-accrual status when they become 90 days past due, partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At September 30, 2014, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled $1.7 million (1.7% of the Company's non-performing loans), an 8.6% increase from $1.6 million at December 31, 2013 (1.9% of the Company's non-performing loans).

- Foreclosed real estate is initially recorded at the lower of the related loan balance or fair value less the estimated cost to sell as of the date of foreclosure. Any excess of the loan balance over the fair value of the property is charged against the allowance for loan and lease losses. Subsequently, any excess of the carrying value over the estimated fair value less disposition cost is charged to operations. Net losses on foreclosed real estate and other repossessed assets for the quarter and nine month period ended September 30, 2014, amounted to $5.3 million and $13.7 million, respectively, compared to $3.6 million and $7.1 million for the same periods in 2013.

The Company has two mortgage loan modification programs. These are the Loss Mitigation Program and the Non-traditional Mortgage Loan Program. Both programs are intended to help responsible homeowners to remain in their homes and avoid foreclosure, while also reducing the Company’s losses on non-performing mortgage loans.

The Loss Mitigation Program helps mortgage borrowers who are or will become financially unable to meet the current or scheduled mortgage payments. Loans that qualify under this program are those guaranteed by FHA, VA, RHS, “Banco de la Vivienda de Puerto Rico,” conventional loans guaranteed by Mortgage Guaranty Insurance Corporation (MGIC), conventional loans sold to FNMA and FHLMC, and conventional loans retained by the Company. The program offers diversified alternatives such as regular or reduced payment plans, payment moratorium, mortgage loan modification, partial claims (only FHA), short sale, and payment in lieu of foreclosure.

The Non-traditional Mortgage Loan Program is for non-traditional mortgages, including balloon payment, interest only / interest first, variable interest rate, adjustable interest rate and other qualified loans. Non-traditional mortgage loan portfolios are segregated into the following categories: performing loans that meet secondary market requirement and are refinanced under the credit underwriting guidelines of FHA/VA/FNMA/ FHLMC, and performing loans not meeting secondary market guidelines processed by the Company’s current credit and underwriting guidelines. The Company achieved an affordable and sustainable monthly payment by taking specific, sequential, and necessary steps such as reducing the interest rate, extending the loan term, capitalizing arrearages, deferring the payment of principal or, if the borrower qualifies, refinancing the loan.

There may not be a foreclosure sale scheduled within 60 days prior to a loan modification under any such programs. This requirement does not apply to loans where the foreclosure process has been stopped by the Company. In order to apply for any of the loan modification programs, the borrower may not be in active bankruptcy or have been discharged from Chapter 7 bankruptcy since the loan was originated. Loans in these programs are to be evaluated by management for troubled-debt restructuring classification if the Company grants a concession for legal or economic reasons due to the debtor’s financial difficulties.

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY														
	Quarter Ended September 30,					**Variance**		**Nine-Month Period Ended September 30,**						**Variance**
		2014			**2013**		**%**		**2014**			**2013**		**%**
	(Dollars in thousands)													
Non-covered loans														
Originated and other loans:														
Balance at beginning of period	$	50,638		$	45,701		10.8%	$	49,081		$	39,921		22.9%
Provision for non-covered loan and lease losses		8,569			6,930		23.7%		21,625			48,645		-55.5%
Charge-offs		(11,622)			(5,762)		101.7%		(27,621)			(42,282)		-34.7%
Recoveries		2,694			704		282.7%		7,194			1,289		458.1%
		50,279			47,573		5.7%		50,279			47,573		5.7%
Acquired loans accounted for under ASC 310-20:														
Balance at beginning of period	$	3,444		$	924		100.0%	$	2,354		$	-		100.0%
Provision for non-covered loan and lease losses		3,731			2,970		25.6%		10,542			6,698		57.4%
Charge-offs		(3,408)			(2,831)		20.4%		(10,368)			(8,595)		20.6%
Recoveries		693			978		-29.1%		1,932			3,938		-50.9%
		4,460			2,041		118.5%		4,460			2,041		118.5%
Acquired loans accounted for under ASC														

310-30:												
Balance at beginning of period	$	6,278	$	-		100.0%	$	2,863	$	-		100.0%
Provision for non-covered loan and lease losses		3,842		-		100.0%		7,257		-		100.0%
		10,120		-		100.0%		10,120		-		100.0%
Total non-covered loans balance at end of period	**$**	**64,859**	**$**	**49,614**		**30.7%**	**$**	**64,859**	**$**	**49,614**		**30.7%**
Allowance for loans and lease losses on originated and other loans to:												
Total originated loans		1.84%		2.03%		-9.2%		1.84%		2.03%		-9.2%
Non-performing originated loans		50.50%		59.78%		-15.5%		50.50%		59.78%		-15.5%
Allowance for loans and lease losses on acquired loans accounted for under ASC 310-20 to:												
Total acquired loans accounted for under ASC 310-20		1.56%		0.39%		100.0%		1.56%		0.39%		100.0%
Non-performing acquired loans accounted for under ASC 310-20		107.03%		70.33%		52.2%		107.03%		70.33%		52.2%
Covered loans												

Balance at beginning of period	$	59,515		$	53,992		10.2%	$	52,729	$	54,124		-2.6%
Provision for covered loan and lease losses, net		1,115			3,074		-63.7%		4,339		4,956		-12.4%
FDIC shared-loss portion on (provision for) recapture of loan and lease losses		1,597			(511)		-412.5%		5,159		(2,525)		-304.3%
Balance at end of period	**$**	**62,227**		**$**	**56,555**		**10.0%**	**$**	**62,227**	**$**	**56,555**		**10.0%**

110

TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN					
		September 30, 2014		December 31, 2013	Variance %
	(Dollars in thousands)				
Originated and other loans held for investment					
Allowance balance:					
Mortgage	$	18,872	$	19,937	-5.3%
Commercial		9,112		14,897	-38.8%
Consumer		8,709		6,006	45.0%
Auto and leasing		13,404		7,866	70.4%
Unallocated allowance		182		375	-51.5%
Total allowance balance	**$**	**50,279**	**$**	**49,081**	**2.4%**
Allowance composition:					
Mortgage		37.53%		40.62%	-7.6%
Commercial		18.12%		30.35%	-40.3%
Consumer		17.32%		12.24%	41.5%
Auto and leasing		26.66%		16.03%	66.3%
Unallocated allowance		0.37%		0.76%	-51.3%
		100.00%		**100.00%**	
Allowance coverage ratio at end of period applicable to:					
Mortgage		2.39%		2.60%	-8.3%
Commercial		0.75%		1.32%	-43.3%
Consumer		4.95%		4.70%	5.3%
Auto and leasing		2.47%		2.07%	19.2%
Unallocated allowance to total originated loans		0.01%		0.02%	-57.3%
Total allowance to total originated loans		**1.84%**		**2.04%**	**-9.8%**
Allowance coverage ratio to non-performing loans:					
Mortgage		28.16%		39.05%	-27.9%
Commercial		40.88%		65.25%	-37.4%
Consumer		701.77%		746.09%	-5.9%
Auto and leasing		148.80%		154.57%	-3.7%
Total		**50.50%**		**61.52%**	**-17.9%**
Acquired loans accounted for under ASC 310-20					
Allowance balance:					
Commercial	$	270	$	926	-70.8%
Consumer		1,031		-	100.0%

Auto		3,159			1,428		121.2%
Total allowance balance	**$**	**4,460**		**$**	**2,354**		**89.5%**
Allowance composition:							
Commercial		6.05%			39.34%		-84.6%
Consumer		23.12%			0.00%		100.0%
Auto		70.83%			60.66%		16.8%
		100.00%			**100.00%**		
Allowance coverage ratio at end of period applicable to:							
Commercial		1.00%			1.19%		-16.1%
Consumer		2.18%			0.00%		100.0%
Auto		1.50%			0.47%		216.5%
Total allowance to total acquired loans		**1.56%**			**0.54%**		**189.4%**
Allowance coverage ratio to non-performing loans:							
Commercial		26.50%			36.41%		-27.2%
Consumer		73.54%			0.00%		100.0%
Auto		180.93%			88.81%		103.7%
Total		**107.03%**			**36.95%**		**189.6%**

TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN (CONTINUED)						
		September 30, 2014		**December 31, 2013**		**Variance %**
	(Dollars in thousands)					
Acquired loans accounted for under ASC 310-30						
Allowance balance:						
Commercial	$	10,115	$	1,713		490.5%
Consumer		5		418		100.0%
Auto		-		732		-100.0%
Total allowance balance	**$**	**10,120**	**$**	**2,863**		**253.5%**
Allowance composition:						
Commercial		99.95%		59.83%		67.1%
Consumer		0.05%		14.60%		100.0%
Auto		0.00%		25.57%		-100.0%
		100.00%		**100.00%**		

112

TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30

	Quarter Ended September 30,		Variance	Nine-Month Period Ended September 30,		Variance
	2014	2013	%	2014	2013	%
	(Dollar in thousands)					
Originated and other loans and leases:						
Mortgage						
Charge-offs	$ (1,563)	$ (1,758)	-11.1%	$ (3,764)	$ (33,466)	-88.8%
Recoveries	138	-	100.0%	374	-	100.0%
Total	**(1,425)**	**(1,758)**	**-18.9%**	**(3,390)**	**(33,466)**	**-89.9%**
Commercial						
Charge-offs	(1,081)	(2,234)	-51.6%	(2,043)	(5,678)	-64.0%
Recoveries	56	28	100.0%	269	290	-7.2%
Total	**(1,025)**	**(2,206)**	**-53.5%**	**(1,774)**	**(5,388)**	**-67.1%**
Consumer						
Charge-offs	(1,585)	(465)	240.9%	(3,820)	(1,034)	269.4%
Recoveries	66	37	78.4%	457	145	215.2%
Total	**(1,519)**	**(428)**	**254.9%**	**(3,363)**	**(889)**	**278.3%**
Auto						
Charge-offs	(7,393)	(1,305)	466.5%	(17,994)	(2,105)	754.8%
Recoveries	2,434	639	280.9%	6,094	855	612.7%
Total	**(4,959)**	**(666)**	**644.6%**	**(11,900)**	**(1,250)**	**852.0%**
Net credit losses						
Total charge-offs	(11,622)	(5,762)	101.7%	(27,621)	(42,283)	-34.7%
Total recoveries	2,694	704	282.7%	7,194	1,290	457.7%
Total	**$ (8,928)**	**$ (5,058)**	**76.5%**	**$ (20,427)**	**$ (40,993)**	**-50.2%**
Net credit losses to average loans outstanding:						
Mortgage	0.72%	0.92%	-21.7%	0.57%	5.70%	-90.0%
Commercial	0.34%	1.04%	-67.3%	0.20%	1.88%	-89.4%
Consumer	3.77%	1.75%	115.4%	3.08%	1.73%	78.0%
Auto	3.73%	0.98%	280.6%	3.32%	1.15%	188.7%
Total	**1.34%**	**1.02%**	**31.4%**	**1.05%**	**3.96%**	**-73.5%**
Recoveries to charge-offs	**23.18%**	**12.22%**	**89.7%**	**26.05%**	**3.05%**	**753.7%**

Average originated loans:												
Mortgage	$	789,204	$	763,929		3.3%	$	786,434	$	783,172		0.4%
Commercial		1,190,607		852,395		39.7%		1,174,220		382,654		206.9%
Consumer		161,147		97,738		64.9%		145,659		68,480		112.7%
Auto		531,914		271,727		95.8%		478,592		144,995		230.1%
Total	**$**	**2,672,872**	**$**	**1,985,789**		**34.6%**	**$**	**$ 2,584,905**	**$**	**1,379,301**		**87.4%**

113

TABLE 10 — NET CREDIT LOSSES STATISTICS ON LOAN AND LEASES, EXCLUDING LOANS ACCOUNTED FOR UNDER ASC 310-30 (CONTINUED)

	Quarter Ended September 30,		Variance	Nine-Month Period Ended September 30,		Variance
	2014	**2013**	**%**	**2014**	**2013**	**%**
	(Dollars in thousands)					
Acquired loans accounted for under ASC 310-20:						
Commercial						
Charge-offs	$ (228)	$ -	100.0%	$ (512)	$ (25)	1948.0%
Recoveries	35	6	483.3%	65	6	983.3%
Total	**(193)**	**6**	**-3316.7%**	**(447)**	**(19)**	**2252.6%**
Consumer						
Charge-offs	(1,432)	(1,233)	16.1%	(5,442)	(3,847)	41.5%
Recoveries	139	88	58.0%	363	932	-61.1%
Total	**(1,293)**	**(1,145)**	**12.9%**	**(5,079)**	**(2,915)**	**74.2%**
Auto						
Charge-offs	(1,747)	(1,598)	9.3%	(4,413)	(4,723)	-6.6%
Recoveries	519	884	-41.3%	1,504	3,000	-49.9%
Total	**(1,228)**	**(714)**	**72.0%**	**(2,909)**	**(1,723)**	**68.8%**
Net credit losses						
Total charge-offs	(3,407)	(2,831)	20.3%	(10,367)	(8,595)	20.6%
Total recoveries	693	978	-29.1%	1,932	3,938	-50.9%
Total	**$ (2,714)**	**$ (1,853)**	**46.5%**	**$ (8,435)**	**$ (4,657)**	**81.1%**
Net credit losses to average loans outstanding:						
Commercial	7.26%	-0.01%	-62125.6%	1.66%	0.01%	28946.2%
Consumer	7.88%	6.30%	25.1%	10.05%	4.93%	103.7%
Auto	2.21%	0.81%	171.6%	1.54%	0.53%	190.1%
Total	**3.64%**	**1.18%**	**208.6%**	**3.17%**	**0.65%**	**387.4%**
Recoveries to charge-offs	**20.34%**	**34.55%**	**-41.1%**	**18.64%**	**45.82%**	**-59.3%**
Average loans accounted for under ASC 310-20:						

Commercial	$	10,634	$	205,051			-94.8%	$	35,983	$	444,255			-91.9%
Consumer		65,639		72,726			-9.7%		67,399		78,803			-14.5%
Auto		221,989		350,587			-36.7%		251,808		432,673			-41.8%
Total	**$**	**298,262**	**$**	**628,364**			**-52.5%**	**$**	**355,190**	**$**	**955,731**			**-62.8%**

TABLE 11 — NON-PERFORMING ASSETS

	September 30, 2014		December 31, 2013		Variance (%)
	(Dollars in thousands)				
Non-performing assets:					
Non-accruing loans					
Troubled-Debt Restructuring loans	$	26,558	$	26,847	-1.1%
Other loans		70,490		56,430	24.9%
Accruing loans					
Troubled-Debt Restructuring loans		3,844		1,898	102.5%
Other loans		2,842		977	190.9%
Total non-performing loans	$	103,734	$	86,152	20.4%
Foreclosed real estate not covered under the shared-loss agreements with the FDIC		50,750		56,815	-10.7%
Other repossessed assets		21,576		12,314	75.2%
	$	**176,060**	$	**155,281**	**13.4%**
Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)		**3.07%**		**2.61%**	**17.6%**
Non-performing assets to total capital		**18.93%**		**17.55%**	**7.9%**

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2014		2013		2014		2013	
	(In thousands)							
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	$	833	$	560	$	1,389	$	1,371

115

TABLE 12 — NON-PERFORMING LOANS					
	September 30, 2014		December 31, 2013		Variance %
	(Dollars in thousands)				
Non-performing loans:					
Originated and other loans held for investment					
Mortgage	$	67,028	$	51,058	31.3%
Commercial		22,290		22,830	-2.4%
Consumer		1,241		805	54.2%
Auto and leasing		9,008		5,089	77.0%
		99,567		79,782	24.8%
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)					
Commercial		1,019		2,543	-59.9%
Consumer		1,402		2,219	-36.8%
Auto		1,746		1,608	8.6%
		4,167		6,370	-34.6%
Total	**$**	**103,734**	**$**	**86,152**	**20.4%**
Non-performing loans composition percentages:					
Originated loans					
Mortgage		64.6%		59.4%	
Commercial		21.5%		26.5%	
Consumer		1.2%		0.9%	
Auto and leasing		8.7%		5.9%	
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)					
Commercial		1.0%		3.0%	
Consumer		1.4%		2.6%	
Auto		1.7%		1.9%	
Total		**100.0%**		**100.0%**	
Non-performing loans to:					
Total loans, excluding covered loans and loans accounted for		**3.44%**		**3.04%**	**13.1%**

under ASC 310-30 (including those by analogy)								
Total assets, excluding covered assets and loans accounted for under ASC 310-30 (including those by analogy)		**1.81%**			**1.45%**		**24.8%**	
Total capital		**11.15%**			**9.74%**		**14.6%**	
Non-performing loans with partial charge-offs to:								
Total loans, excluding covered loans and loans accounted for under ASC 310-30 (including those by analogy)		**1.02%**			**0.83%**		**22.9%**	
Non-performing loans		**29.51%**			**27.35%**		**7.9%**	
Other non-performing loans ratios:								
Charge-off rate on non-performing loans to non-performing loans on which charge-offs have been taken		**54.35%**			**56.05%**		**-3.0%**	
Allowance for loan and lease losses to non-performing loans on which no charge-offs have been taken		**74.86%**			**82.18%**		**-8.9%**	

116

TABLE 13 - LIABILITIES SUMMARY AND COMPOSITION					
		September 30, 2014		December 31, 2013	Variance %
	(Dollars in thousands)				
Deposits:					
Non-interest bearing deposits	$	734,449	$	744,328	-1.3%
NOW accounts		1,397,600		1,393,645	0.3%
Savings and money market accounts		1,263,114		1,194,566	5.7%
Certificates of deposit		1,672,708		2,048,040	-18.3%
Total deposits		**5,067,871**		**5,380,579**	**-5.8%**
Accrued interest payable		1,304		2,686	-51.5%
Total deposits and accrued interest payable		**5,069,175**		**5,383,265**	**-5.8%**
Borrowings:					
Securities sold under agreements to repurchase		1,012,228		1,267,618	-20.1%
Advances from FHLB		334,787		336,143	-0.4%
Other term notes		3,872		3,663	5.7%
Subordinated capital notes		101,190		100,010	1.2%
Total borrowings		**1,452,077**		**1,707,434**	**-15.0%**
Total deposits and borrowings		**6,521,252**		**7,090,699**	**-8.0%**
Other Liabilities:					
Securities purchased but not yet received		30,057		-	100.0%
Derivative liabilities		11,414		14,937	-23.6%
Acceptances outstanding		21,077		23,042	-8.5%
Other liabilities		159,541		144,424	10.5%
Total liabilities	**$**	**6,743,341**	**$**	**7,273,102**	**-7.3%**
Deposits portfolio composition percentages:					
Non-interest bearing deposits		14.5%		13.8%	
NOW accounts		27.6%		25.9%	
Savings and money market accounts		24.9%		22.2%	
Certificates of deposit		33.0%		38.1%	
		100.0%		**100.0%**	
Borrowings portfolio composition percentages:					
Securities sold under agreements to repurchase		69.7%		74.2%	

Advances from FHLB		23.1%			19.7%		
Other term notes		0.3%			0.2%		
Subordinated capital notes		6.9%			5.9%		
		100.0%			**100.0%**		
Securities sold under agreements to repurchase (excluding accrued interest)							
Amount outstanding at period-end	$	1,010,000		$	1,265,000		
Daily average outstanding balance	$	1,058,378		$	1,353,011		
Maximum outstanding balance at any month-end	$	1,149,167		$	1,552,269		

Liabilities and Funding Sources

As shown in Table 13 above, at September 30, 2014, the Company's total liabilities were $6.743 billion, 7.3% less than the $7.273 billion reported at December 31, 2013. Deposits and borrowings, the Company's funding sources, amounted to $6.521 billion at September 30, 2014 versus $7.091 billion at December 31, 2013, an 8.0% decrease.

At September 30, 2014, deposits represented 78% and borrowings represented 22% of interest-bearing liabilities, compared to 76% and 24%, respectively, at December 31, 2013. At September 30, 2014, deposits, the largest category of the Company's interest-bearing liabilities, were $5.069 billion, down 5.8% from $5.383 billion at December 31, 2013. Non-maturing deposit balances increased 1.09%, to $3.395 billion, while higher-priced time deposits declined 18.3% as part of efforts to reduce the cost of deposits, which averaged 0.66% as of September 30, 2014 compared to 0.73% at December 31, 2013.

Borrowings consist mainly of repurchase agreements, FHLB-NY advances, subordinated capital notes, and short-term borrowings. At September 30, 2014, borrowings amounted to $1.452 billion, 15.0% lower than the $1.707 billion reported at December 31, 2013. Repurchase agreements as of September 30, 2014 decreased $255.4 million to $1.012 billion from $1.268 billion at December 31, 2013, as the Company used available cash to pay off repurchase agreements at maturity.

As a member of the FHLB-NY, the Bank can obtain advances from the FHLB-NY secured by the FHLB-NY stock owned by the Bank as well as by certain of the Bank's mortgage loans and investment securities. Advances from the FHLB-NY amounted to $334.8 million as of September 30, 2014 and $336.1 million as of December 31, 2013. These advances mature from October 2014 through July 2020.

Stockholders' Equity

At September 30, 2014, the Company's total stockholders' equity was $930.0 million, a 5.1% increase when compared to $884.9 million at December 31, 2013. Increase in stockholders' equity was mainly driven by the income for the nine-month period ended September 30, 2014, partially offset by an increase in treasury stock, as a result of the 707,500 repurchased shares of outstanding common stock during the first and third quarter of 2014.

From December 31, 2013 to September 30, 2014, tangible common equity to total assets increased to 8.70% from 7.61%, Tier 1 Leverage Capital Ratio increased to 10.51% from 9.11%, Tier 1 Risk-Based Capital Ratio increased to 15.96% from 14.35%, and Total Risk-Based Capital Ratio increased to 17.50% from 16.14%.

Taking into consideration the strong capital position, in the fourth quarter of 2013, the Company increased the cash dividend per common share to $0.08 from the dividend of $0.06 paid in previous quarters in 2013.

The following are the consolidated capital ratios of the Company at September 30, 2014 and December 31, 2013:

TABLE 14 — CAPITAL, DIVIDENDS AND STOCK DATA						
		September 30, 2014		**December 31, 2013**		**Variance %**
	(Dollars in thousands, except per share data)					
Capital data:						
Stockholders' equity	$	929,998	$	884,913		5.1%
Regulatory Capital Ratios data:						
Leverage capital ratio		**10.51%**		**9.06%**		16.0%
Minimum leverage capital ratio required		4.00%		4.00%		
Actual tier 1 capital	$	782,797	$	736,106		6.3%
Minimum tier 1 capital required	$	297,984	$	324,910		-8.3%
Excess over regulatory requirement	$	484,814	$	411,197		17.9%
Tier 1 risk-based capital ratio		**15.96%**		**14.38%**		11.0%
Minimum tier 1 risk-based capital ratio required		4.00%		4.00%		
Actual tier 1 risk-based capital	$	782,797	$	736,106		6.3%
Minimum tier 1 risk-based capital required	$	196,233	$	204,757		-4.2%
Excess over regulatory requirement	$	586,565	$	531,350		10.4%
Risk-weighted assets	$	4,905,814	$	5,118,927		-4.2%
Total risk-based capital ratio		**17.50%**		**16.16%**		8.3%
Minimum total risk-based capital ratio required		8.00%		8.00%		
Actual total risk-based capital	$	858,356	$	827,459		3.7%
Minimum total risk-based capital required	$	392,465	$	409,514		-4.2%
Excess over regulatory requirement	$	465,891	$	417,946		11.5%
Risk-weighted assets	$	4,905,814	$	5,118,927		-4.2%
Tangible common equity to total assets		**8.70%**		**7.61%**		14.3%
Tangible common equity to risk-weighted assets		**13.61%**		**12.13%**		12.2%
Total equity to total assets		**12.12%**		**10.85%**		11.7%
Total equity to risk-weighted assets		**18.96%**		**17.29%**		9.7%
Tier 1 common equity to risk-weighted assets		**11.86%**		**10.46%**		13.4%
Tier 1 common equity capital	$	581,927	$	535,237		8.7%
Stock data:						

Outstanding common shares		45,059,988		45,676,922	-1.4%
Book value per common share	$	16.96	$	15.74	7.8%
Tangible book value per common share	$	14.82	$	13.60	9.0%
Market price at end of period	$	14.98	$	17.34	-13.6%
Market capitalization at end of period	$	674,999	$	792,038	-14.8%

	Nine-Month Period Ended September 30,				**Variance**
	2014		**2013**		**%**
Common dividend data:					
Cash dividends declared	$	10,822	$	8,219	31.7%
Cash dividends declared per share	$	0.24	$	0.18	33.3%
Payout ratio		21.05%		12.95%	62.6%
Dividend yield		2.14%		1.48%	44.1%

119

The following table presents a reconciliation of the Company's total stockholders' equity to tangible common equity and total assets to tangible assets at September 30, 2014 and December 31, 2013:

	September 30, 2014			December 31, 2013
	(In thousands, except share or per share information)			
Total stockholders' equity	$	929,998	$	884,913
Preferred stock		(176,000)		(176,000)
Preferred stock issuance costs		10,130		10,130
Goodwill		(86,069)		(86,069)
Core deposit intangible		(6,798)		(7,804)
Customer relationship intangible		(3,487)		(4,108)
Total tangible common equity	**$**	**667,774**	**$**	**621,062**
Total assets		7,673,339		8,158,015
Goodwill		(86,069)		(86,069)
Core deposit intangible		(6,798)		(7,804)
Customer relationship intangible		(3,487)		(4,108)
Total tangible assets	**$**	**7,576,985**	**$**	**8,060,034**
Tangible common equity to tangible assets		**8.81%**		**7.71%**
Common shares outstanding at end of period		45,059,988		45,676,922
Tangible book value per common share	**$**	**14.82**	**$**	**13.60**

The tangible common equity ratio and tangible book value per common share are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Company calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

The Tier 1 common equity to risk-weighted assets ratio is another non-GAAP measure. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Company's capital position. In connection with the 2009 Supervisory Capital Assessment Program, the Federal Reserve Board supplemented its assessment of the capital adequacy of certain large bank holding companies based on a variation of Tier 1 capital, known as Tier 1 common equity.

Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Company has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

The table below presents a reconciliation of the Company’s total common equity (GAAP) at September 30, 2014 and December 31, 2013 to Tier 1 common equity (non-GAAP):

	September 30, 2014		December 31, 2013	
	(Dollars in thousands)			
Common stockholders' equity	$	764,128	$	719,043
Unrealized gains on available-for-sale securities, net of income tax		(20,318)		(11,434)
Unrealized losses on cash flow hedges, net of income tax		6,907		8,243
Disallowed deferred tax assets		(71,037)		(81,254)
Disallowed servicing assets		(1,399)		(1,380)
Intangible assets:				
Goodwill		(86,069)		(86,069)
Other intangible assets		(10,285)		(11,912)
Total Tier 1 common equity	**$**	**581,927**	**$**	**535,238**
Tier 1 common equity to risk-weighted assets		**11.86%**		**10.46%**

The following table presents the Company’s capital adequacy information at September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	(Dollars in thousands)			
Risk-based capital:				
Tier 1 capital	$	782,797	$	736,106
Supplementary (Tier 2) capital		75,559		91,353
Total risk-based capital	**$**	**858,356**	**$**	**827,459**
Risk-weighted assets:				
Balance sheet items	$	4,738,053	$	4,953,911
Off-balance sheet items		167,761		165,016
Total risk-weighted assets	**$**	**4,905,814**	**$**	**5,118,927**
Ratios:				
Tier 1 capital (minimum required - 4%)		**15.96%**		**14.38%**
Total capital (minimum required - 8%)		**17.50%**		**16.16%**
Leverage ratio		**10.51%**		**9.06%**
Equity to assets		**12.12%**		**10.85%**
Tangible common equity to assets		**8.70%**		**7.61%**

The Federal Reserve Board has risk-based capital guidelines for bank holding companies. Under the guidelines, the minimum ratio of qualifying total capital to risk-weighted assets is 8%. At least half of the total capital is to be comprised of qualifying common stockholders' equity, qualifying noncumulative perpetual preferred stock (including related surplus), minority interests related to qualifying common or noncumulative perpetual preferred stock directly issued by a consolidated U.S. depository institution or foreign bank subsidiary, and restricted core capital elements (collectively, "Tier 1 Capital"). Banking organizations are expected to maintain at least 50% of their Tier 1 Capital as common equity. Except for certain debt or equity instruments issued on or after May 19, 2010, which are excluded from Tier 1 Capital , not more than 25% of qualifying Tier 1 Capital may consist of qualifying cumulative perpetual preferred stock, trust preferred securities or other so-called restricted core capital elements. "Tier 2 Capital" may consist, subject to certain limitations, of allowance for loan and lease losses; perpetual preferred stock and related surplus; hybrid capital instruments, perpetual debt, and mandatory convertible debt securities; term subordinated debt and intermediate-term preferred stock, including related surplus; and unrealized holding gains on equity securities. "Tier 3 Capital" consists of qualifying unsecured subordinated debt. The sum of Tier 2 and Tier 3 Capital may not exceed the amount of Tier 1 Capital.

121

Pursuant to the Dodd-Frank Act, federal banking agencies have adopted new capital rules that became effective January 1, 2014 for advanced approaches banking organizations (i.e., those with consolidated assets greater than $250 billion or consolidated on-balance sheet foreign exposures of at least $10 billion) and will become effective on January 1, 2015 for all other covered organizations (subject to certain phase-in periods through January 1, 2019) and that will replace their general risk-based capital rules, advanced approaches rule, market risk rule, and leverage rules.

The new capital rules provide certain changes to the prompt corrective action regulations adopted by the agencies under Section 38 of the FDIA, as amended by FDICIA. These regulations are designed to place restrictions on U.S. insured depository institutions if their capital levels begin to show signs of weakness. The five capital categories established by the agencies under their prompt corrective action framework are: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” As of September 30, 2014 and December 31, 2013, the Company is “well capitalized” for regulatory purposes.

The new capital rules expand such categories by introducing a common equity tier 1 capital requirement for all depository institutions, revising the minimum risk-based capital ratios and, beginning in 2018, the proposed supplementary leverage requirement for advanced approaches banking organizations. The common equity tier 1 capital ratio is a new minimum requirement designed to ensure that banking organizations hold sufficient high-quality regulatory capital that is available to absorb losses on a going-concern basis. The Company believes that it will continue to meet the “well capitalized” category after the implementation of new capital rules on January 1, 2015.

The Bank is considered “well capitalized” under the regulatory framework for prompt corrective action. The table below shows the Bank’s regulatory capital ratios at September 30, 2014, and December 31, 2013:

	September 30 ,			**December 31,**			**Variance**
	2014			**2013**			**%**
	(Dollars in thousands)						
Oriental Bank Regulatory Capital Ratios:							
Total Tier 1 Capital to Total Assets		**9.99%**			**8.54%**		**17.0%**
Actual tier 1 capital	$	738,482		$	688,350		7.3%
Minimum capital requirement (4%)	$	295,673		$	322,395		-8.3%
Minimum to be well capitalized (5%)	$	369,592		$	402,993		-8.3%
Tier 1 Capital to Risk-Weighted Assets		**15.12%**			**13.51%**		**11.9%**
Actual tier 1 risk-based capital	$	738,482		$	688,350		7.3%
Minimum capital requirement (4%)	$	195,322		$	203,819		-4.2%
Minimum to be well capitalized (6%)	$	292,983		$	305,728		-4.2%

Total Capital to Risk-Weighted Assets		**16.66%**		**15.30%**		**8.9%**
Actual total risk-based capital	$	813,760	$	779,413		4.4%
Minimum capital requirement (8%)	$	390,644	$	407,637		-4.2%
Minimum to be well capitalized (10%)	$	488,305	$	509,547		-4.2%

122

The Company’s common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “OFG.” At September 30, 2014 and December 31, 2013, the Company’s market capitalization for its outstanding common stock was $675.0 million ($14.98 per share) and $792.0 million ($17.34 per share), respectively.

The following table provides the high and low prices and dividends per share of the Company’s common stock for each quarter of the last two calendar years:

	Price				Cash Dividend	
	High		Low		Per share	
2014						
September 30, 2014	$	18.89	$	14.92	$	0.08
June 30, 2014	$	18.88	$	16.38	$	0.08
March 31, 2014	$	17.54	$	14.30	$	0.08
2013						
December 31, 2013	$	17.34	$	14.74	$	0.08
September 30, 2013	$	18.97	$	16.13	$	0.06
June 30, 2013	$	18.11	$	14.26	$	0.06
March 31, 2013	$	15.83	$	13.85	$	0.06
2012						
December 31, 2012	$	13.35	$	9.98	$	0.06
September 30, 2012	$	11.49	$	10.02	$	0.06
June 30, 2012	$	12.37	$	9.87	$	0.06
March 31, 2012	$	12.69	$	11.25	$	0.06

Under the Company’s current stock repurchase program it is authorized to purchase in the open market up to $70 million of its outstanding shares of common stock. The shares of common stock repurchased are to be held by the Company as treasury shares. During the nine-month period ended September 30, 2014, the Company purchased 707,500 shares under this program for a total of $10.4 million, at an average price of $14.66 per share. There were no repurchases during 2013. The number of shares that may yet be purchased under the $70 million program is estimated at 1,548,481 and was calculated by dividing the remaining balance of $23.2 million the closing price of the Company’s common stock at September 30, 2014 ($14.98).

ITEM 3. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Background

The Company's risk management policies are established by its Board of Directors (the "Board") with the assistance of the Board Risk and Compliance Committee formed during the second quarter of 2014. Such policies are implemented by management through the adoption of a risk management program, which is overseen and monitored by the Chief Risk Officer and the Executive Risk and Compliance Committee and the Board Risk and Compliance Committee. The Company has continued to refine and enhance its risk management program by strengthening policies, processes and procedures necessary to maintain effective risk management.

All aspects of the Company's business activities are susceptible to risk. Consequently, risk identification and monitoring are essential to risk management. As more fully discussed below, the Company's primary risk exposures include, market, interest rate, credit, liquidity, operational and concentration risks.

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in market rates or prices, such as interest rates or prices. The Company evaluates market risk together with interest rate risk. The Company's financial results and capital levels are constantly exposed to market risk. The Board and management are primarily responsible for ensuring that the market risk assumed by the Company complies with the guidelines established by policies approved by the Board. The Board has delegated the management of this risk to the Asset/Liability Management Committee ("ALCO") which is composed of certain executive officers from the business, treasury and finance areas. One of ALCO's primary goals is to ensure that the market risk assumed by the Company is within the parameters established in such policies.

Interest Rate Risk

Interest rate risk is the exposure of the Company's earnings or capital to adverse movements in interest rates. It is a predominant market risk in terms of its potential impact on earnings. The Company manages its asset/liability position in order to limit the effects of changes in interest rates on net interest income. ALCO oversees interest rate risk, liquidity management and other related matters.

In discharging its responsibilities, ALCO examines current and expected conditions in global financial markets, competition and prevailing rates in the local deposit market, liquidity, unrealized gains and losses in securities, recent or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps, and any tax or regulatory issues which may be pertinent to these areas.

On a monthly basis, the Company performs a net interest income simulation analysis on a consolidated basis to estimate the potential change in future earnings from projected changes in interest rates. These simulations are carried out over a one-year time horizon, assuming certain gradual upward and downward interest rate movements, achieved during a twelve-month period. Simulations are carried out in two ways:

(i) using a static balance sheet as the Company had on the simulation date, and

(ii) using a dynamic balance sheet based on recent growth patterns and business strategies.

The balance sheet is divided into groups of assets and liabilities detailed by maturity or re-pricing and their corresponding interest yields and costs. As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and costs, the possible exercise of options, changes in prepayment rates, deposits decay and other factors which may be important in projecting the future growth of net interest income.

The Company uses a software application to project future movements in the Company’s balance sheet and income statement. The starting point of the projections generally corresponds to the actual values of the balance sheet on the date of the simulations.

These simulations are complex, and use many assumptions that are intended to reflect the general behavior of the Company over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates. The following table presents the results of the simulations at September 30, 2014 for the most likely scenario, assuming a one-year time horizon:

	Net Interest Income Risk (one year projection)								
	Static Balance Sheet					**Growing Simulation**			
	Amount Change			**Percent Change**		**Amount Change**			**Percent Change**
Change in interest rate	**(Dollars in thousands)**								
+ 200 Basis points	$	7,640		2.13%	_	$	7,045	_	1.96%
+ 100 Basis points	$	4,150		1.16%	_	$	3,883	_	1.08%
- 50 Basis points	$	(437)		-0.12%	_	$	(339)	_	-0.09%

The impact of -100 and -200 basis point reductions in interest rates is not presented in view of current level of the federal funds rate and other short-term interest rates.

Future net interest income could be affected by the Company's investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed securities, and any structured repurchase agreements and advances from the FHLB-NY in which it may enter into from time to time. As part of the strategy to limit the interest rate risk and reduce the re-pricing gaps of the Company's assets and liabilities, the Company has executed certain transactions which include extending the maturity and the re-pricing frequency of the liabilities to longer terms reducing the amounts of its structured repurchase agreements and entering into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings that only consist of advances from the FHLB-NY as of September 30, 2014.

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. Also, for some fixed-rate assets or liabilities, the effect of this variability in earnings is expected to be substantially offset by the Company's gains and losses on the derivative instruments that are linked to the forecasted cash flows of these hedged assets and liabilities. The Company considers its strategic use of derivatives to be a prudent method of managing interest-rate sensitivity as it reduces the exposure of earnings and the market value of its equity to undue risk posed by changes in interest rates. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Company's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the contractual interest income and interest expense of hedged variable-rate assets and liabilities, respectively, will increase or decrease.

Derivative instruments that are used as part of the Company's interest risk management strategy include interest rate swaps, forward-settlement swaps, futures contracts, and option contracts that have indices related to the pricing of specific balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties based on a common notional principal amount and maturity date. Interest rate futures generally involve exchanged-traded contracts to buy or sell U.S. Treasury bonds and notes in the future at specified prices. Interest rate options represent contracts that allow the holder of the option to (i) receive cash or (ii) purchase, sell, or enter into a financial instrument at a specified price within a specified period. Some purchased option contracts give the Company the right to enter into interest rate swaps and cap and floor agreements with the writer of the option. In addition, the Company enters into certain transactions that contain embedded derivatives. 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 and carried at fair value. Please refer to Note 7 to the accompanying unaudited consolidated financial statements for further information concerning the Company's derivative activities.

Following is a summary of certain strategies, including derivative activities, currently used by the Company to manage interest rate risk:

Interest rate swaps — The Company entered into hedge-designated swaps to hedge the variability of future interest cash flows of forecasted wholesale borrowings attributable to changes in the one-month LIBOR rate. Once the forecasted wholesale borrowings transactions occurred, the interest rate swap effectively fixes the Company's interest payments on an amount of forecasted interest expense attributable to the one-month LIBOR rate corresponding to the swap notional stated rate. A derivative liability of $8.7 million (notional amount of $265.0 million) was recognized at September 30, 2014 related to the valuation of these swaps.

In addition, the Company has certain derivative contracts, including interest rate swaps not designated as hedging instruments, which are utilized to convert certain variable rate loans to fixed-rate loans, and the mirror-images of these interest rate swaps in which the Company enters into to minimize its interest rate risk exposure that results from offering the derivatives to clients. These interest rate swaps are marked to market through earnings. At September 30, 2014, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of $2.5 million (notional amounts of $16.5 million), and the mirror-image interest rate swaps in which BBVAPR entered into represented a derivative liability of $2.5 million (notional amounts of $16.5 million).

S&P options — The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P 500 Index. At the end of five years, the depositor receives a minimum return or a specified percentage of the average increase of the month-end value of the S&P 500 Index. The Company uses option agreements with major money center banks and major broker-dealer companies to manage its exposure to changes in that index. Under the terms of the option agreements, the Company receives the average increase in the month-end value of the S&P 500 Index in exchange for a fixed premium. The changes in fair value of the options purchased and the options embedded in the certificates of deposit are recorded in earnings.

At September 30, 2014, the fair value of the purchased options used to manage the exposure to the S&P 500 Index on stock-indexed certificates of deposit represented an asset of $5.8 million (notional amounts of $12.0 million) and the options sold to customers embedded in the certificates of deposit represented a liability of $5.6 million (notional amount of $11.6 million).

Wholesale borrowings — The Company uses interest rate swaps to hedge the variability of interest cash flows of certain advances from the FHLB-NY that are tied to a variable rate index. The interest rate swaps effectively fix the Company's interest payments on these borrowings. As of September 30, 2014, the Company had $265 million in interest rate swaps at an average rate of 2.6% designated as cash flow hedges for $265 million in advances from the FHLB-NY that reprice or are being rolled over on a monthly basis.

Credit Risk

Credit risk is the possibility of loss arising from a borrower or counterparty in a credit-related contract failing to perform in accordance with its terms. The principal source of credit risk for the Company is its lending activities. In Puerto Rico, the Company's principal market, economic conditions are challenging, as they have been for the last eight years, due to a shrinking population, a protracted economic recession, a housing sector that remains under pressure, the Puerto Rico government's large indebtedness and structural budget deficit, and the recent rating downgrades of Puerto Rico general obligations and other government bonds to levels that are below investment grade.

The Company manages its credit risk through a comprehensive credit policy which establishes sound underwriting standards by monitoring and evaluating loan portfolio quality, and by the constant assessment of reserves and loan concentrations. The Company also employs proactive collection and loss mitigation practices.

The Company may also encounter risk of default in relation to its securities portfolio. The securities held by the Company are principally agency mortgage-backed securities. Thus, a substantial portion of these instruments are guaranteed by mortgages, a U.S. government-sponsored entity, or the full faith and credit of the U.S. government.

The Company's Executive Credit Committee, composed of its Chief Executive Officer, Chief Credit Risk Officer and other senior executives, has primary responsibility for setting strategies to achieve the Company's credit risk goals and objectives. Those goals and objectives are set forth in the Company's Credit Policy as approved by the Board.

Liquidity Risk

Liquidity risk is the risk of the Company not being able to generate sufficient cash from either assets or liabilities to meet obligations as they become due without incurring substantial losses. The Board has established a policy to manage this risk. The Company’s cash requirements principally consist of deposit withdrawals, contractual loan funding, repayment of borrowings as these mature, and funding of new and existing investments as required.

The Company’s business requires continuous access to various funding sources. While the Company is able to fund its operations through deposits as well as through advances from the FHLB-NY and other alternative sources, the Company’s business is dependent upon other wholesale funding sources. Although the Company has selectively reduced its use of wholesale funding sources, such as repurchase agreements and brokered deposits, it is still dependent on wholesale funding sources. As of September 30, 2014, the Company had $1.010 billion in repurchase agreements and $669.6 million in brokered deposits.

Brokered deposits are typically offered through an intermediary to small retail investors. The Company’s ability to continue to attract brokered deposits is subject to variability based upon a number of factors, including volume and volatility in the global securities markets, the Company’s credit rating, and the relative interest rates that it is prepared to pay for these liabilities. Brokered deposits are generally considered a less stable source of funding than core deposits obtained through retail bank branches. Investors in brokered deposits are generally more sensitive to interest rates and will generally move funds from one depository institution to another based on small differences in interest rates offered on deposits.

The Company participates in the Federal Reserve Bank’s Borrower-In Custody Program which allows it to pledge certain type of loans while keeping physical control of the collateral.

Although the Company expects to have continued access to credit from the foregoing sources of funds, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In a period of financial disruption or if negative developments occur with respect to the Company, the availability and cost of the Company’s funding sources could be adversely affected. In that event, the Company’s cost of funds may increase, thereby reducing its net interest income, or the Company may need to dispose of a portion of its investment portfolio, which depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon any such dispositions. The Company’s efforts to monitor and manage liquidity risk may not be successful to deal with dramatic or unanticipated changes in the global securities markets or other reductions in liquidity driven by the Company or market-related events. In the event that such sources of funds are reduced or eliminated and the Company is not able to replace these on a cost-effective basis, the Company may be forced to curtail or cease its loan origination business and treasury activities, which would have a material adverse effect on its operations and financial condition.

As of September 30, 2014, the Company had approximately $663.5 million in unrestricted cash and cash equivalents, $196.0 million in investment securities that are not pledged as collateral, $653.5 million in borrowing capacity at the FHLB-NY and $748.9 million in borrowing capacity at the Federal Reserve’s discount window available to cover liquidity needs.

Operational Risk

Operational risk is the risk of loss from inadequate or failed internal processes, personnel and systems or from external events. All functions, products and services of the Company are susceptible to operational risk.

The Company faces ongoing and emerging risk and regulatory pressure related to the activities that surround the delivery of banking and financial products and services. Coupled with external influences such as market conditions, security risks, and legal risk, the potential for operational and reputational loss has increased. In order to mitigate and control operational risk, the Company has developed, and continues to enhance, specific internal controls, policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization. The purpose of these policies and procedures is to provide reasonable assurance that the Company’s business operations are functioning within established limits.

The Company classifies operational risk into two major categories: business specific and corporate-wide affecting all business lines. For business specific risks, a risk assessment group works with the various business units to ensure consistency in policies, processes and assessments. With respect to corporate-wide risks, such as information security, business recovery, legal and compliance, the Company has specialized groups, such as Information Security, Enterprise Risk Management, Corporate Compliance, Information Technology, Legal and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups. All these matters are reviewed and discussed in the Information Technology Steering Committee, and the Executive Risk and Compliance Committee.

The Company is subject to extensive United States federal and Puerto Rico regulations, and this regulatory scrutiny has been significantly increasing over the last several years. The Company has established and continues to enhance procedures based on legal and regulatory requirements that are reasonably designed to ensure compliance with all applicable statutory and regulatory requirements. The Company has a corporate compliance function headed by a Compliance Director who reports to the Chief Risk Officer and is responsible for the oversight of regulatory compliance and implementation of a company-wide compliance program.

Concentration Risk

Substantially all of the Company’s business activities and a significant portion of its credit exposure are concentrated in Puerto Rico. As a consequence, the Company’s profitability and financial condition may be adversely affected by an extended economic slowdown, adverse political or economic developments in Puerto Rico or the effects of a natural disaster, all of which could result in a reduction in loan originations, an increase in non-performing assets, an increase in foreclosure losses on mortgage loans, and a reduction in the value of its loans and loan servicing portfolio.

ITEM 4. ***CONTROLS AND PROCEDURES***

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon such evaluation, the CEO and the CFO have concluded that, as of the end of such period, the Company’s disclosure controls and procedures provided reasonable assurance of effectiveness in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART - II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their business. The Company is vigorously contesting such claims. Based upon a review by legal counsel and the development of these matters to date, management is of the opinion that the ultimate aggregate liability, if any, resulting from these claims will not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 1A. *RISK FACTORS*

Except as set forth below, there have been no material changes to the risk factors previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2013. In addition to other information set forth in this report, you should carefully consider the risk factors included in the Company's annual report on Form 10-K, as updated by this report or other filings the Company makes with the SEC under the Exchange Act. Additional risks and uncertainties not presently known to the Company at this time or that the Company currently deems immaterial may also adversely affect the Company's business, financial condition or results of operations.

We rely on the services of third parties for our banking, information technology, telecommunications, and mortgage loan servicing infrastructure, and any failure, interruption or termination of such services or systems could have a material adverse affect on our financial condition and results of operations.

Our business relies on the secure, successful and uninterrupted functioning of our banking, information technology, telecommunications, and mortgage loan servicing infrastructure. We outsource some of our major systems, such as customer data and deposit processing, mortgage loan servicing, Internet and mobile banking, and electronic fund transfer systems. The failure or interruption of such systems, or the termination of a third-party software license or mortgage servicing, or any service agreement on which any of these systems or services is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such systems fail or experience interruptions.

We periodically sell or securitize our mortgage loans while retaining the obligation to perform the servicing of such loans. Although we are the master servicer of our mortgage loan portfolios, we outsource our servicing functions pursuant to a subservicing arrangement with a third party in Puerto Rico. The termination or interruption of such subservicing arrangement, without a feasible substitute or successor, could adversely affect our financial condition and results of operations. In addition, because the FDIC has the right to refuse or delay payment for loan and lease losses if the shared-loss agreements are not performed by us in accordance with their terms, any such termination or interruption of the subservicing of the covered loans that we acquired in the FDIC-assisted acquisition could adversely affect our ability to comply with such terms.

If sustained or repeated, a failure, denial or termination of such systems or services could result in a deterioration of our ability to process new loans, service existing loans, gather deposits and/or provide customer service. It could also compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability. Any of the foregoing could have a material adverse effect on our financial condition and results of operations.

A credit default or ratings downgrade on the Puerto Rico government's debt obligations could adversely affect the value of our loans to the government of Puerto Rico and our investment portfolio of Puerto Rico government bonds.

Even though the economy of Puerto Rico is closely related to the economy of the rest of the United States, prevailing economic conditions, the fiscal situation of the Puerto Rico government and legislation it has recently enacted have led Standard & Poor's, Moody's and Fitch to further downgrade all obligations of the Puerto Rico government to levels below investment grade.

In the third quarter of 2014, the government enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"), which establishes procedures for the adjustment of certain public corporations' debts. The Recovery Act states in its preamble that it further promotes the central government's public policy objectives of no longer providing financial support to public corporations and promoting their economic independence. The Recovery Act, which is without precedent and is being challenged in federal court on constitutional grounds, has increased the level of uncertainty as to the rights of the affected public corporation's creditors.

Despite the Commonwealth's progress in addressing its persistent budget deficits and underfunded government retirement plans, Puerto Rico continues to face significant economic and fiscal challenges, including a protracted economic recession, sizable debt-service obligations, high unemployment and a shrinking population. The recent Commonwealth credit downgrades by three leading rating agencies reflect only the views of such agencies, an explanation of which may be obtained from each such rating agency. Generally, below-investment-grade securities present greater risks and can be less liquid than investment-grade securities.

The reduction in the credit ratings of Puerto Rico government debt obligations could severely weaken the demand for such securities and the Commonwealth's access to capital markets, which may affect its ability to obtain the financing that it needs. This may in turn increase the Commonwealth's risk of default.

It is uncertain how capital markets may react to any future ratings downgrade in Puerto Rico government debt obligations. However, a further deterioration of economic or fiscal conditions in Puerto Rico, with possible negative ratings implications, could adversely affect the value of our loans to the government of Puerto Rico and the value of our investment portfolio of Puerto Rico government bonds.

At September 30, 2014, we had approximately $647.9 million of credit facilities granted to the Puerto Rico government, including its instrumentalities, public corporations and municipalities, of which $626.8 million was outstanding as of such date. A substantial portion of our credit exposure to the government of Puerto Rico consists of collateralized loans or obligations that have a specific source of income or revenues identified for its repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as the Puerto Rico Electric Power Authority ("PREPA") and the Puerto Rico Aqueducts and Sewer Authority. Public corporations have varying degrees of independence from the central government and many have received appropriations or are due other payments from it. At September 30, 2014, we had approximately $382.1 million of credit facilities granted to public corporations, and significantly all such debtors are authorized to seek relief under the Recovery Act. The Company's banking subsidiary is part of a four bank syndicate providing a $550 million dollar revolving line of credit to finance the purchase of fuel for the day to day power generation activities of PREPA. The Bank's participation in the line of credit has an unpaid principal balance of $200.0 million as of September 30, 2014. The Company, as part of the bank syndicate, agreed during the quarter to extend its credit facilities with PREPA to March 31, 2015. In connection with such extension, PREPA appointed a Chief Restructuring Officer to work alongside the Executive Director to develop, organize and manage a financial and operational restructuring of PREPA subject to the approval of PREPA's Board. PREPA also committed to delivering a comprehensive business plan by December 15, 2014 and a full debt restructuring plan by March 2, 2015. After the extension, the Company classified the credit as substandard and a troubled-debt restructuring. The Company conducted an impairment analysis considering the probability of collection of principal and interest and concluded that the loan should be maintained in accrual status requiring no impairment.

We also have loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as required for the payment of all of its general obligation bonds and notes. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

130

Furthermore, as of September 30, 2014, we had approximately $20.9 million in obligations issued and guaranteed by the Puerto Rico government, including certain instrumentalities or public corporations, as part of our investment securities portfolio. We continue to closely monitor the economic and fiscal situation of Puerto Rico and evaluate the portfolio for any declines in value that management may consider being other-than-temporary.

Approximately 48% of our Puerto Rico government loans and obligations mature in the next 12 months or less. At September 30, 2014, we also had deposits of approximately $359.2 million from the government of Puerto Rico.

If the Company’s public corporation debtors seek relief under the Recovery Act or are otherwise unable to pay their obligations as they become due, or under certain other circumstances, the Company and its banking subsidiary may be required to adversely classify such loans and provision for losses in connection therewith. Such provision may significantly impact the Company’s financial condition and its regulatory capital ratios.

ITEM 2. ***UNREGISTERED SALES OF EQUITY SECURITES AND USE OF PROCEEDS***

On June 29, 2011, the Company announced the approval by the Board of Directors of a stock repurchase program to purchase an additional $70 million of the Company’s common stock in the open market.

Any shares of common stock repurchased are held by the Company as treasury shares. The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. During the quarter ended September 30, 2014, the Company purchased 100 additional shares under this program for a total of $2 thousand, at an average price of $15.50 per share.

The following table presents the shares repurchased for each month during the quarter ended September 30, 2014, excluding the month ended July 31, 2014 and September 30, 2014, during which no shares were purchased as part of the stock repurchase program:

			Total number of	**Maximum approximate**
			shares purchased	**dollar value of shares**
	Total number of	**Average price paid**	**as part of publicly**	**that may yet be purchased**

Period	**shares purchased**	**per share**		**announced programs**	**under the programs**	
_						**(In thousands)**
August 1-31, 2014	100	$	15.50	100	$	23,196
Quarter ended September 30, 2014	**100**	**$**	**15.50**	**100**	**$**	**23,196**

The number of shares that may yet be purchased under the current $70 million program is estimated at 1,548,481 and was calculated by dividing the remaining balance of $23.2 million by $14.98 (closing price of the Company’s common stock at September 30, 2014). The Company did not purchase any shares of its common stock other than through its publicly announced stock repurchase program during the quarter ended September 30, 2014.

ITEM 3. ***DEFAULTS UPON SENIOR SECURITIES***

None.

ITEM 4. ***MINE SAFETY DISCLOSURES***

Not applicable.

ITEM 5. ***OTHER INFORMATION***

None.

ITEM 6. ***EXHIBITS***

Exhibit No.	Description of Document:
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from OFG Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Statements of Financial Condition, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Changes in Stockholders' Equity, (v) Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OFG Bancorp

(Registrant)

By:	/s/ José Rafael Fernández	Date: November 7, 2014
	José Rafael Fernández President and Chief Executive Officer	
By:	/s/ Ganesh Kumar	Date: November 7, 2014
	Ganesh Kumar Executive Vice President and Chief Financial Officer	
By:	/s/ Maritza Arizmendi	Date: November 7, 2014
	Maritza Arizmendi Senior Vice President and Chief Accounting Officer	