COHEN & STEERS INC
Form 4
January 31, 2006

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
McCombe John J

(Last) (First) (Middle)

COHEN & STEERS, INC., 280 PARK AVENUE

(Street)

NEW YORK, NY 10017

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
COHEN & STEERS INC [CNS]

3. Date of Earliest Transaction (Month/Day/Year)
01/27/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value $0.01 per share	01/27/2006		A		37,927 (1)	A	$ 0	608,172 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
McCombe John J COHEN & STEERS, INC. 280 PARK AVENUE NEW YORK, NY 10017			Executive Vice President	

Signatures

Lawrence Stoller, Attorney-in-Fact for John McCombe	01/31/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes 6,806 restricted stock units (RSUs) mandatorily deferred by the Company from Mr. McCombe's annual discretionary bonus, plus 1,701 RSUs as a company match on his mandatory bonus deferral. These RSUs generally vest on the third anniversary of grant. Also includes 29,420 RSUs that vest one-fifth ratably on each of January 27, 2007, 2008, 2009, 2010 and 2011. These RSUs were granted pursuant to the Company's 2004 Stock Incentive Plan.

(2) Includes 3,378 shares acquired by Mr. McCombe pursuant to the Company's 2004 Employee Stock Purchase Plan. Also includes 729 RSUs acquired pursuant to a dividend reinvestment feature under the Stock Incentive Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. September 2006 amounting to $30.0 million at a variable rate of three-month LIBOR plus 1.56% thereafter (1.83% at June 30, 2013; 1.87% at December 31, 2012), due September 29, 2016. Interest on these subordinated notes is payable quarterly. The Bank has the option to redeem these subordinated capital notes in whole or in part from time to time before maturity at 100% of the principal amount plus any accrued but unpaid interest to the date of redemption, beginning September 29, 2011, and at each payment date thereafter.

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Explanation of Responses:

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

These notes qualify as Tier 2 capital at a discounted rate, which totals $40.2 million at June 30, 2013 and $50.2 million at December 31, 2012. Generally speaking, subordinated notes are included as Tier 2 capital if they have an original weighted average maturity of at least 5 years and comply with certain other requirements. As the notes approach maturity, they begin to take on characteristics of a short term obligation. For this reason, the outstanding amount eligible for inclusion in Tier 2 capital is reduced, or discounted, as the instruments approach maturity: one fifth of the outstanding amount is excluded each year during the instruments last five years before maturity. When the remaining maturity is less than one year, the instrument is excluded from Tier 2 capital.

Under the requirements of Puerto Rico Banking Act, the Bank must establish a redemption fund for the subordinated capital notes by transferring from undivided profits pre-established amounts as follows:

	Redemption fund (In thousands)	
2013	$	48,575
2014		6,700
2015		6,700
2016		5,025
	$	**67,000**

Other borrowings

Other borrowings, presented in the unaudited consolidated statements of financial condition within “Advances from FHLB and other borrowings”, amounted to $37.2 million and $17.6 million at June 30, 2013 and December 31, 2012, respectively. These borrowings mainly consists of federal funds purchased of $29.4 million and $9.9 million at June 30, 2013 and December 31, 2012, respectively, with a weighted average interest rate of 0.30% at both dates, and unsecured fixed-rate borrowings of $7.7 million at both June 30, 2013 and December 31, 2012, with a weighted average interest rate of 0.67% at both dates.

NOTE 11 — RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to unrelated third parties. As of June 30, 2013 and December 31, 2012, these loan balances amounted to $8.0 million and $6.1 million, respectively. The activity and balance of these loans for the quarters and six-month periods ended June 30, 2013 and 2012 were as follows:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Balance at the beginning of period	$ 8,688	$ 5,238	$ 6,055	$ 3,772
New loans	-	-	4,234	1,505
Repayments	(657)	(180)	(2,026)	(219)
Credits of persons no longer considered related parties	-	-	(232)	-
Balance at the end of period	**$ 8,031**	**$ 5,058**	**$ 8,031**	**$ 5,058**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12 — INCOME TAXES

On June 30, 2013 the Governor signed Act No. 40 known as “Ley de Redistribución y Ajuste de la Carga Contributiva” (Act of Redistribution and Adjustment of Tax Burden). This Act, along with others signed by the Governor, comprises the budget of the Commonwealth of Puerto Rico for 2013-2014. The main purpose of the Act is to increase government collections in order to alleviate the structural deficit. The most relevant provisions of the Act, as applicable to the Company, and effective for taxable years beginning after December 31,2012 are as follows: (1) the maximum Corporate Income Tax rate was increased from 30% to 39%; (2) the allowance deduction for determining the income subject to surtax was reduced from $750,000 to $75,000 (which must be allocated among the members of a controlled group of corporations; (3) the allowable Net Operating Loss (“NOL”) deduction was reduced to (i) 90% of the corporation’s net income subject to regular tax, for purposes of computing the regular income tax and (ii) 80% of the alternative minimum taxable income for purposes of computing the alternative minimum tax (“AMT”); (4) the NOL carryover period was extended from 10 to 12 years for NOLs incurred after December 31, 2012; (5) a new special tax based on gross income (the “Special Tax”) was added to the Puerto Rico Internal Revenue Code of 2011, as further described below; and (6) a special tax of 1% on insurance premiums earned after June 30, 2013.

In the case of non-financial institutions, the Special Tax is paid as part of the AMT and thus is accounted for under the provisions of ASC 740. The applicable rate for non-financial institutions increases gradually from 0.2% for gross income in excess of $1.0 million up to 0.85% for gross income in excess of $1.5 billion. In the case of a controlled group of corporations, the tax rate for all members of the group is determined by the aggregate gross income of all members in the group. In the case of financial institutions, the Special Tax is not part of the AMT calculation thus is accounted for as other tax not subject to the provisions of ASC 740 since the same is based on gross income. The applicable rate for financial institutions is 1%, of which fifty percent (50%) may be claimed as a credit against the financial institution’s applicable income tax.

At June 30, 2013 and December 31, 2012, the Company’s net deferred tax asset amounted to $155.2 million and $122.5 million, respectively. Income tax benefit for the quarter and six-month periods ended June 30, 2013 totaled $31.9 million and $24.8 million, respectively. The benefit of both periods is related to the positive effect on the deferred tax asset of the increase in the enacted tax rate from 30% to 39%. Income tax expense for the quarter and six-month period ended June 30, 2012 totaled $1.1 million and $3.0 million, respectively.

At June 30, 2013 and December 31, 2012, OIB had $415 thousand and $504 thousand, respectively, in the income tax effect of unrecognized gain on available-for-sale securities included in other comprehensive income. Following the change in OIB’s applicable tax rate from 5% to 0% as a result of a Puerto Rico law adopted in 2011, this remaining tax balance will flow through income as these securities are repaid or sold in future periods. During the quarters ended June 30, 2013 and 2012, $43 thousand and $166 thousand, respectively, related to this residual tax effect from OIB was reclassified from accumulated other comprehensive income into income tax provision. During the six-month periods ended June 30, 2013 and 2012, $89 thousand and $724 thousand, respectively, related to this residual effect

from OIB was reclassified from accumulated other comprehensive income to income tax provision.

The Company maintained an effective tax rate for the six-month period ended June 30, 2013 lower than the new maximum marginal statutory rate of 39.00%. The reconciliation of the enacted tax rate and the effective income tax rate for the six-month period ended June 30, 2013 follows:

	Six-Month Period Ended June 30, 2013		
	Amount		Rate
	(Dollars in thousands)		
Tax at statutory rates	$	13,230	39.00%
Tax effect of exempt income, net		(3,607)	-10.63%
Effect in deferred taxes due to increase in tax rates from 30.00% to 39.00%		(36,928)	-108.85%
Other items, net		2,497	7.35%
Income tax benefit	**$**	**(24,808)**	**-73.13%**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company classifies unrecognized tax benefits in income taxes payable. These gross unrecognized tax benefits would affect the effective tax rate if realized. The balance of unrecognized tax benefits at June 30, 2013 was $5.6 million (December 31, 2012 - $5.3 million). The Company had accrued $1.7 million at June 30, 2013 (December 31, 2012 - $1.4 million) for the payment of interest and penalties relating to unrecognized tax benefits. As part of the BBVAPR Acquisition, there are unrecognized tax benefits amounting to $3.9 million at June 30, 2013 and December 31, 2012. There is also $812 thousand (December 31, 2012 - $665 thousand) in accrued payment of interest and penalties relating to unrecognized tax benefits.

NOTE 13 — STOCKHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE

Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and Puerto Rico banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Pursuant to the Dodd-Frank Act, federal banking regulators have adopted new capital rules that are scheduled to become effective January 1, 2015 (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.

Quantitative measures established by regulation to ensure capital adequacy currently require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average assets (as defined in the regulations). As of June 30, 2013 and December 31, 2012, the Company and the Bank met all capital adequacy requirements to which they are subject. As of June 30, 2013 and December 31, 2012, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's and the Bank's actual capital amounts and ratios as of June 30, 2013 and December 31, 2012 are as follows:

	Actual		Minimum Capital Requirement	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Company Ratios				
As of June 30, 2013				
Total capital to risk-weighted assets	$ 807,190	**15.83%**	$ 407,818	**8.00%**
Tier 1 capital to risk-weighted assets	$ 702,801	**13.79%**	$ 203,909	**4.00%**
Tier 1 capital to total assets	$ 702,801	**8.54%**	$ 329,223	**4.00%**
As of December 31, 2012				
Total capital to risk-weighted assets	$ 794,195	**15.15%**	$ 419,269	**8.00%**
Tier 1 capital to risk-weighted assets	$ 678,127	**12.94%**	$ 209,634	**4.00%**
Tier 1 capital to total assets	$ 678,127	**6.42%**	$ 422,307	**4.00%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Bank Ratios						
As of June 30, 2013						
Total capital to risk-weighted assets	$ 743,653	**15.01%**	$ 396,291	**8.00%**	$ 495,363	**10.00%**
Tier 1 capital to risk-weighted assets	$ 641,043	**12.94%**	$ 198,145	**4.00%**	$ 297,218	**6.00%**
Tier 1 capital to total assets	$ 641,043	**7.84%**	$ 327,058	**4.00%**	$ 408,823	**5.00%**
As of December 31, 2012						
Total capital to risk-weighted assets	$ 719,675	**14.03%**	$ 410,268	**8.00%**	$ 512,835	**10.00%**
Tier 1 capital to risk-weighted assets	$ 604,997	**11.80%**	$ 205,134	**4.00%**	$ 307,701	**6.00%**
Tier 1 capital to total assets	$ 604,997	**5.76%**	$ 420,298	**4.00%**	$ 525,373	**5.00%**

Additional paid-in capital

Additional paid-in capital represents contributed capital in excess of par value of common and preferred stock net of costs of the issuance. As of June 30, 2013, accumulated issuance costs charged against additional paid in capital amounted to $10.1 million and $13.6 million for preferred and common stock, respectively.

Legal Surplus

The Puerto Rico Banking Act requires that a minimum of 10% of the Bank's net income for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid in capital on common and preferred stock. At June 30, 2013 and December 31, 2012, the Bank's legal surplus amounted to $57.9 million and $52.1 million, respectively. The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Earnings per Common Share

The calculation of earnings per common share for the quarters and six-month periods ended June 30, 2013 and 2012 is as follows:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Net income	$ 37,539	$ 14,958	$ 58,731	$ 25,610
Less: Dividends on preferred stock				
Non-Convertible Preferred Stock (Series A, B, and D)	(1,629)	(1,201)	(3,256)	(2,401)
Convertible preferred stock (Series C)	(1,837)	-	(3,675)	-
Income available to common shareholders	$ **34,073**	**$ 13,757**	**$ 51,800**	**$ 23,209**
Effect of assumed conversion of the Convertible Preferred Stock	1,837	**-**	3,675	**-**
Income available to common shareholders assuming conversion	$ **35,910**	$ **13,757**	$ **55,475**	$ **23,209**
Weighted average common shares and share equivalents:				
Average common shares outstanding	45,630	40,703	45,613	40,873
Effect of dilutive securities:				
Average potential common shares-options	200	105	178	113
Average potential common shares-assuming conversion of convertible preferred stock	7,138	**-**	7,138	-
Total weighted average common shares outstanding and equivalents	**52,968**	**40,808**	**52,929**	**40,986**
Earnings per common share - basic	**$ 0.75**	**$ 0.34**	**$ 1.14**	**$ 0.57**
Earnings per common share - diluted	**$ 0.68**	**$ 0.34**	**$ 1.05**	**$ 0.57**

In computing diluted earnings per common share, the 84,000 shares of convertible preferred stock, which remained outstanding at June 30, 2013, with a conversion rate, subject to certain conditions, of 84.9798 shares of common stock per share, were included as average potential common shares from the date they were issued and outstanding. Moreover, in computing diluted earnings per common share, the dividends declared during the quarter and six-month period ended June 30, 2013 on the convertible preferred stock were added back as income available to common shareholders.

For the quarters ended June 30, 2013 and 2012, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 243,721 and 708,976, respectively. For the six-month periods ended June 30, 2013 and 2012, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 578,393 and 707,143, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Treasury Stock

Repurchased common stock is 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.

The activity in connection with common shares held in treasury by the Company for the six-month periods ended June 30, 2013 and 2012 is set forth below:

	Six-Month Period Ended June 30,			
	2013		2012	
	Shares	Dollar Amount	Shares	Dollar Amount
	(In thousands, except shares data)			
Beginning of period	7,090,597	$ 81,275	6,564,124	$ 74,808
Common shares used upon lapse of restricted stock units	(34,800)	(364)	(37,446)	(392)
Common shares repurchased as part of the stock repurchase program	-	-	603,000	7,022
Common shares used to match defined contribution plan, net	(7,318)	(77)	(18,898)	(35)
End of period	**7,048,479**	**$ 80,834**	**7,110,780**	**$ 81,403**

Accumulated Other Comprehensive Income

Accumulated other comprehensive income, net of income tax, as of June 30, 2013 and December 31, 2012 consisted of:

	June 30, 2013	December 31, 2012
	(In thousands)	
Unrealized gain on securities available-for-sale which are not	$ 28,779	$ 75,347

other-than-temporarily impaired				
Income tax effect of unrealized gain on securities available-for-sale		(3,379)		(7,102)
Net unrealized gain on securities available-for-sale which are not other-than-temporarily impaired		25,400		68,245
Unrealized loss on cash flow hedges		(13,187)		(17,664)
Income tax effect of unrealized loss on cash flow hedges		3,553		5,299
Net unrealized loss on cash flow hedges		(9,634)		(12,365)
	$	**15,766**	**$**	**55,880**

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Explanation of Responses:

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents changes in accumulated other comprehensive income by component, net of taxes, for the quarter and the six-month period ended June 30, 2013:

	Quarter Ended June 30, 2013			Six-Month Period Ended June 30, 2013		
	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive income	Net unrealized gains on securities available-for-sale	Net unrealized loss on cash flow hedges	Accumulated other comprehensive income
	(In thousands)			(In thousands)		
Beginning balance	$ 58,393	$ (11,342)	$ 47,051	$ 68,245	$ (12,365)	$ 55,880
Other comprehensive income before reclassifications	(33,036)	292	(32,744)	(42,934)	(21)	(42,955)
Amounts reclassified out of accumulated other comprehensive income	43	1,416	1,459	89	2,752	2,841
Other comprehensive income (loss)	(32,993)	1,708	(31,285)	(42,845)	2,731	(40,114)
Ending balance	**$ 25,400**	**$ (9,634)**	**$ 15,766**	**$ 25,400**	**$ (9,634)**	**$ 15,766**

The following table presents reclassifications out of accumulated other comprehensive income for the quarter and six-month period ended June 30, 2013:

	Quarter Ended June 30, 2013 (In thousands)	Six-Month Period Ended June 30, 2013 (In thousands)	Affected Line Item in Consolidated Statement of Operations
Cash flow hedges:			
Interest-rate contracts	$ 1,416	$ 2,752	Net interest expense
Available-for-sale securities:			

Residual tax effect from OIB's change in applicable tax rate	43	89	Income tax expense
	$ 1,459	**$ 2,841**	

At June 30, 2013 and December 31, 2012, OIB had $415 thousand and $504 thousand, respectively, in the income tax effect of unrecognized gain on available-for-sale securities included in other comprehensive income. Following the change in OIB’s applicable tax rate from 5% to 0% as a result of a new Puerto Rico law adopted in 2011, this remaining tax balance will flow through income as these securities are repaid or sold in future periods.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 14 — COMMITMENTS

Loan Commitments

In the normal course of business, the Company becomes a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby and commercial letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the unaudited consolidated statements of financial condition. The contract or notional amount of those instruments reflects the extent of the Company's involvement in particular types of financial instruments.

The Company's exposure to credit losses in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit, including commitments under credit card arrangements, and commercial letters of credit is represented by the contractual notional amount of those instruments, which do not necessarily represent the amounts potentially subject to risk. In addition, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are identified. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Summarized credit-related financial instruments at June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Commitments to extend credit	$ 445,411	$ 591,679
Commercial letters of credit	2,231	2,918

Commitments from loans acquired as part of the BBVAPR Acquisition amounted to $337.1 million and $461.6 million at June 30, 2013 and December 31, 2012, respectively. Commitments to extend credit represent agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon the extension of credit, is based on management's credit evaluation of the counterparty.

At June 30, 2013 and December 31, 2012, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused

commitments does not necessarily represent future cash requirements. These lines of credit had a reserve of $900 thousand at both June 30, 2013 and December 31, 2012.

Commercial letters of credit are issued or confirmed to guarantee payment of customers' payables or receivables in short-term international trade transactions. Generally, drafts will be drawn when the underlying transaction is consummated as intended. However, the short-term nature of this instrument serves to mitigate the risk associated with these contracts.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others, at June 30, 2013 and December 31, 2012, is as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Standby letters of credit and financial guarantees	$ 67,087	$ 69,789
Loans sold with recourse	184,937	172,492
Commitments to sell or securitize mortgage loans	10,977	83,663

Standby letters of credit and financial guarantees are written conditional commitments issued by the Company to guarantee the payment and/or performance of a customer to a third party ("beneficiary"). If the customer fails to comply with the agreement, the beneficiary may draw on the standby letter of credit or financial guarantee as a remedy. The amount of credit risk involved in issuing letters of credit in the event of nonperformance is the face amount of the letter of credit or financial guarantee. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. The Company does not expect any significant losses under these obligations. As of June 30, 2013 and December 31, 2012, no performance was required on any financial guarantees. As part of the BBVAPR Acquisition, the Company assumed $65.9 million of standby letters of credit and $169.3 million of loans sold without recourse commitments at December 31, 2012.

Lease Commitments

The Company has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the quarters ended June 30, 2013 and 2012 amounted to $2.6 million and $1.6 million, respectively, and is included in the "occupancy and equipment" caption in the unaudited consolidated statements of operations. For the six-month periods ended June 30, 2013 and 2012, rent expense amounted to $5.2 million and $3.3 million, respectively. Future rental commitments under leases in effect at June 30, 2013, exclusive of taxes, insurance, and maintenance expenses payable by the Company, are summarized as follows:

Year Ending June 30,	Minimum Rent (In thousands)

2013	$	5,332
2014		8,402
2015		8,116
2016		7,492
2017		7,965
Thereafter		24,755
	$	**62,062**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 15 — CONTINGENCIES

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to their business. In the ordinary course of business, the Company and its subsidiaries are also subject to governmental and regulatory examinations. Certain subsidiaries of the Company, including the Bank (and its subsidiary OIB), Oriental Financial Services, OFS Securities and Oriental Insurance, are subject to regulation by various U.S., Puerto Rico and other regulators.

The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interests of the Company and its shareholders, and contests allegations of liability or wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.

Subject to the accounting and disclosure framework under the provisions of ASC 450, it is the opinion of the Company’s management, based on current knowledge and after taking into account its current legal accruals, that the eventual outcome of all matters would not be likely to have a material adverse effect on the unaudited consolidated statements of financial condition of the Company. Nonetheless, given the substantial or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of such matters, an adverse outcome in certain of these matters could, from time to time, have a material adverse effect on the Company’s unaudited consolidated results of operations or cash flows in particular quarterly or annual periods. The Company has evaluated all litigation and regulatory matters where the likelihood of a potential loss is deemed reasonably possible. The Company has determined that the estimate of the reasonably possible loss is not significant.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the fair value measurement framework under GAAP.

Fair Value Measurement

The fair value measurement framework defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This framework also establishes a fair value

hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs previously described that may be used to measure fair value.

Money market investments

The fair value of money market investments is based on the carrying amounts reflected in the unaudited consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

Investment securities

The fair value of investment securities is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument. The Company holds two securities categorized as other debt that are classified as Level 3. The estimated fair value of the other debt securities is determined by using a third-party model to calculate the present value of projected future cash flows. The assumptions are highly uncertain and include primarily market discount rates, current spreads, and an indicative pricing. The assumptions used are drawn from similar securities that are actively traded in the market and have similar characteristics as the collateral underlying the debt securities being evaluated. The valuation is performed on a monthly basis.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivative instruments

The fair value of the interest rate swaps is largely a function of the financial market's expectations regarding the future direction of interest rates. Accordingly, current market values are not necessarily indicative of the future impact of derivative instruments on earnings. This will depend, for the most part, on the shape of the yield curve, the level of interest rates, as well as the expectations for rates in the future. The fair value of most of these derivative instruments is based on observable market parameters, which include discounting the instruments' cash flows using the U.S. dollar LIBOR-based discount rates, and also applying yield curves that account for the industry sector and the credit rating of the counterparty and/or the Company.

Certain other derivative instruments with limited market activity are valued using externally developed models that consider unobservable market parameters. Based on their valuation methodology, derivative instruments are classified as Level 2 or Level 3. The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P Index and uses equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value is obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which are uncertain and require a degree of judgment, include primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage.

Servicing assets

Servicing assets do not trade in an active market with readily observable prices. Servicing assets are priced using a discounted cash flow model. The valuation model considers servicing fees, portfolio characteristics, prepayment assumptions, delinquency rates, late charges, other ancillary revenues, cost to service and other economic factors. Due to the unobservable nature of certain valuation inputs, the servicing rights are classified as Level 3.

Loans receivable considered impaired that are collateral dependent

The impairment is measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC 310-10-35. Currently, the associated loans considered impaired are classified as Level 3.

Foreclosed real estate

Foreclosed real estate includes real estate properties securing residential mortgage and commercial loans. The fair value of foreclosed real estate may be determined using an external appraisal, broker price option or an internal valuation. These foreclosed assets are classified as Level 3 given certain internal adjustments that may be made to external appraisals.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Assets and liabilities measured at fair value on a recurring and non-recurring basis, including financial liabilities for which the Company has elected the fair value option, are summarized below:

	June 30, 2013 Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In thousands)		
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 1,816,172	$ 20,057	$ 1,836,229
Money market investments	10,983	-	-	10,983
Derivative assets	-	3,635	16,020	19,655
Servicing assets	-	-	12,994	12,994
Derivative liabilities	-	(16,701)	(15,315)	(32,016)
	$ 10,983	**$ 1,803,106**	**$ 33,756**	**$ 1,847,845**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 43,831	$ 43,831
Foreclosed real estate	-	-	81,689	81,689
	$ -	**$ -**	**$ 125,520**	**$ 125,520**

	December 31, 2012 Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In thousands)		
Recurring fair value measurements:				
Investment securities available-for-sale	$ -	$ 2,174,274	$ 20,012	$ 2,194,286
Securities purchased under agreements to resell	-	80,000	-	80,000
Money market investments	13,205	-	-	13,205
Derivative assets	-	8,656	13,233	21,889
Servicing assets	-	-	10,795	10,795
Derivative liabilities	-	(26,260)	(12,707)	(38,967)
	$ 13,205	**$ 2,236,670**	**$ 31,333**	**$ 2,281,208**
Non-recurring fair value measurements:				
Impaired commercial loans	$ -	$ -	$ 46,199	$ 46,199
Foreclosed real estate	-	-	75,447	75,447
	$ -	**$ -**	**$ 121,646**	**$ 121,646**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters and the six-month periods ended June 30, 2013 and 2012:

	Quarter Ended June 30, 2013				
Level 3 Instruments Only	**Other debt securities available-for-sale**	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
Balance at beginning of period	$ 20,042	$ 15,404	$ 11,543	$ (14,839)	$ 32,150
Gains (losses) included in earnings	-	616	-	(516)	100
Changes in fair value of investment securities available for sale included in other comprehensive income	16	-	-	-	16
New instruments acquired	-	-	1,301	-	1,301
Principal repayments	-	-	(489)	-	(489)
Amortization	-	-	-	40	40
Changes in fair value of servicing assets	-	-	639	-	639
Balance at end of period	**$ 20,058**	**$ 16,020**	**$ 12,994**	**$ (15,315)**	**$ 33,757**

	Quarter Ended June 30, 2012					
	Investment securities available-for-sale					
Level 3 Instruments Only	**CLOs**	**Other debt securities**	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
	$ 29,643	$ 9,882	$ 12,515	$ 10,725	$ (12,138)	$ 50,627

Balance at beginning of period						
Gains (losses) included in earnings	-	-	(1,148)	-	1,119	(29)
Changes in fair value of investment securities available for sale included in other comprehensive income	(2,381)	134	-	-	-	(2,247)
New instruments acquired	-	-	-	499	-	499
Principal repayments	18	-	-	(241)	-	(223)
Amortization	-	-	-	-	107	107
Changes in fair value of servicing assets	-	-	-	(207)	-	(207)
Balance at end of period	$ **27,280**	$ **10,016**	$ **11,367**	$ **10,776**	$ **(10,912)**	$ **48,527**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2013				
Level 3 Instruments Only	**Other debt securities available-for-sale**	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
Balance at beginning of period	$ 20,012	$ 13,233	$ 10,795	$ (12,707)	$ 31,333
Gains (losses) included in earnings	-	2,787	-	(2,923)	(136)
Changes in fair value of investment securities available for sale included in other comprehensive income	46	-	-	-	46
New instruments acquired	-	-	1,994	-	1,994
Principal repayments	-	-	(557)	-	(557)
Amortization	-	-	-	315	315
Changes in fair value of servicing assets	-	-	762	-	762
Balance at end of period	**$ 20,058**	**$ 16,020**	**$ 12,994**	**$ (15,315)**	**$ 33,757**

	Six-Month Period Ended June 30, 2012						
	Investment securities available-for-sale						
Level 3 Instruments Only	**CDOs**	**CLOs**	**Other debt securities**	**Derivative asset (S&P Purchased Options)**	**Servicing assets**	**Derivative liability (S&P Embedded Options)**	**Total**
	(In thousands)						
Balance at beginning of period	$ 10,530	$ 26,758	$ 10,024	$ 9,317	$ 10,454	$ (9,362)	$ 57,721
Gains (losses) included in earnings	-	-	-	2,050	-	(2,035)	15

Changes in fair value of investment securities available for sale included in other comprehensive income	-	488	(7)	-	-	-	481
New instruments acquired	-	-	-	-	919	-	919
Principal repayments	-	34	-	-	(476)	-	(442)
Amortization	-	-	(1)	-	-	485	484
Sales of instruments	(10,530)	-	-	-	-	-	(10,530)
Changes in fair value of servicing assets	-	-	-	-	(121)	-	(121)
Balance at end of period	$ **-**	$ **27,280**	$ **10,016**	$ **11,367**	$ **10,776**	$ **(10,912)**	$ **48,527**

During the quarters and the six-month periods ended June 30, 2013 and 2012, there were purchases and sales of assets and liabilities measured at fair value on a recurring basis. There were no transfers into and out of Level 1 and Level 2 fair value measurements during such periods.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents quantitative information for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2013:

	June 30, 2013				
		Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range
Investment securities available-for-sale:					
Other debt securities	$	20,058	Market comparable bonds	Indicative pricing	97.50% - 100.50%
				Option adjusted spread	289.1% - 469.2%
				Yield to maturity	3.060% - 5.101%
				Spread to maturity	288.7% - 470.2%
Derivative assets (S&P Purchased Options)	$	16,020	Option pricing model	Implied option volatility	24.82% - 39.16%
				Counterparty credit risk (based on 5-year credit default swap ("CDS") spread)	100.28% - 174.12%
Servicing assets	$	12,994	Cash flow valuation	Constant prepayment rate	8.41% - 26.96%
				Discount rate	10.50% - 13.50%
Derivative liability (S&P	$	(15,315)	Option pricing model	Implied option volatility	24.82% - 39.16%

Embedded Options)					
				Counterparty credit risk (based on 5-year CDS spread)	100.28% - 174.12%
Collateral dependant			Fair value of property		
impaired loans	$	43,831	or collateral	Appraised value	Not meaningful

Information about Sensitivity to Changes in Significant Unobservable Inputs

Other debt securities – The significant unobservable inputs used in the fair value measurement of one of the Company's other debt securities are indicative comparable pricing, option adjusted spread ("OAS"), yield to maturity, and spread to maturity. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for indicative comparable pricing is accompanied by a directionally opposite change in the assumption used for OAS and a directionally, although not equally proportional, opposite change in the assumptions used for yield to maturity and spread to maturity.

Derivative asset (S&P Purchased Options) – The significant unobservable inputs used in the fair value measurement of Company's derivative assets related to S&P purchased options are implied option volatility and counterparty credit risk. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for implied option volatility is not necessarily accompanied by directionally similar or opposite changes in the assumption used for counterparty credit risk.

Servicing assets – The significant unobservable inputs used in the fair value measurement of the Company's servicing assets are constant prepayment rates and discount rates. Changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or offset the sensitivities. Mortgage banking activities, a component of total banking and financial service revenue in the unaudited consolidated statements of operations, include the changes from period to period in the fair value of the mortgage loan servicing rights, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, including changes due to collection/realization of expected cash flows.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivative liability (S&P Embedded Options) – The significant unobservable inputs used in the fair value measurement of the Company's derivative liability related to S&P purchased options are implied option volatility and counterparty credit risk. Significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. Generally, a change in the assumption used for implied option volatility is not necessarily accompanied by directionally similar or opposite changes in the assumption used for counterparty credit risk.

The table below presents a detail of investment securities available-for-sale classified as Level 3 at June 30, 2013:

	June 30, 2013				
Type	**Amortized Cost**	**Unrealized Gains (Losses)**	**Fair Value**	**Weighted Average Yield**	**Principal Protection**
	(In thousands)				
Other debt securities	**$ 20,000**	**$ 58**	**$ 20,058**	**3.50%**	N/A

Fair Value of Financial Instruments

The information about the estimated fair value of financial instruments required by GAAP is presented hereunder. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Company.

The estimated fair value is subjective in nature, involves uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could affect these fair value estimates. The fair value estimates do not take into consideration the value of future business and the value of assets and liabilities that are not financial instruments. Other significant tangible and intangible assets that are not considered financial instruments are the value of long-term customer relationships of retail deposits, and premises and equipment.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The estimated fair value and carrying value of the Company's financial instruments at June 30, 2013 and December 31, 2012 is as follows:

	June 30, 2013		December 31, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
		(In thousands)		
Level 1				
Financial Assets:				
Cash and cash equivalents	$ 748,313	$ 748,313	$ 868,695	$ 868,695
Level 2				
Financial Assets:				
Securities purchased under agreements to resell	-	-	80,000	80,000
Securities sold but not yet delivered	16,732	16,732	-	-
Trading securities	2,209	2,209	495	495
Investment securities available-for-sale	1,816,171	1,816,171	2,174,274	2,174,274
Federal Home Loan Bank (FHLB) stock	22,156	22,156	38,411	38,411
Derivative assets	3,635	3,635	8,656	8,656
Financial Liabilities:				
Derivative liabilities	16,701	16,701	26,260	26,260
Short term borrowings	-	-	92,210	92,210
Level 3				
Financial Assets:				
Investment securities available-for-sale	20,058	20,058	20,012	20,012
Total loans (including loans held-for-sale)				
Non-covered loans, net	4,600,628	4,621,649	4,766,179	4,773,923
Covered loans, net	449,113	369,380	489,885	395,307
Derivative assets	16,020	16,020	13,233	13,233
FDIC shared-loss indemnification asset	173,442	236,472	204,646	286,799
Accrued interest receivable	17,508	17,508	17,554	17,554
Servicing assets	12,994	12,994	10,795	10,795
Financial Liabilities:				
Deposits	5,688,574	5,665,038	5,797,097	5,689,559
	1,353,970	1,313,870	1,741,272	1,695,247

Securities sold under agreements to repurchase				
Advances from FHLB	283,443	285,135	538,355	536,542
Federal funds purchased	29,431	29,431	9,901	9,901
Term notes	7,710	7,734	7,912	7,734
Subordinated capital notes	98,008	98,961	146,415	146,038
Accrued expenses and other liabilities	117,569	117,569	102,169	102,169

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following methods and assumptions were used to estimate the fair values of significant financial instruments at June 30, 2013 and December 31, 2012:

- Cash and cash equivalents (including money market investments and time deposits with other banks), accrued interest receivable, securities purchased under agreements to resell, securities sold but not yet delivered, accrued expenses and other liabilities have been valued at the carrying amounts reflected in the unaudited consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

- Investments in FHLB stock are valued at their redemption value.

- The fair value of investment securities, including trading securities, is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument. The estimated fair value of the structured credit investments is determined by using a third-party cash flow valuation model to calculate the present value of projected future cash flows. The assumptions used which are highly uncertain and require a high degree of judgment, include primarily market discount rates, current spreads, duration, leverage, default, home price depreciation, and loss rates. The assumptions used are drawn from a wide array of data sources, including the performance of the collateral underlying each deal. The external-based valuation, which is obtained at least on a quarterly basis, is analyzed and its assumptions are evaluated and incorporated in either an internal-based valuation model when deemed necessary, or compared to counterparties' prices and agreed by management.

- The fair value of the FDIC shared-loss indemnification asset represents the present value of the estimated cash payments (net of amounts owed to the FDIC) expected to be received from the FDIC for future losses on covered assets based on the credit assumptions on estimated cash flows for each covered asset pool and the loss sharing percentages. The ultimate collectability of the FDIC shared-loss indemnification asset is dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC which are impacted by the Bank's adherence to certain guidelines established by the FDIC.

- The fair value of servicing assets is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions.

- The fair values of the derivative instruments are provided by valuation experts and counterparties. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters. The Company has offered its customers certificates of deposit with an option tied to the performance of the S&P Index, and uses equity indexed option agreements with major broker-dealers to manage its exposure to changes in this index. Their fair value is obtained through the use of an external based valuation that was thoroughly evaluated and adopted by management as its measurement tool for these options. The payoff of these options is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions, which are uncertain and require a degree of judgment, include primarily S&P Index volatility, forward interest rate projections, estimated index dividend payout, and leverage.

- Fair value of derivative liabilities, which include interest rate swaps and forward-settlement swaps, are based on the net discounted value of the contractual projected cash flows of both the pay-fixed receive-variable legs of the contracts. The projected cash flows are based on the forward yield curve, and discounted using current estimated market rates.

- The fair value of the covered and non-covered loan portfolio (including loans held-for-sale) is estimated by segregating by type, such as mortgage, commercial, consumer, and leasing. Each loan segment is further segmented into fixed and adjustable interest rates and by performing and non-performing categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for prepayment estimates (voluntary and involuntary), if any, using estimated current market discount rates that reflect the credit and interest rate risk inherent in the loan. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate.

- The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is based on the discounted value of the contractual cash flows, using estimated current market discount rates for deposits of similar remaining maturities.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- For short term borrowings and federal funds purchased, the carrying amount is considered a reasonable estimate of fair value. The fair value of long-term borrowings, which include securities sold under agreements to repurchase, advances from FHLB, FDIC-guaranteed term notes, other term notes, and subordinated capital notes, is based on the discounted value of the contractual cash flows using current estimated market discount rates for borrowings with similar terms, remaining maturities and put dates.

- The fair value of commitments to extend credit and unused lines of credit is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

NOTE 17 — OFFSETTING ARRANGEMENTS

The Company manages credit and counterparty risk by entering into enforceable netting agreements and other collateral arrangements with counterparties to derivative financial instruments and secured financing transactions, including resale and repurchase agreements, and principal securities borrowing and lending agreements. These netting agreements mitigate counterparty credit risk by providing for a single net settlement with a counterparty of all financial transactions covered by the agreement in an event of default as defined under such agreement. In limited cases, a netting agreement may also provide for the periodic netting of settlement payments with respect to multiple different transaction types in the normal course of business.

Certain of the Company derivative contracts are executed under either standardized netting agreements or, for exchange-traded derivatives, the relevant contracts for a particular exchange which contain enforceable netting provisions. In certain cases, the Company may have cross-product netting arrangements which allow for netting and set-off of a variety of types of derivatives with a single counterparty. A derivative netting arrangement creates an enforceable right of set-off that becomes effective, and affects the realization or settlement of individual financial assets and liabilities, only following a specified event of default. Collateral requirements associated with the derivative contracts are determined after a review of the creditworthiness of each counterparty, and the requirements are monitored and adjusted daily, typically based on net exposure by counterparty. Collateral is generally in the form of cash or highly liquid U.S. government securities.

In connection with the Company's secured financing activities, the Company enters into netting agreements and other collateral arrangements with counterparties, which provide for the right to liquidate collateral upon an event of default. Required collateral is generally in the form of cash, equities or fixed-income securities. Default events may include the failure to timely make payments or deliver securities, material adverse changes in financial condition or insolvency, the breach of minimum regulatory capital requirements, or loss of license, charter or other legal authorization necessary to perform under the contract.

In order for an arrangement to be eligible for netting, the Company must have a basis to conclude that such netting arrangements are legally enforceable. The analysis of the legal enforceability of an arrangement differs by jurisdiction, depending on the laws of that jurisdiction. In many jurisdictions, specific legislation exists that provides for the enforceability in bankruptcy of close-out netting under a netting agreement, typically by way of specific exception from more general prohibitions on the exercise of creditor rights.

Even though the Company has enforceable netting arrangements, they do not meet the applicable offsetting criteria, and therefore are not offset in the unaudited consolidated statements of financial condition. In addition, the Company does not offset secured financing assets and liabilities.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents derivative financial instruments and secured financing transactions that are subject to enforceable netting arrangements, but do not meet the applicable offsetting criteria and therefore were not offset in our unaudited consolidated statements of financial condition, as of the dates indicated:

	June 30, 2013			
	Net amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)			
Derivatives	$ 19,655	$ -	$ -	$ 19,655
Total	**$ 19,655**	**$ -**	**$ -**	**$ 19,655**

	December 31, 2012			
	Net amount of Assets Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
	(In thousands)			
Derivatives	$ 21,889	$ -	$ -	$ 21,889
Resale agreements and securities borrowings (1)	80,000	-	-	80,000
Total	**$ 101,889**	**$ -**	**$ -**	**$ 101,889**

(1) Excludes the impact of non-cash collateral. These secured financing transactions are fully collateralized.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents derivative financial instruments and secured financing transactions subject to enforceable netting arrangements that do not meet the applicable offsetting criteria and therefore were not offset in our unaudited consolidated statements of financial condition, as of the dates indicated:

	June 30, 2013						
	Net amount of Liabilities Presented in Statement of Financial Condition		Financial Instruments		Cash Collateral Provided		Net Amount
	(In thousands)						
Derivatives	$	19,534	$	-	$ -	$	19,534
Repurchase agreements and (1) securities lending		1,311,573		-	-		1,311,573
Total	**$**	**1,331,107**	**$**	**-**	**$ -**	**$**	**1,331,107**

	December 31, 2012						
	Net amount of Liabilities Presented in Statement of Financial Condition		Financial Instruments		Cash Collateral Provided		Net Amount
	(In thousands)						
Derivatives	$	21,302	$	-	$ -	$	21,302
Repurchase agreements and (1) securities lending		1,692,931		-	-		1,692,931
Total	**$**	**1,714,233**	**$**	**-**	**$ -**	**$**	**1,714,233**

(1) Excludes the impact of non-cash collateral. These secured financing transactions are fully collateralized.

NOTE 18 – BUSINESS SEGMENTS

The Company segregates its businesses into the following major reportable segments of business: Banking, Financial Services, 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. These factors are reviewed on a periodical basis and may change if the conditions warrant.

Banking includes the Bank's branches and traditional banking products such as deposits and commercial, consumer and mortgage loans. Mortgage banking activities are carried out by the Bank's mortgage banking division, whose principal activity is to originate mortgage loans for the Company's own portfolio. As part of its mortgage banking activities, the Company may sell loans directly into the secondary market or securitize conforming loans into mortgage-backed securities.

Financial Services is comprised of the Bank's trust division, Oriental Financial Services, OFS Securities, Oriental Insurance, and CPC. The core operations of this segment are financial planning, money management and investment banking, brokerage services, insurance sales activity, corporate and individual trust and retirement services, as well as pension plan administration services.

The Treasury segment encompasses all of the Company's asset/liability management activities, such as purchases and sales of investment securities, interest rate risk management, derivatives, and borrowings. Intersegment sales and transfers, if any, are accounted for as if the sales or transfers were to third parties, that is, at current market prices.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Following are the results of operations and the selected financial information by operating segment as of and for the quarters and the six-month periods ended June 30, 2013 and 2012:

	Quarter Ended June 30, 2013					
	Banking	Financial Services	Treasury	Total Major Segments	Eliminations	Consolidated Total
			(In thousands)			
Interest income	$ 115,047	$ 96	$ 10,665	$ 125,808	$ -	$ **125,808**
Interest expense	(10,272)	-	(10,167)	(20,439)	-	**(20,439)**
Net interest income	104,775	96	498	105,369	**-**	**105,369**
Provision for non-covered loan and lease losses	(37,527)	-	-	(37,527)	-	**(37,527)**
Provision for covered loan and lease losses	(1,211)	-	-	(1,211)	-	**(1,211)**
Non-interest income (loss)	(4,197)	8,100	3,893	7,796	-	**7,796**
Non-interest expenses	(57,918)	(6,650)	(4,254)	(68,822)	-	**(68,822)**
Intersegment revenue	579	-	-	579	(579)	-
Intersegment expenses	-	(485)	(94)	(579)	579	-
Income before income taxes	**$ 4,501**	**$ 1,061**	**$ 43**	**$ 5,605**	**$ -**	**$ 5,605**
Total assets	**$ 6,746,902**	**$ 39,960**	**$ 2,527,039**	**$ 9,313,901**	**$ (877,967)**	**$ 8,435,934**

	Quarter Ended June 30, 2012					
	Banking	Financial Services	Treasury	Total Major Segments	Eliminations	Consolidated Total
			(In thousands)			
Interest income	$ 37,565	$ -	$ 23,223	$ 60,788	$ -	$ **60,788**
Interest expense	(5,685)	-	(21,947)	(27,632)	-	**(27,632)**

Net interest income	31,880	-	1,276	33,156	**-**	**33,156**
Provision for non-covered loan and lease losses	(3,800)	-	-	(3,800)	-	**(3,800)**
Provision for covered loan and lease losses, net	(1,467)	-	-	(1,467)	-	**(1,467)**
Non-interest income	33	5,941	11,862	17,836	-	**17,836**
Non-interest expenses	(24,365)	(3,611)	(1,734)	(29,710)	-	**(29,710)**
Intersegment revenue	440	-	-	440	(440)	-
Intersegment expenses	-	(296)	(144)	(440)	440	-
Income before income taxes	**$ 2,721**	**$ 2,034**	**$ 11,260**	**$ 16,015**	**$ -**	**$ 16,015**
Total assets	**$ 3,116,655**	**$ 15,143**	**$ 3,951,720**	**$ 7,083,518**	**$ (707,240)**	**$ 6,376,278**

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Six-Month Period Ended June 30, 2013					
	Banking	Financial Services	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 216,571	$ 182	$ 22,683	$ 239,436	$ -	$ **239,436**
Interest expense	(21,417)	-	(20,068)	(41,485)	-	**(41,485)**
Net interest income	195,154	182	2,615	197,951	**-**	**197,951**
Provision for non-covered loan and lease losses	(45,443)	-	-	(45,443)	-	**(45,443)**
Provision for covered loan and lease losses, net	(1,883)	-	-	(1,883)	-	**(1,883)**
Non-interest income (loss)	(901)	15,801	4,030	18,930	-	**18,930**
Non-interest expenses	(115,834)	(12,777)	(7,020)	(135,631)	-	**(135,631)**
Intersegment revenue	(624)	-	-	(624)	624	-
Intersegment expenses	-	(786)	1,410	624	(624)	-
Income before income taxes	**$ 30,469**	**$ 2,420**	**$ 1,035**	**$ 33,924**	**$ -**	**$ 33,924**

	Six-Month Period Ended June 30, 2012					
	Banking	Financial Services	Treasury	Total Major Segments	Eliminations	Consolidated Total
	(In thousands)					
Interest income	$ 77,229	$ -	$ 53,479	$ 130,708	$ -	$ **130,708**
Interest expense	(12,094)	-	(46,472)	(58,566)	-	**(58,566)**
Net interest income	65,135	-	7,007	72,142	**-**	**72,142**
Provision for non-covered loan and lease losses	(6,800)	-	-	(6,800)	-	**(6,800)**
Provision for covered loan and lease losses, net	(8,624)	-	-	(8,624)	-	**(8,624)**
Non-interest income	701	11,731	18,563	30,995	-	**30,995**
Non-interest expenses	(46,952)	(8,500)	(3,657)	(59,109)	-	**(59,109)**
Intersegment revenue	844	-	-	844	(844)	-

Intersegment expenses		-	(605)	(239)	(844)	844	-
Income before income taxes	**$**	**4,304**	**$ 2,626**	**$ 21,674**	**$ 28,604**	**$ -**	**$ 28,604**

NOTE 19 – SUBSEQUENT EVENTS

On August 1, 2013, upon receipt of the required approval of the Financial Industry Authority, OFS Securities merged with and into Oriental Financial Services.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the Company's unaudited consolidated financial statements and related notes. This discussion and analysis contains forward-looking statements. Please see "Forward-Looking Statements" and the risk factors set forth in our 2012 Form 10-K for discussion of the uncertainties, risks and assumptions associated with these statements.

The Company is a publicly-owned financial holding company that provides a full range of banking and financial services through its subsidiaries, including commercial, consumer , auto and mortgage lending; checking and savings accounts; financial planning, insurance and securities brokerage services; and corporate and individual trust and retirement services. The Company operates through three major business segments: Banking, Financial Services, and Treasury, and distinguishes itself based on quality service. The Company has 56 branches in Puerto Rico and a subsidiary in Boca Raton, Florida. The Company's long-term goal is to strengthen its banking and financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, maintaining effective asset-liability management, growing non-interest revenue from banking and financial services, and improving operating efficiencies.

The Company's diversified mix of businesses and products generates both the interest income traditionally associated with a banking institution and non-interest income traditionally associated with a financial services institution (generated by such businesses as securities brokerage, fiduciary services, investment banking, insurance agency, and retirement plan administration). Although all of these businesses, to varying degrees, are affected by interest rate and financial market fluctuations and other external factors, the Company's commitment is to continue producing a balanced and growing revenue stream.

The BBVAPR Acquisition, the deleveraging of the Company's investment securities portfolio, and the continued organic growth of its banking operations have transformed the profitability of the Company in line with its strategic direction. The Company has begun to realize the anticipated benefits of the BBVAPR Acquisition as reflected by its significantly larger and higher yielding loan assets, a significantly larger deposit base and balances, and a sharply reduced size of its investment securities portfolio. It expects to continue to benefit from a more diverse business portfolio as well as increased scale and leadership in its market.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make a number of judgments, estimates and assumptions that affect the reported amount of

assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in “Note 1—Summary of Significant Accounting Policies” of our annual report on 2012 Form 10-K for the year ended December 31, 2012 (the “2012 Form 10-K”).

In the “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” section of our 2012 Form 10-K, we identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition:

- Business combination
- Allowance for loan and lease losses
- Financial instruments

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed its judgments and assumptions with the Audit and Compliance Committee of our Board of Directors. There have been no material changes in the methods used to formulate these critical accounting estimates from those discussed in our 2012 Form 10-K.

OVERVIEW OF FINANCIAL PERFORMANCE

SELECTED FINANCIAL DATA

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2013	**2012**	**Variance %**	**2013**	**2012**	**Variance %**
EARNINGS DATA:	(In thousands, except per share data)					
Interest income	$ 125,808	$ 60,788	107.0%	$ 239,436	$ 130,708	83.2%
Interest expense	20,439	27,632	-26.0%	41,485	58,566	-29.2%
Net interest income	**105,369**	**33,156**	**217.8%**	**197,951**	**72,142**	**174.4%**
Provision for non-covered loan and lease losses	37,527	3,800	887.6%	45,443	6,800	568.3%
Provision for covered loan and lease losses, net	1,211	1,467	-17.5%	1,883	8,624	-78.2%
Total provision for loan and lease losses, net	**38,738**	**5,267**	**635.5%**	**47,326**	**15,424**	**206.8%**
Net interest income after provision for loan and lease losses	**66,631**	**27,889**	**138.9%**	**150,625**	**56,718**	**165.6%**
Non-interest income	7,796	17,836	-56.3%	18,930	30,995	-38.9%
Non-interest expenses	68,822	29,710	131.6%	135,632	59,109	129.5%
Income before taxes	**5,605**	**16,015**	**-65.0%**	**33,923**	**28,604**	**18.6%**
Income tax expense (benefit)	(31,934)	1,057	-3121.2%	(24,808)	2,994	-928.6%
Net income	**37,539**	**14,958**	**151.0%**	**58,731**	**25,610**	**129.3%**
Less: dividends on preferred stock	(3,466)	(1,201)	153.0%	(6,931)	(2,401)	**-188.7%**
Income available to common	**$ 34,073**	**$ 13,757**	**147.7%**	**$ 51,800**	**$ 23,209**	**123.2%**

shareholders									
PER SHARE DATA:									
Basic	**$**	**0.75**	**$**	**0.34**	**120.9%**	**$**	**1.14**	**$**	**0.57**	**100.0%**
Diluted	**$**	**0.68**	**$**	**0.34**	**101.1%**	**$**	**1.05**	**$**	**0.57**	**84.8%**
Average common shares outstanding		**45,630**		**40,703**	**12.1%**		**45,613**		**40,873**	**11.6%**
Average common shares outstanding and equivalents		**52,968**		**40,808**	**29.8%**		**52,929**		**40,986**	**29.1%**
Cash dividends declared per common share	**$**	**0.06**	**$**	**0.06**	**20.0%**	**$**	**0.12**	**$**	**0.12**	**0.0%**
Cash dividends declared on common shares	**$**	**2,742**	**$**	**2,444**	**12.2%**	**$**	**5,479**	**$**	**4,887**	**12.1%**
PERFORMANCE RATIOS:										
Return on average assets (ROA)		**1.77%**		**0.91%**	**94.5%**		**1.36%**		**0.79%**	**72.2%**
Return on average common equity (ROE)		**18.56%**		**8.69%**	**113.6%**		**14.29%**		**7.38%**	**93.6%**
Equity-to-assets ratio		**10.34%**		**10.86%**	**-4.8%**		**10.34%**		**10.86%**	**-4.8%**
Efficiency ratio		**53.24%**		**66.55%**	**-20.0%**		**55.35%**		**62.16%**	**-10.9%**
Interest rate spread		**5.55%**		**2.24%**	**147.8%**		**5.11%**		**2.38%**	**114.7%**
Interest rate margin		**5.56%**		**2.29%**	**142.8%**		**5.13%**		**2.45%**	**109.4%**

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SELECTED FINANCIAL DATA - (Continued)

PERIOD END BALANCES AND CAPITAL RATIOS:		June 30, 2013		December 31, 2012	Variance %
		(In thousands, except per share data)			
Investments and loans					
Investments securities	$	1,860,660	$	2,233,265	-16.7%
Loans and leases not covered under shared-loss agreements with the FDIC, net		4,621,649		4,773,923	-3.2%
Loans and leases covered under shared-loss agreements with the FDIC, net		369,380		395,307	-6.6%
Securities sold but not yet delivered		16,732		-	100.0%
Total investments and loans	**$**	**6,868,421**	**$**	**7,402,495**	**-7.2%**
Deposits and borrowings					
Deposits	$	5,665,038	$	5,689,559	-0.4%
Securities sold under agreements to repurchase		1,313,870		1,695,247	-22.5%
Other borrowings		421,261		792,425	-46.8%
Total deposits and borrowings	**$**	**7,400,169**	**$**	**8,177,231**	**-9.5%**
Stockholders' equity					
Preferred stock	$	176,000	$	176,000	0.0%
Common stock		52,689		52,671	0.0%
Additional paid-in capital		538,105		537,453	0.1%
Legal surplus		57,906		52,143	11.1%
Retained earnings		111,292		70,734	57.3%
Treasury stock, at cost		(80,834)		(81,275)	0.5%
Accumulated other comprehensive income		15,766		55,880	-71.8%
Total stockholders' equity	**$**	**870,924**	**$**	**863,606**	**0.8%**
Per share data					
Book value per common share	**$**	**15.45**	**$**	**15.31**	**0.9%**
Tangible book value per common share	**$**	**13.49**	**$**	**13.31**	**1.4%**
Market price at end of period	**$**	**18.11**	**$**	**13.35**	**35.7%**
Capital ratios					
Leverage capital		**8.54%**		**6.42%**	**33.0%**
Tier 1 risk-based capital		**13.96%**		**12.94%**	**7.9%**
Total risk-based capital		**16.02%**		**15.15%**	**5.7%**
Tier 1 common equity to risk-weighted assets		**9.97%**		**9.11%**	**9.5%**
Financial assets managed					
Trust assets managed	$	2,638,787	$	2,514,401	4.9%
Broker-dealer assets gathered	$	2,822,395		2,722,196	3.7%

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Financial Highlights

Income available to common shareholders for the quarter and six-month period ended June 30, 2013, increased to $34.1 million and $51.8 million, or $0.68 and $1.05 per diluted share, respectively. The income available to common shareholders are a significant improvement over the $13.8 million and $23.2 million for the quarter and six-month period ended June 30, 2012, respectively.

Interest income from loans for the quarter and six-month period ended June 30, 2013, increased 205.1% and 178.5% when compared with the same periods in 2012, while net interest margin expanded to 5.56% from 2.29% in the second quarter of 2012, and to 5.13% for the six-month period ended June 30, 2013, from 2.45% for the same period in 2012.

During the quarter ended June 30, 2013, the Company’s return on assets was 1.77%, and its return on equity was 18.56%, all of which represent improvements from the second quarter of 2012. The Company improved its efficiency ratio, which decreased to 53.24% from 66.55% when compared with the same quarter in 2012. For the six-month period ended June 30, 2013, the Company’s return on assets was 1.36% and its return on equity was 14.29%, both of which also represent improvements from the same period in 2012. The efficiency ratio decreased to 55.35% from 62.16% when compared with the same period in 2012.

Operating revenues for the quarter ended June 30, 2013 increased 121.9%, or $62.2 million, to $113.2 million when compared to the same period in 2012. Operating revenues for the six-month period ended June 30, 2013 increased 110.3%, or $113.7 million, to $216.9 million when compared to the same period in 2012.

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
OPERATING REVENUE				
Net interest income	$ 105,368	$ 33,156	$ 197,951	$ 72,141
Non-interest income, net	7,796	17,836	18,930	30,995
Total operating revenue	**$ 113,164**	**$ 50,992**	**$ 216,881**	**$ 103,136**

Interest Income

Total interest income for the quarter and six-month period ended June 30, 2013 increased 107.0% to $125.8 million and 83.2% to $239.4 million, respectively, as compared to the same periods in 2012. This was a result of an increase in interest income from loans of $77.0 million, or 205.1%, and $137.8 million, or 178.5%, when compared to the quarter and six-month period ended June 30, 2012, respectively. This increase was partially offset by a decrease in interest income from investments of $12.0 million, or 51.8%, and $29.1 million, or 54.5%, compared to the quarter and six-month period ended June 30, 2012, respectively. This result was related to the BBVAPR Acquisition in which the non-covered loans portfolio increased by approximately $3.4 billion when compared to same period in 2012. In addition, the yield on covered loans increased from 17.75% and 17.64% for the quarter and six-month period ended June 30, 2012, respectively, to 25.62% and 23.10% for the quarter and six-month period ended June 30, 2013. This increase in yield is the result of higher projected cash flows on certain pools of covered loans, as credit losses have been lower than initially estimated for these loan pools. The covered portfolio is beginning to have cost recoveries on pools with lower carrying amounts, and these have the effect of increasing net interest income. Such cost recoveries for the quarter ended June 30, 2013 amounted to $6.2 million in the leasing and the construction loan pools. The accretable yield amounted to $167.1 million at June 30, 2013 compared to $188.0 million at December 31, 2012.

Interest income from investments reflects a 51.8% and 54.5% decrease for the quarter and six-month period ended June 30, 2013, as compared to the same period in 2012, primarily related to the lower balance in the investment securities portfolio due to the sale of investments securities as part of the deleverage executed during the third and fourth quarters of 2012 in connection with the BBVAPR Acquisition

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Interest Expense

Total interest expense for the quarter and six-month period ended June 30, 2013 decreased 26.0% to $20.4 million and 29.2% to $41.5 million, respectively, as compared to the same periods in 2012. This reflects the lower cost of both securities sold under agreements to repurchase (2.10% vs. 2.16%; 1.99% vs. 2.23%) and deposits (0.71% vs. 1.40%; 0.73% vs. 1.48%) for the quarter and six-month period ended June 30, 2013, respectively, as compared to the same periods in 2012, which reflects continuing progress in the repricing of the Group's core retail deposits and further reductions in its cost of funds, in addition to the reduction in the repurchase agreements as a result of the deleverage executed during the third and fourth quarters of 2012 in connection with the BBVAPR Acquisition.

Net Interest Income

Net interest income for the quarter and six-month period ended June 30, 2013 was $105.4 million and $198.0 million, respectively, an increase of 217.8% and 174.4%, respectively, when compared with the same periods in 2012. The increase was mostly due to the net effect of an increase of 426.1% and 383.4% for the quarter and six-month period ended June 30, 2013, respectively, in interest income from non-covered loans as a result of higher loan balances following the BBVAPR Acquisition. It is also due to a decrease of 26.0% and 29.2% in interest expense for the same respective periods due to lower cost of funds, partially offset by a decrease of 51.8% and 54.5% for the same respective periods on interest income from investments, related to lower balances from aforementioned deleverage transactions and a lower yield in the investment securities portfolio.

Net interest margin of 5.56% and 5.13% for the quarter and six-month period ended June 30,2013, respectively, increased 327 basis points and 268 basis points when compared to the quarter and six-month period ended June 30, 2012.

Provision for Loan and Lease Losses

Provision for non-covered loans losses for the quarter and six-month period ended June 30, 2013 increased $33.7 million and $38.6 million, respectively, when compared to the same periods in 2012. The increased is mostly due to the net impact of $21.0 million in additional provision for loan and lease losses due to reclassification to held-for-sale of non-performing residential mortgage loans with unpaid principal balance of $59 million and the increase in loan averages balances in 2013. Provision for covered loans losses for the quarter and six-month period ended June 30, 2013 decreased $56 thousand and $6.7 million when compared to the same periods ended June 30, 2012, as some covered construction and development and commercial real estate loan pools underperformed during the second

quarter of 2012, which required a provision amounting to $7.2 million, net of the estimated reimbursement from the FDIC , compared to the recorded net provision of $1.2 million resulting from this quarter's assessment of actual versus expected cash flows on the covered portfolio accounted for under the provisions of ASC 310-30.

Non-Interest Income

During the quarter and six-month period ended June 30, 2013, core banking and financial services revenues increased 108.0% to $23.9 million and 105.1% to $47.1 million, respectively, as compared to the same periods in 2012, primarily reflecting a $10.2 million and $19.5 million increase in banking services revenue to $13.3 million and $25.7 million for the quarter and six-month period ended June 30, 2013, respectively, attributed to an increase of 157.6% in deposits from June 30, 2012, which is principally attributed to the BBVAPR Acquisition.

Net FDIC shared-loss expense of $20.0 million and $32.8 million for the quarter and six-month period ended June 30, 2013, respectively, compared to $5.6 million and $10.4 million for the same periods in 2012. Such increase resulted from the ongoing evaluation of expected cash flows of the loan portfolio acquired in the FDIC-assisted acquisition. As a result of such evaluation, the Company expects a decrease in losses to be collected from the FDIC and the improved re-yielding of the accretable yield on the covered loans. This reduction in claimable losses amortizes the shared-loss 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 quarter ended June 30, 2013 the net amortization included $7.1 million of additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction and leasing loan pools.

There was no gain or loss on the sale of securities in the quarter and six-month period ended June 30, 2013 as compared to gains of $12.0 million and $19.3 million in the same periods in 2012.

Non-Interest Expense

Non-interest expense increased to $68.8 million and $135.6 million for the quarter and six-month period ended June 30, 2013, respectively, compared to $29.7 million and $59.1 million in the same periods of the previous year, due to the Company's expanded operations as a result of the BBVAPR Acquisition, including merger and restructuring costs of $5.3 million and $10.8 million for the quarter and six-month period, respectively. Also, the quarter and six-month period ended June 30, 2013 reflects a $2.0 million impact of the new 1.0% tax on gross revenues, recently enacted in the amendments to the Puerto Rico tax code.

The efficiency ratio for the quarter and six-month period ended June 30, 2013 was 53.24% and 55.35%, respectively, compared to 66.55% and 62.16% for the quarter and six-month period ended June 30, 2012, respectively.

Income Tax Expense

Income tax benefit was $31.9 million and $24.8 million for the quarter and six-month period ended June 30, 2013, respectively, compared to an expense of $1.1 million and $3.0 million for the same periods in 2012. The income tax benefit of $31.9 million for the quarter ended June 30, 2013 includes three items resulting from the recent amendment to the Puerto Rico tax code: (i) a $37.0 million benefit from an increase in the Company's deferred tax asset as a result of the increase in corporate income taxes to 39% from 30%; (ii) the Company's income tax expense at the Company's higher effective rate of 35.5% for the second quarter of 2013; and (iii) the increase in the Company's income tax expense for the first quarter of 2013 as a result of the increase in the effective tax rate to 35.5% from the previously reported 25.2%.

Income Available to Common Shareholders

For the quarter and six-month period ended June 30, 2013, the Group's income available to common shareholders amounted to $34.1 million and $51.8 million, respectively, compared to $13.8 million and $23.2 million for the same periods in 2012. Earnings per basic common share and fully diluted common share were $0.75 and $0.68 for the quarter ended June 30, 2013, respectively, compared to earnings per basic and fully diluted common share of $0.34 for the quarter ended June 30, 2012. Income per basic common share and fully diluted common share were $1.14 and $1.04, respectively, for the six-month period ended June 30, 2013, compared to income per basic and fully diluted common share of $0.57 for the six-month period ended June 30, 2012.

Interest Earning Assets

The loan portfolio declined to $4.991 billion at June 30, 2013 compared to $5.169 billion at December 31, 2012 primarily due to the early pay down of some commercial loans and the reclassification of non-performing residential mortgage loans with a book value of $55 million to held-for-sale, at fair value. The investment portfolio of $1.861 billion at June 30, 2013 decreased 9.2% compared to $2.233 billion at December 31, 2012. The decrease in the investment portfolio is mainly due to redemptions and maturities of investments securities available for sale.

Interest Bearing Liabilities

Total deposits decreased slightly to $5.665 billion at June 30, 2013, compared to $5.690 billion at December 31, 2012. Core deposits, including brokered deposits, increased 2.7% compared to December 31, 2012, while brokered certificate of deposits decreased 16.6%. Securities sold under agreements to repurchase decreased 22.5%, or $381.4 million, as the Company used available cash to pay off $380 million repurchase agreements at maturity. During the six-month period ended June 30, 2013, the Company settled, prior to maturity, a former BBVAPR subordinated note of $50 million.

Stockholders' Equity

Stockholders' equity at June 30, 2013 was $870.9 million compared to $863.6 million at December 31, 2012, an increase of 0.8%. This increase reflects the net income for the quarter, partially offset by the change in other comprehensive income.

Book value per share was $15.45 at June 30, 2013 compared to $15.31 at December 31, 2012.

The Company maintains capital ratios in excess of regulatory requirements. At June 30, 2013, Tier 1 Leverage Capital Ratio was 8.54%, Tier 1 Risk-Based Capital Ratio was 13.96%, and Total Risk-Based Capital Ratio was 16.02%.

Return on Average Assets and Common Equity

Return on average common equity (“ROE”) for the quarter and six-month period ended June 30, 2013 was 18.56% and 14.29%, respectively, up from 8.69% and 7.38% for the quarter and six-month period ended June 30, 2012, respectively. Return on average assets (“ROA”) for the quarter and six-month period ended June 30, 2013 was 1.77% and 1.36%, respectively, up from 0.91% and 0.79% for the same periods in 2012. The increases in ROE and ROA is mostly due to a 151.0% and 129.3% increase in net income from $15.0 million and $25.6 million in the quarter and six-month period ended June 30, 2012, respectively, to $37.5 million and $58.7 million in the quarter and six-month period ended June 30, 2013, respectively.

Assets under Management

Assets managed by the Company’s trust division, the retirement plan administration subsidiary (CPC), and the broker-dealer subsidiaries increased from December 31, 2012. The trust division offers various types of individual retirement accounts (“IRA”) and manages 401(k) and Keogh retirement plans and custodian and corporate trust accounts, while CPC manages the administration of private retirement plans. At June 30, 2013, total assets managed by the Company’s trust division and CPC increased 1.7% to $2.639 billion, compared to $2.514 billion at December 31, 2012, mainly related to employer and employee account contributions and capital market appreciation. At June 30, 2013, total assets managed by the broker-dealer subsidiaries from its customer investment accounts increased 1.1% to $2.822 billion, compared to $2.722 billion at December 31, 2012.

Lending

Total loan production of $601.7 million for the six-month period ended June 30, 2013 increased 190.8% year over year, including $327.0 million in the quarter ended June 30, 2013. Total commercial loan production of $178.3 million for the six-month period ended June 30, 2013, increased 95.5% from the same period in 2012, including $104.3 million in the quarter ended June 30, 2013. These increases are directly related to the BBVAPR Acquisition as the Company continue building a strong institutional pipeline.

Mortgage loan production and purchases of $101.3 million and $178.4 million for the quarter and six-month period ended June 30, 2013, respectively, increased 107.1% and 89.9% from the same periods in 2012. The Company sells most of its conforming mortgages in the secondary market and retains the servicing rights. The increase in mortgage loan production is also the result of the benefits of the completion during this quarter, of the integration of the BBVPR and Oriental mortgage operations.

Consumer loans production for the quarter and six-month period ended June 30, 2013 totaled $26.6 million and $49.2, up 247.0% and 283.3% when compared with the same periods in 2012. The increase in consumer lending is the result of the benefits of a larger branch network and origination platform following the BBVAPR Acquisition.

Auto and leasing production for the quarter and six-month period ended June 30, 2013 totaled $94.7 million and $195.7 million, respectively, up from $4.4 million and $8.9 million in the quarter and six-month period ended June 30, 2012, respectively. The increase is mainly attributed to the auto loan business newly entered into by the Company following the BBVAPR Acquisition.

While the loan portfolio remains far greater than it was a year ago and loan production for the quarter and six-month period ended June 30, 2013 has increased considerably from the same periods in 2012, total loan portfolio have declined slightly by $178.2 million from $5.169 billion at December 31, 2012 to $4.991 billion at June 30, 2013, mostly as the result of scheduled pay downs and maturities in both the non-covered and covered portfolios, a scheduled pay down of a PR government obligation of about $125 million, and the reclassification of residential non-performing loans to held-for-sale.

Credit Quality on Non-Covered Loans

Net credit losses, excluding acquired loans, increased $28.8 million to $32.6 million, and $29.5 million to $35.9 million during the quarter and six-month period ended June 30, 2013, respectively, representing 8.86% and 5.11% of average non-covered loans outstanding, versus 1.25% and 1.07% in the same periods in 2012. The credit losses for the quarter and six-month periods ended June 30, 2013 include a $27 million charge-off from nonperforming mortgage loans transferred into the loan held-for-sale category. The allowance for loan and lease losses on non-covered loans increased to $46.6 million (2.62% of total non-covered loans) at June 30, 2013, compared to $39.9 million (3.21% of total non-covered loans) at December 31, 2012.

Non-performing loans ("NPLs"), which exclude loans covered under shared-loss agreements with the FDIC and loans acquired in the BBVAPR Acquisition accounted under ASC 310-30, decreased to $88.5 million at June 30, 2013 compared to $145.1 million at December 31, 2012 primarily due to the reclassification of certain non-performing residential mortgage loans with a net book value of $55.0 million, to the loan held-for-sale category. Without this re-class to loans held-for-sale, NPL balances would have been relatively consistent between December 31, 2012 and June 31, 2013.

Non-GAAP Measures

The Company uses certain non-GAAP measures of financial performance to supplement the consolidated financial statements presented in accordance with GAAP. The Company presents non-GAAP measures that management believes are useful and meaningful to investors. Non-GAAP measures do not have any standardized meaning, are not required to be uniformly applied, and are not audited. Therefore, they are unlikely to be comparable to similar measures presented by other companies. The presentation of non-GAAP measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP.

The Company's management has reported and discussed the results of operations herein both on a GAAP basis and on a pre-tax pre-provision operating income basis (defined as net interest income, plus banking and financial services revenue, less non-interest expenses, as calculated on the table below). The Company's management believes that, given the nature of the items excluded from the definition of pre-tax pre-provision operating income, it is useful to state what the results of operations would have been without them so that investors can see the financial trends from the Company's continuing business.

During the quarter and six-month period ended June 30, 2013, the Company's pre-tax pre-provision operating income was approximately $65.7 million and $120.2 million, respectively, an increase of 340.1% and 234.0% from $14.9 million and $36.0 million in the same periods of last year. Pre-tax pre-provision operating income is calculated as follows:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
PRE-TAX PRE-PROVISION OPERATING INCOME				
Net interest income	$ 105,369	$ 33,156	$ 197,951	$ 72,142
Core non-interest income:				
Financial service revenue	8,030	5,903	15,690	11,791

Banking service revenue		13,334		3,145		25,716		6,225
Mortgage banking activities		2,525		2,436		5,679		4,938
Total core non-interest income		**23,889**		**11,484**		**47,085**		**22,954**
Non-interest expenses		(68,822)		(29,710)		(135,632)		(59,109)
Less merger and restructuring charges		5,274		-		10,808		-
		(63,548)		(29,710)		(124,824)		(59,109)
Total pre-tax pre-provision operating income	**$**	**65,710**	**$**	**14,930**	**$**	**120,212**	**$**	**35,987**

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Tangible common equity consists of common equity less goodwill and core deposit intangibles. Tier 1 common equity consists of common equity less goodwill, core deposit intangibles, net unrealized gains on available for sale securities, net unrealized losses on cash flow hedges, and disallowed deferred tax asset and servicing assets. Ratios of tangible common equity to total assets, tangible common equity to risk-weighted assets, total equity to risk-weighted assets and Tier 1 common equity to risk-weighted assets are non-GAAP measures.

At June 30, 2013, tangible common equity to total assets and tangible common equity to risk-weighted assets increased to 7.30% and 12.22%, respectively, from 6.73% and 11.82% at December 31, 2012. Total equity to risk-weighted assets and Tier 1 common equity to risk-weighted assets at June 30, 2013 increased to 17.30% and 9.97%, respectively, from 16.48% and 9.11% at December 31, 2012

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. Furthermore, management and many stock analysts use tangible common equity in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither Tier 1 common equity nor tangible common equity 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.

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ANALYSIS OF RESULTS OF OPERATIONS

The following tables show major categories of interest-earning assets and interest-bearing liabilities, their respective interest
income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the quarters
and six-month periods ended June 30, 2013 and 2012:

TABLE 1 - QUARTERLY ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE
FOR THE QUARTERS ENDED JUNE 30, 2013 AND 2012

	Interest		Average rate		Average balance	
	June 2013	June 2012	June 2013	June 2012	June 2013	June 2012
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 125,808**	**$ 60,788**	**6.64%**	**4.20%**	**$ 7,580,468**	**$ 5,794,684**
Tax equivalent adjustment	1,743	13,675	0.09%	0.94%	-	-
Interest-earning assets - tax equivalent	**127,551**	**74,463**	**6.73%**	**5.14%**	**7,580,468**	**5,794,684**
Interest-bearing liabilities	20,439	27,632	1.09%	1.96%	7,481,718	5,626,256
Tax equivalent net interest income / spread	**107,112**	**46,831**	**5.65%**	**3.18%**	**98,750**	**168,428**
Tax equivalent interest rate margin			**5.64%**	**3.23%**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	10,925	22,842	2.26%	2.61%	1,936,849	3,501,015
Trading securities	30	4	7.62%	0.00%	1,574	-
Money market investments	243	377	0.18%	0.24%	538,920	634,707
	11,198	**23,223**	**1.81%**	**2.25%**	**2,477,343**	**4,135,722**

Total investments						
Loans not covered under shared-loss agreements with the FDIC:						
Originated and Other loans held-for-investment						
Mortgage	10,494	11,803	5.18%	5.74%	809,898	821,807
Commercial	5,083	4,054	5.10%	5.21%	398,456	311,299
Consumer	1,746	795	9.47%	8.03%	73,776	39,623
Auto and Leasing	5,075	570	10.68%	8.17%	190,129	27,908
Total originated non-covered loans	**22,398**	**17,222**	**6.09%**	**5.74%**	**1,472,259**	**1,200,637**
Acquired						
Mortgage	11,138	-	5.46%	-	816,483	-
Commercial	36,446	-	10.45%	-	1,394,769	-
Consumer	5,101	-	12.36%	-	165,053	-
Auto	15,528	-	7.06%	-	879,936	-
Total acquired non-covered loans	**68,213**	**-**	**8.38%**	**-**	**3,256,241**	**-**
Total non-covered loans	**90,611**	**17,222**	**7.67%**	**5.74%**	**4,728,500**	**1,200,637**
Loans covered under shared-loss agreements with the FDIC:	**23,999**	**20,342**	**25.62%**	**17.75%**	**374,625**	**458,325**
Total loans	**114,610**	**37,564**	**8.98%**	**9.06%**	**5,103,125**	**1,658,962**
Total interest earning assets	**125,808**	**60,787**	**6.64%**	**4.20%**	**7,580,468**	**5,794,684**

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	Interest		Average rate		Average balance	
	June 2013	June 2012	June 2013	June 2012	June 2013	June 2012
	(Dollars in thousands)					
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	-	-	0.00%	0.00%	766,574	172,615
NOW accounts	1,966	2,268	0.57%	1.04%	1,388,689	876,041
Savings and money market accounts	3,014	544	1.35%	0.93%	895,377	234,762
Individual retirement accounts	1,552	2,080	1.71%	2.25%	362,839	369,519
Retail certificates of deposit	2,898	1,667	1.68%	2.02%	690,229	330,644
Total core deposits	**9,430**	**6,559**	**0.92%**	**1.32%**	**4,103,708**	**1,983,581**
Institutional certificates of deposit	2,664	506	1.63%	2.12%	653,270	95,382
Brokered deposits	1,790	851	0.83%	2.04%	858,769	167,207
	4,454	**1,357**	**1.18%**	**2.07%**	**1,512,039**	**262,589**
Deposits fair value premium amortization	(4,326)	(67)	-	-	-	-
Core deposit intangible amortization	415	36	-	-	-	-
Total deposits	**9,973**	**7,885**	**0.71%**	**1.40%**	**5,615,747**	**2,246,170**
Borrowings:						
Securities sold under agreements to repurchase	7,109	16,500	2.10%	2.16%	1,356,856	3,057,598
Advances from FHLB and other borrowings	2,187	2,926	2.14%	4.09%	409,742	286,405
Subordinated capital notes	1,170	321	4.74%	3.56%	98,644	36,083
Total borrowings	**10,466**	**19,747**	**2.24%**	**2.34%**	**1,865,242**	**3,380,086**

Total interest bearing liabilities		**20,439**		**27,632**	**1.09%**	**1.96%**		**7,480,989**		**5,626,256**
Net interest income / spread	**$**	**105,369**	**$**	**33,156**	**5.55%**	**2.24%**				
Interest rate margin					**5.56%**	**2.29%**				
Excess of average interest-earning assets over average interest-bearing liabilities							**$**	**99,479**	**$**	**168,428**
Average interest-earning assets to average interest-bearing liabilities ratio								**101.33%**		**102.99%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

		Volume		Rate	Total
		(In thousands)			
Interest Income:					
Investments	$	(9,312)	$	(2,713)	$ (12,025)
Loans		46,890		30,155	77,045
Total interest income		37,578		27,442	65,020
Interest Expense:					
Deposits		11,831		(9,743)	2,088
Securities sold under agreements to repurchase		(9,178)		(213)	(9,391)
Other borrowings		1,872		(1,762)	110
Total interest expense		4,525		(11,718)	(7,193)
Net Interest Income	**$**	33,053	**$**	39,160	**$** 72,213

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TABLE 1/A - YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2013 AND 2012

	Interest		Average rate		Average balance	
	June 2013	June 2012	June 2013	June 2012	June 2013	June 2012
	(Dollars in thousands)					
A - TAX EQUIVALENT SPREAD						
Interest-earning assets	**$ 239,436**	**$ 130,708**	**6.20%**	**4.43%**	**$ 7,721,878**	**$ 5,900,367**
Tax equivalent adjustment	12,336	13,675	0.32%	0.46%	-	-
Interest-earning assets - tax equivalent	**251,772**	**144,383**	**6.52%**	**4.89%**	**7,721,878**	**5,900,367**
Interest-bearing liabilities	41,485	58,566	1.09%	2.05%	7,641,470	5,724,700
Tax equivalent net interest income / spread	**210,287**	**85,817**	**5.43%**	**2.84%**	**80,408**	**175,667**
Tax equivalent interest rate margin			**5.45%**	**2.91%**		
B - NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	23,734	52,696	2.35%	2.92%	2,022,072	3,611,510
Trading securities	50	4	8.51%	0.00%	1,175	-
Money market investments	550	779	0.20%	0.25%	544,502	614,517
Total investments	**24,334**	**53,479**	**1.90%**	**2.53%**	**2,567,749**	**4,226,027**
Loans not covered under shared-loss agreements with the FDIC:						
Originated						
Mortgage	21,938	24,516	5.41%	5.92%	810,441	828,700
Commercial	9,978	8,150	5.16%	5.34%	386,882	305,116
Consumer	2,942	1,561	9.13%	8.05%	64,412	38,798

Auto and leasing	7,921	1,118	10.97%	8.37%	144,441	26,719
Total originated non-covered loans	**42,779**	**35,345**	**6.08%**	**5.89%**	**1,406,176**	**1,199,333**
Acquired						
Mortgage	22,308	-	5.40%	0.00%	826,101	-
Commercial	62,816	-	8.72%	0.00%	1,441,540	-
Consumer	10,648	-	12.37%	0.00%	172,178	-
Auto	32,323	-	6.99%	0.00%	925,246	-
Total acquired non-covered loans	**128,095**	**-**	**7.61%**	**0.00%**	**3,365,065**	**-**
Total non-covered loans	**170,874**	**35,345**	**7.16%**	**5.89%**	**4,771,241**	**1,199,333**
Loans covered under shared-loss agreements						
with the FDIC:	**44,228**	**41,884**	**23.10%**	**17.64%**	**382,888**	**475,007**
Total loans	**215,102**	**77,229**	**8.35%**	**9.23%**	**5,154,129**	**1,674,340**
Total interest earning assets	**239,436**	**130,708**	**6.20%**	**4.43%**	**7,721,878**	**5,900,367**

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	Interest		**Average rate**		**Average balance**	
	June 2013	**June 2012**	**June 2013**	**June 2012**	**June 2013**	**June 2012**
			(Dollars in thousands)			
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	-	-	0.00%	0.00%	766,601	174,497
NOW accounts	5,707	4,817	0.80%	1.11%	1,421,481	869,525
Savings and money market accounts	4,820	1,134	1.10%	0.97%	877,109	235,019
Individual retirement accounts	3,356	4,368	1.83%	2.38%	367,490	367,009
Retail certificates of deposit	6,141	3,795	1.78%	2.20%	691,668	345,644
Total core deposits	20,024	14,114	0.97%	1.42%	4,124,349	1,991,694
Institutional deposits	5,359	1,105	1.71%	2.11%	627,157	104,648
Brokered deposits	3,779	1,893	0.88%	1.84%	857,454	206,049
Total wholesale deposits	9,138	2,998	**1.23%**	1.93%	1,484,611	310,697
Core deposit intangible amortization	829	71	0.00%	0.00%	-	-
Deposits fair value premium amortization	(9,540)	(175)	0.00%	0.00%	-	-
Total deposits	**20,451**	**17,008**	**0.73%**	**1.48%**	**5,608,960**	**2,302,391**
Borrowings:						
Securities sold under agreements to repurchase	14,357	34,070	1.99%	2.23%	1,440,866	3,057,858
Advances from FHLB and other borrowings	3,847	5,930	1.64%	4.17%	469,620	284,188
FDIC-guaranteed term notes	-	909	0.00%	4.11%	-	44,180

Subordinated capital notes	2,830	649	4.65%	3.60%	121,659	36,083
Total borrowings	**21,034**	**41,558**	**2.07%**	**2.43%**	**2,032,145**	**3,422,309**
Total interest bearing liabilities	**41,485**	**58,566**	**1.09%**	**2.05%**	**7,641,105**	**5,724,700**
Net interest income / spread	**$ 197,951**	**$ 72,142**	**5.11%**	**2.38%**		
Interest rate margin			**5.13%**	**2.45%**		
Excess of average interest-earning assets over average interest-bearing liabilities					**$ 80,773**	**$ 175,667**
Average interest-earning assets to average interest-bearing liabilities ratio					**101.06%**	**103.07%**

C - CHANGES IN NET INTEREST INCOME DUE TO:

	Volume	Rate	Total
	(In thousands)		
Interest Income:			
Investments	$ (20,985)	$ (8,160)	(29,145)
Loans	97,144	40,729	137,873
Total interest income	**76,159**	**32,569**	**108,728**
Interest Expense:			
Deposits	24,429	(20,986)	3,443
Securities sold under agreements to repurchase	(18,016)	(1,697)	(19,713)
Other borrowings	4,660	(5,471)	(811)
Total interest expense	**11,073**	**(28,154)**	**(17,081)**
Net Interest Income	**$ 65,086**	**$ 60,723**	**125,809**

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Net Interest Income

Net interest income amounted to $105.4 million and $198.0 million for the quarter and the six-month period ended June 30, 2013, respectively, a 217.8% and 174.4% increase from $33.2 million and $72.1 million for the same periods in 2012. These changes reflect a decrease of 26.0% and 29.2% in interest expense and an increase of 205.1% and 178.5% in interest income from loans, partially offset by a 51.8% and 54.5% decrease in interest income from investments when comparing the quarter and six-month period ended June 30, 2013 and 2012, respectively.

Interest rate spread for the quarter ended June 30, 2013 increased 331 basis points to 5.55% from 2.24% in the same period of 2012. This increase is mainly due to the net effect of a 87 basis point decrease in the average cost of funds from 1.96% to 1.09%, and a 244 basis point increase in the average yield of interest-earning assets from 4.20% to 6.64%. For the six-month period ended June 30, 2013, interest rate spread increased 273 basis point to 5.11% from 2.38% in the same period of 2012. This increase is mainly due to the net effect of a 96 basis point decrease in the average cost of funds from 2.05% to 1.09%, and a 177 basis point increase in the average yield of interest-earning assets from 4.43% to 6.20%.

The increase in interest income for the quarter was primarily the result of an increase of $37.6 million in interest-earning assets volume variance, and a $27.4 million increase in interest rate variance. The six-month period increase in interest income was primarily the result of an increase of $76.2 million in interest earning assets volume variance, and a $32.6 million increase in interest rate variance. Interest income from loans increased 205.1% to $114.6 million and 178.5% to $215.1 million for the quarter and six-month period ended June 30, 2013, respectively, mainly due to the loan portfolio acquired as part of the BBVAPR Acquisition. This was mitigated by the fact that interest income on investments decreased 51.8% to $11.2 million and 54.5% to $24.3 million in the quarter and six-month period ended June 30, 2013, respectively, compared to the same periods in 2012, reflecting a lower balance in the investment securities portfolio due to the sale of investments securities as part of the deleverage executed during the third and fourth quarters of 2012 in connection with the BBVAPR Acquisition.

Interest expense decreased 26.0% to $20.4 million and 29.2% to $41.5 million for the quarter and six-month period ended June 30, 2013, respectively. The decrease for the quarter was primarily the result of an $11.7 million decrease in interest rate variance, partially offset by a $4.5 million increase in interest-bearing liabilities volume variance. The six-month period decrease was primarily the result of a $28.2 million decrease in interest rate variance, partially offset by an $11.1 million increase in interest-bearing liabilities volume variance. The decrease in interest rate variance is due to a reduction in the cost of funds and the increase in the volume variance is due to the increase in the balance of deposits, which reflected a decrease in cost of funds of 87 basis points to 1.09% and 96 basis points to 1.09% for the quarter and six-month period ended June 30, 2013, respectively, compared to the same periods in 2012. The cost of deposits decreased 69 basis points to 0.71% and 75 basis points to 0.73% for the quarter and six-month period ended June 30, 2013, respectively, compared to 1.40% and 1.48% for the same periods in 2012, primarily due to continuing progress in repricing core deposits and to the maturity of higher cost brokered deposits during the periods. The cost of

borrowings decreased by 10 basis points to 2.24% and 36 basis points to 2.07% in the quarter and six-month period ended June 30, 2013, respectively, compared to 2.34% and 2.43% for the same periods in 2012.

For the quarter and six-month period ended June 30, 2013, the average balance of total interest-earning assets was $7.580 billion and $7.722 billion, respectively, an increase of 30.8% for both periods compared to 2012. The increase in average balance of interest-earning assets was mainly attributable to an increase in average loans for the quarter and six-month period ended June 30, 2013 of 207.6% and 207.8% , respectively, resulting from the loan acquisition of the portfolio from BBVAPR, mitigated by a reduction of 40.9% and 39.2% in the average investments for the quarter and the six-month period ended June 30, 2013 as a result of the aforementioned sale of investments as part of the deleverage plan in connection with the BBVAPR Acquisition. For the quarter ended June 30, 2013, the average yield on interest-earning assets was 6.64% compared to 4.20% for the same quarter in 2012, and for the six-month period ended June 30, 2013, was 6.20% compared to 4.43% for the same period in 2012. This was mainly due to the increase in average balance and higher average yields in the non-covered loan portfolio, which their average yield increased to 7.67% from 5.74% and to 7.16% from 5.89% for quarter and six-month period ended June 30, 2013, respectively, compared to the same periods in 2012.

TABLE 2 - NON-INTEREST INCOME SUMMARY

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in thousands)					
Financial service revenue	$ 8,030	$ 5,903	36.0%	$ 15,690	$ 11,791	33.1%
Banking service revenue	13,334	3,145	324.0%	25,716	6,225	313.1%
Mortgage banking activities	2,525	2,436	3.7%	5,679	4,938	15.0%
Total banking and financial service revenue	**23,889**	**11,484**	**108.0%**	**47,085**	**22,954**	**105.1%**
FDIC shared-loss expense, net	(19,965)	(5,583)	-257.6%	(32,836)	(10,410)	-215.4%
Net gain (loss) on:						
Sale of securities available for sale	-	11,979	-100.0%	-	19,338	-100.0%
Derivatives	1,569	(107)	1566.4%	1,271	(108)	1276.9%
Early extinguishment of subordinated capital notes	-	-	0.0%	1,061	-	100.0%
Other	2,303	63	3555.6%	2,349	(779)	401.5%
	(16,093)	6,352	-353.4%	(28,155)	8,041	-450.1%
Total non-interest income, net	**$ 7,796**	**$ 17,836**	**-56.3%**	**$ 18,930**	**$ 30,995**	**-38.9%**

Non-Interest Income

Non-interest income is affected by the amount of securities, derivatives and trading transactions, the level of trust assets under management, transactions generated by clients’ financial assets serviced by the securities broker-dealer and insurance 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.

As shown in Table 2 above, the Company recorded non-interest income in the amount of $7.8 million and $18.9 million for the quarter and six-month period ended June 30, 2013, respectively, compared to $17.8 million and $31.0 million for the same period in 2012, a decrease of $10.0 million and $12.1 million, respectively.

During the quarter and six-month period ended June 30, 2013, the Company did not have any gain or loss on sale of securities as compared to the quarter and six-month period ended June 30, 2012, in which the Company had gains of $12.0 million and $19.3 million on sale of securities, respectively.

Also, the increase in the FDIC shared-loss expense to $20.0 million and $32.8 million for the quarter and the six-month period ended June 30, 2013, respectively, compared to $5.6 million and $10.4 million for the same periods in 2012, resulted from the ongoing evaluation of expected cash flows of the covered loan portfolio, which resulted in reduced losses expected to be collected from the FDIC and the improved re-yielding of the accretable yield on the covered loans. The reduction in claimable losses amortizes the shared-loss indemnification asset through the life of the shared loss agreement. This amortization is net of the accretion of the discount recorded to reflect the expected claimable loss at its net present value. During the quarter ended June 30, 2013, the Company recorded $7.1 million in additional amortization of the FDIC indemnification asset from stepped up cost recoveries on certain construction and leasing loan pools.

During the quarter ended June 30, 2013, the Company recognized a realized gain of $2.1 million, included as “Net gain (loss) on other” in the Statement of Operations, corresponding to the recovery from the sale of a claim in the Lehman Brothers bankruptcy.

Banking service revenue, which consists primarily of fees generated by deposit accounts, electronic banking services, and customer services, increased 324.0% to $13.3 million and 313.1% to $25.7 million in the quarter and six-month period ended June 30, 2013, respectively, from $3.1 million and $6.2 million for the same periods in 2012. This increase for the quarter and six-month period ended June 30, 2013, is attributable to an increase in transaction volume due to larger the deposit portfolio, as a result of the BBVAPR Acquisition.

Financial service revenue, which consists of commissions and fees from fiduciary activities, and securities brokerage and insurance activities, increased 36.0% to $8.0 million and 33.1% to $15.7 million, for the quarter and six-month period ended June 30, 2013, respectively, compared to $5.9 million and $11.8 million for the same periods in 2012. This increase is mainly due to increased brokerage, trust and insurance business and transactions as a result of the BBVAPR Acquisition.

Income generated from mortgage banking activities increased 3.7% to $2.5 million and 15.0% to $5.7 million for the quarter and six-month period ended June 30, 2013, respectively, compared to $2.4 million and $4.9 million for the same periods in 2012. Such increase is mainly a result of an increase in mortgage loan production for the quarter and six-month period ended June 30, 2013 when compared to the same periods in 2012, as the Company sells the majority of the loans produced into secondary markets. This increase in loan production is partially offset by the effect of the steep rise in interest rate during the later part of the quarter ended June 30, 2013 , resulting in decreased profit margins from the sale of mortgage loans.

TABLE 3 - NON-INTEREST EXPENSES SUMMARY

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2013	2012	Variance %	2013	2012	Variance %
	(Dollars in thousands)					
Compensation and employee benefits	$ 24,089	$ 11,184	115.4%	$ 47,338	$ 21,550	119.7%
Occupancy and equipment	8,066	4,292	87.9%	17,282	8,501	103.3%
Professional and service fees	7,710	5,222	47.6%	16,832	10,643	58.2%
Merger and restructuring charges	5,274	-	100.0%	10,808	-	100.0%
Taxes, other than payroll and income taxes	5,132	(107)	4896.3%	7,754	1,067	626.7%
Electronic banking charges	4,094	1,609	154.4%	7,822	3,166	147.1%
Insurance	2,723	1,442	88.8%	5,401	3,262	65.6%
Foreclosure, repossession and other real estate expenses	2,156	936	130.3%	3,661	1,686	117.1%
Loss on sale of foreclosed real estate and other repossessed assets	1,696	886	91.4%	3,573	1,282	178.7%
Loan servicing and clearing expenses	1,884	955	97.3%	3,360	1,923	74.7%
Advertising, business promotion, and strategic	1,670	1,564	6.8%	3,079	2,412	27.7%

initiatives									
Printing, postage, stationery and supplies		851		322	164.3%		2,017	630	220.2%
Communication		835		392	113.0%		1,699	781	117.5%
Director and investor relations		377		342	10.2%		613	651	-5.8%
Other operating expenses		2,265		671	237.6%		4,393	1,555	182.5%
Total non-interest expenses	**$**	**68,822**	**$**	**29,710**	**131.6%**	**$**	**135,632**	**$ 59,109**	**129.5%**
Relevant ratios and data:									
Efficiency ratio		**53.24%**		**66.55%**			**55.35%**	**62.16%**	
Compensation and benefits to non-interest expense		**35.00%**		**37.64%**			**34.90%**	**36.46%**	
Compensation to total assets owned		**1.14%**		**0.70%**			**1.12%**	**0.68%**	
Average number of employees		**1,559**		**751**			**1,573**	**748**	
Average compensation per employee	**$**	**61.81**	**$**	**59.57**		**$**	**60.19**	**$ 57.62**	
Assets owned per average employee	**$**	**5,412**	**$**	**8,490**		**$**	**5,364**	**$ 8,524**	

Non-Interest Expenses

Non-interest expense for the quarter ended June 30, 2013 reached $68.8 million, representing an increase of 131.6% compared to $29.7 million for the quarter ended June 30, 2012. For the six-month period ended June 30, 2013, non-interest expense reached $135.6 million, representing an increase of 129.5% compared to $59.1 million for the same periods in 2012, due to the Company's expanded operations as a result of the BBVAPR Acquisition.

Compensation and employee benefits increased 115.4% and 119.7% to $24.1 million and $47.3 million for the quarter and six-month period ended June 30, 2013, respectively, from $11.2 million and $21.6 million for the same periods in 2012.These increase are mainly driven by the integration of the employees of BBVAPR.

Professional and service fees increased 47.6% to $7.7 million and 58.2% to $16.8 million for the quarter and six-month period ended June 30, 2013, respectively, as compared to $5.2 million and $10.6 million for the same periods in 2012, mainly due to professional expenses related to the BBVAPR integration.

Occupancy and equipment expenses increased 87.9% to $8.1 million and 103.3% to $17.3 million for the quarter and six-month period ended June 30, 2013, as compared to $4.3 million and $8.5 million for the same periods in 2012, as a result of the BBVAPR Acquisition in which the Bank acquired 36 branches and the building where our new headquarters are located. During the quarter ended June 30, 2013, the Company consolidated 8 branches.

Electronic banking charges increased 154.4% to $4.1 million and 147.1% to $7.8 million for the quarter and six-month period ended June 30, 2013, respectively, as compared to $1.6 million and $3.2 million for the same periods in 2012, mostly due to the increase in expenses related to merchant business and card interchange transactions resulting from our banking business growth.

During the quarter and six-month period ended June 30, 2013, the Company incurred $5.3 million and $10.8 million, respectively, in expenses related to the merger and restructuring charges. This amount includes a $3.7 million charge related to an early termination of a contract with a third party servicer of certain loan portfolios acquired in the FDIC-assisted transaction and $3.2 million related to systems integration. These charges represent costs associated with these one-time activities and do not represent ongoing costs of the fully integrated combined organization.

Taxes, other than payroll and income taxes, for the quarter and six-month period ended June 30, 2013 increased to $5.1 million and to $7.8 million, respectively, as compared to a benefit of $107 thousand and an expense of $1.1 million for the same periods in 2012. The increase primarily reflects a $2.0 million impact from the application of the new 1.0% tax on gross revenues which was part of the recently enacted amendments to the Puerto Rico tax code. Also, included in the benefit of $107 thousand during the quarter ended June 30, 2012 was the reversal of an accrual resulting from a municipal license tax settlement.

Foreclosure, repossession and other real estate expenses for the quarter and six-month period ended June 30, 2013 increased 130.3% to $2.2 million and 117.1% to $3.7 million, respectively, as compared to $936 thousand and $1.7 million for the same periods in 2012, principally due to the increase in foreclosures during the six-month period ended June 30, 2013 as compared to the same periods in 2012.

Advertising, business promotion, and strategic initiatives for the quarter and six-month period ended June 30, 2013 increased 6.8% and 27.7%, respectively, as compared to the same periods in 2012, primarily to support the Company's expansion of commercial banking and it's rebranding.

The increase in the Company's net-interest income resulted in a decrease in the efficiency ratio to 53.24% for the quarter ended June 30, 2013 compared to 66.55% for the quarter ended June 30, 2012, and a decrease to 55.35% for the six-month period ended June 30, 2013 from 62.16% from the same period in the prior year. The efficiency ratio measures how much of a 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 investments securities, derivatives gains or losses, credit-related other-than-temporary impairment losses, FDIC shared-loss expense, losses on the early extinguishment of repurchase agreements, other gains and losses, and other income that may be considered volatile in nature. Management believes that the exclusion of those

items permits greater comparability. Amounts presented as part of non-interest income that are excluded from the efficiency ratio computation amounted to losses of $16.1 million and $28.2 million for the quarter and six-month period ended June 30, 2013, respectively, compared to gains of $6.4 million and $8.0 million for the same period in 2012 . Revenue for purposes of the efficiency ratio for the quarter and six-month period ended June 30, 2013 amounted to $129.3 million and $245.0 million, respectively, compared to $44.6 million and $95.1 million for the same periods in 2012 .

Provision for Loan and Lease Losses

The provision for non-covered loan and lease losses for the quarter and six-month period ended June 30, 2013 totaled $37.5 million and $45.4 million, respectively, an increase of $33.7 million and $38.6 million from the same periods in 2012, mostly due to the net impact of $21.0 million in additional provision for loan and lease losses from the reclassification to held-for-sale of non-performing residential mortgage loans with an unpaid principal balance of $59.0 million. 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 June 30, 2013 was

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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.

During the quarter and six-month period ended June 30, 2013, net credit losses amounted to $32.6 million and $35.9 million, respectively, a n increase of 766.0% and 460.8% when compared to $3.8 million and $6.4 million reported for the same periods in 2012. The increase was primarily due to an increase of $27.2 million and a $28.8 million in net credit losses for mortgage loans during the quarter and the six-month period ended June 30, 2013, respectively, compared to the same periods in 2012. These include $27.0 million in charge-offs due to the aforementioned reclassification to held-for-sale of non-performing residential loans with an unpaid principal balance of $59.0 million.

Total charge-offs on originated and other loans held-for-investment increased 757.5% to $33.0 million and 451.3% to $36.5 million for the quarter and six-month period ended June 30, 2013, respectively, as compared to the same periods in 2012, and total recoveries increased from $94 thousand and $216 thousand in the quarter and six-month period ended June 30, 2012, respectively, to $486 thousand and $585 thousand in the quarter and the six-month period ended June 30, 2013, respectively. As a result, the recoveries to charge-offs ratio decreased from 2.44% and 3.26% in the quarter and six-month period ended June 30, 2012 to 1.47% and 1.60% in the quarter and six-month period ended June 30, 2013.

The loans acquired in the BBVAPR Acquisition accounted for under ASC 310-20 (loans with revolving feature and/or acquired at a premium) were recognized at fair value as of December 18, 2012, which included the impact of expected credit losses. Provision for loan and lease losses on these loans for the quarter and the six-month period ended June 30, 2013 was $1.6 million and $3.7 million, respectively. Loans acquired in the BBVAPR Acquisition accounted for under ASC 310-30 (loans acquired with deteriorated credit quality, including those by analogy) were also recognized at fair value as of December 18, 2012, which included the impact of expected credit losses. This portfolio did not require provision for loan and lease losses for the quarter and the six-month period ended June 30, 2013.

The loans covered by the FDIC shared-loss agreement were recognized at fair value as of April 30, 2010, which included the impact of expected credit losses. To the extent credit deterioration occurs in covered loans after the date of acquisition, the Company records an allowance for loan and lease losses. Also, the Company records an increase in the FDIC shared-loss indemnification asset for the expected reimbursement from the FDIC under the shared-loss agreements. Provision for covered loans and lease losses for the quarter and six-month period ended June 30, 2013 was $1.2 million and $1.9 million, reflecting the Company’s quarterly 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. During the quarter and six-month period ended June 30, 2012, some covered construction and development and commercial real estate loan pools underperformed, which required a provision amounting to $7.2 million, net of the estimated reimbursement from the FDIC.

Please refer to the “Allowance for Loan and Lease Losses and Non-Performing Assets” section in this MD&A and Table 8 through Table 13 below for more detailed information concerning the allowances for loan and lease losses, net credit losses and credit quality statistics.

Income Taxes

The Company had an income tax benefit of $31.9 million and $24.8 million for the quarter and six-month period ended June 30, 2013, respectively, compared to an expense of $1.1 million and $3.0 million for the same period in 2012. The income tax benefit of $31.9 million for the quarter ended June 30, 2013 includes three items resulting from the recent amendment to the Puerto Rico tax code: (i) a $37.0 million benefit from an increase in the Company’s deferred tax asset as a result of the increase in corporate income taxes to 39% from 30%; (ii) the Company’s income tax expense at the Company’s higher effective rate of 35.4% for the second quarter of 2013; and (iii) the increase in the Company’s income tax expense for the first quarter of 2013 as a result of the increase in the effective tax rate to 35.4% from the previously reported 25.2%.

ANALYSIS OF FINANCIAL CONDITION

TABLE 4 - ASSETS SUMMARY AND COMPOSITION

	June 30, 2013	December 31, 2012	Variance %
	(Dollars in thousands)		
Investments:			
FNMA and FHLMC certificates	$ 1,390,622	$ 1,693,447	-17.9%
Obligations of US Government sponsored agencies	15,113	21,847	-30.8%
US Treasury securities	26,501	26,496	0.0%
CMOs issued by US Government sponsored agencies	248,363	291,400	-14.8%
GNMA certificates	11,180	15,164	-26.3%
Puerto Rico Government and agency obligations	119,695	120,520	-0.7%
FHLB stock	22,156	38,411	-42.3%
Other debt securities	24,755	25,411	-2.6%
Other investments	2,275	568	300.5%
Total investments	**1,860,660**	**2,233,265**	**-16.7%**
Securities sold but not yet delivered	**16,732**	**-**	100.0%
Loans:			
Loans not covered under shared-loss agreements with the FDIC	4,589,924	4,749,300	-3.4%
Allowance for loan and lease losses on non covered loans	(46,625)	(39,921)	-16.8%
Non covered loans receivable, net	**4,543,299**	**4,709,379**	**-3.5%**
Mortgage loans held for sale	78,350	64,544	21.4%
Total loans not covered under shared-loss agreements with the FDIC, net	**4,621,649**	**4,773,923**	**-3.2%**
Loans covered under shared-loss agreements with the FDIC	423,372	449,431	-5.8%
Allowance for loan and lease losses on covered loans	(53,992)	(54,124)	0.2%
Total loans covered under shared-loss agreements with the FDIC, net	**369,380**	**395,307**	-6.6%
Total loans, net	**4,991,029**	**5,169,230**	**-3.4%**
Securities purchased under agreements to resell	**-**	**80,000**	**-100.0%**
Total securities and loans	**6,868,421**	**7,482,495**	**-8.2%**

Other assets:			
Cash and due from banks	737,330	855,490	-13.8%
Money market investments	10,983	13,205	-16.8%
FDIC shared-loss indemnification asset	236,472	286,799	-17.5%
Foreclosed real estate	81,689	73,516	11.1%
Accrued interest receivable	17,508	17,554	-0.3%
Deferred tax asset, net	155,165	122,501	26.7%
Premises and equipment, net	84,301	84,997	-0.8%
Servicing assets	12,994	10,795	20.4%
Derivative assets	19,655	21,889	-10.2%
Goodwill	76,383	76,383	0.0%
Other assets	135,033	150,638	-10.4%
Total other assets	**1,567,513**	**1,713,767**	**-8.5%**
Total assets	**$ 8,435,934**	**$ 9,196,262**	**-8.3%**
Investments portfolio composition:			
FNMA and FHLMC certificates	74.9%	75.8%	
Obligations of US Government sponsored agencies	0.8%	1.0%	
US Treasury securities	1.4%	1.2%	
CMOs issued by US Government sponsored agencies	13.3%	13.0%	
GNMA certificates	0.6%	0.7%	
Puerto Rico Government and agency obligations	6.4%	5.4%	
FHLB stock	1.2%	1.7%	
Other debt securities and other investments	1.4%	1.2%	
	100.0%	**100.0%**	

Assets Owned

At June 30, 2013, the Company’s total assets amounted to $8.436 billion, a decrease of 8.3% when compared to $9.196 billion at December 31, 2012, and interest-earning assets decreased 8.2% from $7.482 billion at December 31, 2012 to $6.868 billion at June 30, 2013.

At June 30, 2013, loans represented 73% of total interest-earning assets while investments represented 27%, compared to 70% and 30%, respectively, at December 31, 2012.

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, leases, and auto loans. Auto loans were added as part of the recent BBVAPR Acquisition. At June 30, 2013, the Company’s loan portfolio decreased 3.4% to $4.991 billion compared to $5.169 billion at December 31, 2012. The covered loan portfolio decreased $25.9 million, or 6.6%, from December 31, 2012. The non-covered loan portfolio decreased $152.3 million, or 3.2%.

The FDIC shared-loss indemnification asset amounted to $236.5 million as of June 30, 2013 and $286.8 million as of December 31, 2012 ,representing a 17% reduction .The FDIC shared-loss indemnification asset is reduced as claims over losses recognized on covered loans are collected from the FDIC. Realized credit losses in excess of previously forecasted estimates result in an increase in the FDIC shared-loss indemnification asset. Conversely, if realized credit losses are less than previously forecasted estimates, the FDIC shared-loss indemnification asset is amortized through the term of the shared-loss agreements. The decrease in the FDIC shared-loss indemnification asset is mainly related to reimbursements of $18.7 million received from the FDIC during the six-month period ended June 30, 2013, net amortization of $32.8 million and a decrease of $2.1 million in expected net credit impairment losses to be covered under shared-loss agreements, partially offset by $3.2 million in incurred expenses to be reimbursed under the shared-loss agreements.

Investments principally consist of U.S. treasury securities, U.S. government and agency bonds, mortgage-backed securities and Puerto Rico government and agency bonds. At June 30, 2013, the investment portfolio decreased 16.7% to $1.861 billion from $2.233 billion at December 31, 2012. This decrease is mostly due to the effect of a decrease of $302.8 million in FNMA and FHLMC certificates. During the quarter and six-month period ended June 30, 2013, the Company did not have realized gains or losses due to the sale of securities.

Explanation of Responses:

TABLE 5 — LOANS RECEIVABLE COMPOSITION

	June 30, 2013	December 31, 2012	Variance %
	(In thousands)		
Loans not covered under shared-loss agreements with FDIC:			
Originated and other loans and leases held for investment:			
Mortgage	$ 755,298	$ 804,942	-6.2%
Commercial	702,074	353,930	98.4%
Auto and leasing	233,092	50,720	359.6%
Consumer	89,608	48,136	86.2%
Total originated and other loans and leases held for investment	**1,780,072**	**1,257,728**	**41.5%**
Acquired loans:			
Accounted for under ASC 310-20			
Commercial and industrial	140,234	317,244	-55.8%
Construction and commercial real estate	14,519	29,215	-50.3%
Auto	373,587	457,894	-18.4%
Consumer	62,751	68,878	-8.9%
	591,091	**873,231**	**-32.3%**
Accounted for under ASC 310-30			
Commercial	747,077	942,267	-20.7%
Construction	140,060	196,692	-28.8%
Mortgage	781,389	810,135	-3.5%
Auto	462,691	554,938	-16.6%
Consumer	88,375	118,171	-25.2%
	2,219,592	**2,622,203**	**-15.4%**
	2,810,683	**3,495,434**	**-19.6%**
	4,590,755	**4,753,162**	**-3.4%**
Deferred loans fees, net	(831)	(3,463)	76.0%
Loans receivable	4,589,924	4,749,699	**-3.4%**
Allowance for loan and lease losses on non-covered loans	(46,625)	(39,921)	-16.8%
Loans receivable, net	**4,543,299**	**4,709,778**	**-3.5%**
Mortgage loans held-for-sale	78,350	64,145	22.1%
Total loans not covered under shared-loss agreements with FDIC, net	**4,621,649**	**4,773,923**	**-3.2%**
Loans covered under shared-loss agreements with FDIC:			
	123,507	128,811	-4.1%

Loans secured by 1-4 family residential properties					
Construction and development secured by 1-4 family residential properties		16,478		15,969	3.2%
Commercial and other construction		275,489		289,070	-4.7%
Leasing		943		7,088	-86.7%
Consumer		6,955		8,493	-18.1%
Total loans covered under shared-loss agreements with FDIC		**423,372**		**449,431**	**-5.8%**
Allowance for loan and lease losses on covered loans		(53,992)		(54,124)	0.2%
Total loans covered under shared-loss agreements with FDIC, net		**369,380**		**395,307**	**-6.6%**
Total loans receivable, net	**$**	**4,991,029**	**$**	**5,169,230**	**-3.4%**

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As shown in Table 5 above, total loans receivable net amounted to $5.0 billion at June 30, 2013 compared to $5.2 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 $755.3 million (42.4% of the gross originated loan portfolio) compared to $804.9 million (64.1% of the gross originated loan portfolio) at December 31, 2012. Mortgage loan production totaled $101.3 million and $178.4 million for the quarter and the six-month period ended June 30, 2013, respectively, increase of 107.2% and 90.0% from $48.9 million and $93.9 million in the previous year quarter and six-month period, respectively.

- Commercial loan portfolio amounted to $702.1 million (39.4% of the gross originated loan portfolio) compared to $353.9 million (28.1% of the gross originated loan portfolio) at December 31, 2012. Commercial loan production increased 193.8% to $104.3 million for the second quarter ended June 30, 2013 and increased 95.5% to $178.3 for the six-month period ended June 30, 2013 from $35.5 million and $91.2 million for the same period in 2012.

- Consumer loan portfolio amounted to $89.6 million (5.0% of the gross originated loan portfolio) compared to $48.1 million (3.8% of the gross originated loan portfolio) at December 31, 2012. Consumer loan production increased 245.5% to $26.6 million for the quarter ended June 30, 2013 and 284.4% to $49.2 million for the six-month period ended June 30, 2013 from $7.7 million and $12.8 million for the same period in 2012.

- Auto and leasing portfolio amounted to $233.1 million (13.0% of the gross originated loan portfolio) compared to $50.7 million (4.0% of the gross originated loan portfolio) at December 31, 2012. Auto and leasing production was $94.7 million for the quarter ended June 30, 2013 and $195.7 million for the six-month period ended June 30, 2013, compared to $4.4 million and $8.9 million for the same period in 2012 in which the Company only originated leases. The auto business line was added as part of the BBVAPR Acquisition on December 18, 2012.

At June 30, 2013 the Company's non-covered BBVAPR acquired loan portfolio composition was as follows :

Portfolio Type	**Carrying Amounts (In thousands)**		**% of Gross Non-Covered Acquired Portfolio**
Mortgage	$	781,389	27.80%

Commercial		1,041,888	37.07%
Consumer		151,124	5.38%
Auto		836,282	29.75%
	$	**2,810,683**	**100.00%**

TABLE 6 - LIABILITIES SUMMARY AND COMPOSITION

	June 30, 2013	December 31, 2012	Variance %
	(Dollars in thousands)		
Deposits:			
Non-interest bearing deposits	$ 872,806	$ 799,667	9.1%
NOW accounts	1,421,563	1,647,072	-13.7%
Savings and money market accounts	909,258	634,133	43.4%
Certificates of deposit	2,457,384	2,603,693	-5.6%
Total deposits	**5,661,011**	**5,684,565**	**-0.4%**
Accrued interest payable	4,027	4,994	-19.4%
Total deposits and accrued interest payable	**5,665,038**	**5,689,559**	**-0.4%**
Borrowings:			
Short term borrowings	-	92,210	-100.0%
Securities sold under agreements to repurchase	1,313,870	1,695,247	-22.5%
Advances from FHLB	285,135	536,542	-46.9%
Federal funds purchased	29,431	9,901	197.3%
Other term notes	7,734	7,734	0.0%
Subordinated capital notes	98,961	146,038	-32.2%
Total borrowings	**1,735,131**	**2,487,672**	**-30.3%**
Total deposits and borrowings	**7,400,169**	**8,177,231**	**-9.5%**
Derivative liabilities	16,701	26,260	-36.4%
Acceptances outstanding	30,571	26,996	13.2%
Other liabilities	117,569	102,169	15.1%
Total liabilities	**$ 7,565,010**	**$ 8,332,656**	**-9.2%**
Deposits portfolio composition percentages:			
Non-interest bearing deposits	15.4%	14.1%	
NOW accounts	25.1%	29.0%	
Savings and money market accounts	16.1%	11.2%	
Certificates of deposit	43.4%	45.7%	
	100.0%	**100.0%**	
Borrowings portfolio composition percentages:			
Short term borrowings	0.0%	3.7%	
Securities sold under agreements to repurchase	75.8%	68.1%	
Advances from FHLB	16.4%	21.6%	
Federal funds purchased	1.7%	0.4%	

Other term notes		0.4%		0.3%
Subordinated capital notes		5.7%		5.9%
		100.0%		**100.0%**
Securities sold under agreements to repurchase				
Amount outstanding at period-end	$	1,313,870	$	1,695,247
Daily average outstanding balance	$	1,440,866	$	2,888,558
Maximum outstanding balance at any month-end	$	1,695,247	$	3,060,578

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Liabilities and Funding Sources

As shown in Table 6 above, at June 30, 2013, the Company's total liabilities were $7.565 billion, 9.2% less than the $8.333 billion reported at December 31, 2012. Deposits and borrowings, the Company's funding sources, amounted to $7.400 billion at June 30, 2013 versus $8.177 billion at December 31, 2012, an 9.5% decrease.

At June 30, 2013, deposits represented 77% and borrowings represented 23% of interest-bearing liabilities, compared to 70% and 30%, respectively, at December 31, 2012. At June 30, 2013, deposits and accrued interest payable, the largest category of the Company's interest-bearing liabilities, were $5.665 billion, down 0.4% from $5.690 billion at December 31, 2012. Core deposits increased 2.7% to $4.891 billion at June 30, 2013 from December 31, 2012, and brokered deposits decreased 16.6% to $774.1 million as of June 30, 2013 from $928.2 million at December 31, 2012.

Borrowings consist mainly of funding sources through the use of repurchase agreements, FHLB advances, subordinated capital notes, and short-term borrowings. At June 30, 2013, borrowings amounted to $1.735 billion, 30.3% lower than the $2.488 billion reported at December 31, 2012. Repurchase agreements as of June 30, 2013 decreased $381.4 million to $1.314 billion from $1.695 billion at December 31, 2012, as the Company used available cash to pay off repurchase agreements at maturity.

As a member of the FHLB, the Bank can obtain advances from the FHLB, secured by the FHLB stock owned by the Bank, as well as by certain of the Bank's mortgage loans and investment securities. Advances from FHLB amounted to $285.1 million and $536.5 million as of June 30, 2013 and December 31, 2012, respectively. These advances mature from July 2013 through January 2018.

Stockholders' Equity

At June 30, 2013, the Company's total stockholders' equity was $870.9 million, a 0.8% increase when compared to $863.6 million at December 31, 2012. Increase in stockholders' equity was mainly driven by the income for the six-month period, partially offset by changes to other comprehensive income.

Tangible common equity to total assets increased to 7.30% from 6.74% at the end of the last year. Tier 1 Leverage Capital Ratio increased to 8.54% from 6.42%, Tier 1 Risk-Based Capital Ratio increased to 13.96% from 12.94%, and Total Risk-Based Capital Ratio increased to 16.02% from 15.15% on December 31, 2012.

The Company maintains capital ratios in excess of regulatory requirements. At June 30, 2013, Tier 1 Leverage Capital Ratio was 2.14 times the minimum requirement of 4.00%, Tier 1 Risk-Based Capital Ratio was 3.49 times the minimum requirement of 4.00%, and Total Risk-Based Capital Ratio was 2.00 times the minimum requirement of 8.00%.

The following are the consolidated capital ratios of the Company at June 30, 2013 and December 31, 2012:

TABLE 7 — CAPITAL, DIVIDENDS AND STOCK DATA

	June 30, 2013	December 31, 2012	Variance %
	(Dollars in thousands, except per share data)		
Capital data:			
Stockholders' equity	$ 870,924	$ 863,606	0.8%
Regulatory Capital Ratios data:			
Leverage capital ratio	**8.54%**	**6.42%**	32.9%
Minimum leverage capital ratio required	4.00%	4.00%	
Actual tier 1 capital	$ 702,801	$ 678,127	3.6%
Minimum tier 1 capital required	$ 329,225	$ 422,307	-22.0%
Excess over regulatory requirement	$ 373,576	$ 255,820	46.0%
Tier 1 risk-based capital ratio	**13.96%**	**12.94%**	7.9%
Minimum tier 1 risk-based capital ratio required	4.00%	4.00%	
Actual tier 1 risk-based capital	$ 702,801	$ 678,127	3.6%
Minimum tier 1 risk-based capital required	$ 201,409	$ 209,634	-3.9%
Excess over regulatory requirement	$ 501,392	$ 468,493	7.0%
Risk-weighted assets	$ 5,035,233	$ 5,240,861	-3.9%
Total risk-based capital ratio	**16.02%**	**15.15%**	5.7%
Minimum total risk-based capital ratio required	8.00%	8.00%	
Actual total risk-based capital	$ 806,418	$ 794,195	1.5%
Minimum total risk-based capital required	$ 402,819	$ 419,269	-3.9%
Excess over regulatory requirement	$ 403,599	$ 374,926	7.6%
Risk-weighted assets	$ 5,035,233	$ 5,240,861	-3.9%
Tangible common equity to total assets	**7.30%**	**6.73%**	8.5%
Tangible common equity to risk-weighted assets	**12.22%**	**11.82%**	3.4%
Total equity to total assets	**10.32%**	**9.39%**	9.9%
Total equity to risk-weighted assets	**17.30%**	**16.48%**	5.0%
Tier 1 common equity to risk-weighted assets	**9.97%**	**9.11%**	9.4%
Tier 1 common equity capital	$ 501,932	$ 477,241	5.2%
Stock data:			
Outstanding common shares	45,640,105	45,580,281	0.1%

Book value per common share	$	15.45	$	15.31	0.9%
Market price at end of period	$	18.11	$	13.35	35.7%
Market capitalization at end of period	$	826,542	$	608,497	35.8%

	Six-Month Period Ended June 30,				
		2013		2012	Variance %
Common dividend data:					
Cash dividends declared	$	5,479	$	4,886	12.1%
Cash dividends declared per share	$	0.12	$	0.12	0.0%
Payout ratio		11.54%		21.19%	-45.5%
Dividend yield		1.33%		2.17%	-38.9%

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The following table presents a reconciliation of the Company’s total stockholders’ equity to tangible common equity and total assets to tangible assets at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
	(In thousands, except share or per share information)	
Total stockholders' equity	$ 870,924	$ 863,606
Preferred stock	(176,000)	(176,000)
Preferred stock issuance costs	10,130	10,115
Goodwill	(76,383)	(76,383)
Core deposit intangible	(8,633)	(9,463)
Customer relationship intangible	(4,568)	(5,027)
Total tangible common equity	**$ 615,470**	**$ 606,848**
Total assets	8,435,934	9,196,261
Goodwill	(76,383)	(76,383)
Core deposit intangible	(8,633)	(9,463)
Customer relationship intangible	(4,568)	(5,027)
Total tangible assets	**$ 8,346,350**	**$ 9,105,388**
Tangible common equity to tangible assets	**7.37%**	**6.66%**
Common shares outstanding at end of period	45,640,105	45,580,281
Tangible book value per common share	**$ 13.49**	**$ 13.31**

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 Supervisory Capital Assessment Program, the Federal Reserve Board began supplementing its assessment of the capital adequacy of a large bank holding company 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 June 30, 2013 and December 31, 2012 to Tier 1 common equity (non-GAAP):

	June 30, 2013	December 31 2012
	(In thousands)	
Common stockholders' equity	$ 705,054	$ 697,721
Unrealized gains on available-for-sale securities, net of income tax	(25,400)	(68,245)
Unrealized losses on cash flow hedges, net of income tax	9,634	12,365
Disallowed deferred tax assets	(96,473)	(85,010)
Disallowed servicing assets	(1,299)	(1,079)
Intangible assets:		
Goodwill	(76,383)	(76,383)
Other disallowed intangibles	(13,201)	(14,490)
Total Tier 1 common equity	**$ 501,932**	**$ 464,879**
Tier 1 common equity to risk-weighted assets	**9.97%**	**8.87%**

The following table presents the Company's capital adequacy information at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
	(In thousands)	
Risk-based capital:		
Tier 1 capital	$ 702,801	$ 678,127
Supplementary (Tier 2) capital	103,616	116,068
Total risk-based capital	**$ 806,417**	**$ 794,195**
Risk-weighted assets:		
Balance sheet items	$ 4,715,273	$ 4,927,919
Off-balance sheet items	319,960	312,942
Total risk-weighted assets	**$ 5,035,233**	**$ 5,240,861**
Ratios:		
Tier 1 capital (minimum required - 4%)	13.96%	12.94%
Total capital (minimum required - 8%)	16.02%	15.15%
Leverage ratio	8.54%	6.42%
Equity to assets	10.32%	9.39%
Tangible common equity to assets	7.30%	6.66%

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 as otherwise discussed below in light of the Dodd-Frank Act in connection with certain debt or equity instruments issued on or after May 19, 2010, 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. At June 30, 2013 and December 31, 2012, the Company was a "well capitalized" institution for regulatory purposes.

The Federal Reserve Board has regulations with respect to risk-based and leverage capital ratios that require most intangibles, including goodwill and core deposit intangibles, to be deducted from Tier 1 Capital. The only types of identifiable intangible assets that may be included in, that is, not deducted from, an organization's capital are readily marketable mortgage servicing assets, nonmortgage servicing assets, and purchased credit card relationships.

In addition, the Federal Reserve Board has established minimum leverage ratio (Tier 1 Capital to total assets) guidelines for bank holding companies and member banks. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies and member banks that meet certain specified criteria, including that they have the highest regulatory rating. All other bank holding companies and member banks are required to maintain a minimum ratio of Tier 1 Capital to total assets of 4%. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines state that the Federal Reserve Board will continue to consider a "tangible Tier 1 leverage ratio" and other indicators of capital strength in evaluating proposals for expansion or new activities.

Under the Dodd-Frank Act, federal banking regulators are required to establish minimum leverage and risk-based capital requirements on a consolidated basis for insured institutions, depository institution holding companies, and non-bank financial companies supervised by the Federal Reserve Board. The minimum leverage and risk-based capital requirements are to be determined based on the minimum ratios established for insured depository institutions under prompt corrective action regulations. In effect, such provision of the Dodd-Frank Act (i.e., Section 171), which is commonly known as the Collins Amendment, applies to bank holding companies the same leverage and risk based capital requirements that apply to insured depository institutions. Because the capital requirements must be the same for insured depository institutions and their holding companies, the Collins Amendment generally excludes certain debt or equity instruments, such as cumulative perpetual preferred stock and trust preferred securities, from Tier 1 Capital, subject to a three-year phase-out from Tier 1 qualification for such instruments issued before May 19, 2010, with the phase-out commencing on January 1, 2014 for advanced approaches banking organizations and January 1, 2015 for other bank holding companies with consolidated assets of $15 billion or more as of December 31, 2009. However, such instruments issued before May 19, 2010 by a bank holding company, such as the Company, with total consolidated assets of less than $15 billion as of December 31, 2009, are not affected by the Collins Amendment and may continue to be included in Tier 1 Capital as a restricted core capital element.

In July 2013, the Office of the Comptroller of the Currency (the "OCC"), the Federal Reserve Board, and the FDIC adopted new rules that revise and replace the agencies' current capital rules. The new capital rules revise the agencies' risk-based and leverage capital requirements for banking organizations, and consolidate three separate notices of proposed rulemaking that the OCC, Federal Reserve Board and FDIC published in the Federal Register on August 30, 2012, with selected changes. These rules implement a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement, a higher minimum Tier 1 capital requirement, and, for banking organizations subject to the advanced approaches risk-based capital rules, a supplementary leverage ratio that incorporates a broader set of exposures in the denominator. The rules incorporate these new requirements into the agencies' prompt corrective action framework. In addition, the rules establish limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

Further, the rules amend the methodologies for determining risk-weighted assets for all banking organizations; introduce disclosure requirements that would apply to top-tier banking organizations domiciled in the United States with $50 billion or more in total assets; and adopt changes to the agencies' regulatory capital requirements that meet the requirements of Section 171 and Section 939A of the Dodd-Frank Act. These rules also codify the agencies' current capital rules, which have previously resided in various appendices to their respective regulations, into a harmonized integrated regulatory framework.

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG." At June 30, 2013 and December 31, 2012, the Company's market capitalization for its outstanding common stock was $826.5 million ($18.11 per share) and $608.5 million ($13.35 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 in 2013, 2012 and 2011:

	Price		Cash Dividend
	High	Low	Per share
2013			
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
2011			
December 31, 2011	$ 12.35	$ 9.19	$ 0.06
September 30, 2011	$ 13.20	$ 9.18	$ 0.05
June 30, 2011	$ 13.07	$ 11.26	$ 0.05
March 31, 2011	$ 12.84	$ 11.40	$ 0.05

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 June 30, 2013 and at December 31, 2012:

	June 30, 2013	December 31, 2012	Variance %
	(Dollars in thousands)		
Oriental Bank Regulatory Capital Ratios:			
Total Tier 1 Capital to Total Assets	**7.84%**	**5.76%**	**36.2%**
Actual tier 1 capital	$ 641,043	$ 604,997	6.0%
Minimum capital requirement (4%)	$ 327,058	$ 420,298	-22.2%
Minimum to be well capitalized (5%)	$ 408,823	$ 525,373	-22.2%
Tier 1 Capital to Risk-Weighted Assets	**12.94%**	**11.80%**	**9.7%**
Actual tier 1 risk-based capital	$ 641,043	$ 604,997	6.0%
Minimum capital requirement (4%)	$ 198,145	$ 205,134	-3.4%
Minimum to be well capitalized (6%)	$ 297,218	$ 307,701	-3.4%
Total Capital to Risk-Weighted Assets	**15.01%**	**14.03%**	**7.0%**
Actual total risk-based capital	$ 743,653	$ 719,675	3.3%
Minimum capital requirement (8%)	$ 396,291	$ 410,268	-3.4%
Minimum to be well capitalized (10%)	$ 495,363	$ 512,835	-3.4%

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Company's Financial Assets Managed

The Company's financial assets managed include those managed by the Company's trust division, retirement plan administration subsidiary, and its broker-dealer subsidiaries. Assets managed by the trust division and the broker-dealer subsidiaries increased from December 31, 2012, mainly as a result of an increase in employer and employee account contributions and capital market appreciation.

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 June 30, 2013, total assets managed by the Company's trust division and CPC amounted to $2.639 billion, compared to $2.514 billion at December 31, 2012. Oriental Financial Services and OFS Securities offer a wide array of investment alternatives to their client base, such as tax-advantaged fixed income securities, mutual funds, stocks, bonds and money management wrap-fee programs. At June 30, 2013, total assets gathered by Oriental Financial Services and OFS Securities from their customer investment accounts increased to $2.822 billion, compared to $2.722 billion in assets gathered at December 31, 2012.

Allowance for Loan and Lease Losses and Non-Performing Assets

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 13 set forth an analysis of activity in the allowance for loan and lease losses and present selected loan loss statistics. In addition, refer to Table 5 for the composition of the loan portfolio.

Non-covered Loans

At June 30, 2013, the Company's allowance for non-covered loan and lease losses amounted to $46.6 million, $41.2 million of such allowance corresponded to originated and other loans held for investment, or 2.91% of total non-covered originated and other loans held for investment at June 30, 2013, compared to $39.9 million or 3.17% of total non-covered originated and other loans held for investment at December 31, 2012. The allowance for residential mortgage loans, consumer loans, and auto and leases increased by 8.5% (or $1.8 million), 53.4% (or $457 thousand), and 226.6% (or $1.2 million), respectively, when compared with balances recorded at December 31, 2012. The

allowance for commercial loans decreased by 4.4%, or $758 thousand, when compared with balances recorded at December 31, 2012. The unallocated allowance at June 30, 2013 decreased by 79.1%, or $291 thousand, when compared with balances recorded at December 31, 2012.

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.

Loans acquired in a business acquisition are recorded at their fair value at the acquisition date. Credit cards, floor plans, revolving lines of credit, and auto loans with FICO scores over 660, acquired as part of the BBVAPR Acquisition are accounted for under the guidance of ASC 310-20, which requires that any differences between contractually required loan payment receivable in excess of the Company's initial investment in the loans be accreted into interest income on a level-yield basis over the life of the loan. Loans acquired in the BBVAPR Acquisition that were accounted for under the provisions of ASC 310-20 which had fully amortized their premium or discount, recorded at the date of acquisition, at the end of the reporting period are removed from the acquired loan category. Allowance for loan and lease losses recorded for acquired loans as of June 30, 2013 was $924 thousand.

The remaining loans acquired in the BBVAPR Acquisition are accounted for under ASC-310-30 and were recognized at fair value as of December 18, 2012. The Company does not believe differences between cash flows collected on the loans acquired in the BBVAPR Acquisition accounted for under ASC-310-30 and those anticipated at December 18, 2012 are the result of credit deterioration from our original estimates, and thus no allowance for these loans was recorded as of June 30, 2013.

There have been no material changes in criteria or estimation techniques as compared to prior periods that impacted the determination of the current period allowance for loan and lease losses, except for the inclusion of the loans acquired under BBVAPR Acquisition.

The Company's non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At June 30, 2013 and December 31, 2012, the Company had $132.2 million and $146.6 million, respectively, of non-accrual non-covered loans, including acquired loans accounted under ASC 310-20 (loans with revolving feature and/or acquired at a premium). Covered loans

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and loans acquired from BBVAPR with credit deterioration are considered to be performing due to the application of the accretion method under ASC 310-30. At June 30, 2013 and December 31, 2012, loans whose terms have been extended and which are classified as troubled-debt restructuring that are not included in non-performing assets amounted to $48.3 million and $52.0 million, respectively.

At June 30, 2013, the Company's non-performing assets decreased 3.2% to $221.3 million (3.84% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) from $228.5 million (3.72% of total assets, excluding covered assets and acquired loans with deteriorated credit quality) at December 31, 2012. 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 June 30, 2013, the allowance for non-covered originated loans and lease losses to non-performing loans coverage ratio was 32.45% (27.13% at December 31, 2012).

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, and does not originate construction and development loans.

The following items comprise non-performing assets:

1. 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 June 30, 2013, the Company's originated non-performing mortgage loans totaled $99.1 million (75.0% of the Company's non-performing loans), a 13.8% decrease from $115.0 million (78.4% of the Company's non-performing loans) at December 31, 2012. Non-performing loans in this category are primarily residential mortgage loans. Non-performing loans decrease is primarily due to the reclassification of certain non-performing residential mortgage loans with a net book value of $53.6 million, to the loan held-for-sale category. Without this re-class to loans held-for-sale, non-performing loan balances would have been relatively consistent between December 31, 2012 and June 31, 2013.

- 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 June 30, 2013, the Company's originated non-performing commercial loans amounted to $30.8 million (23.3% of the Company's non-performing loans), a 4.2% increase when compared to non-performing commercial loans of $29.5 million at

December 31, 2012 (20.1% 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 June 30, 2013, the Company's originated non-performing consumer loans amounted to $371 thousand (0.3% of the Company's total non-performing loans), a 16.1% decrease from $442 thousand at December 31, 2012 (0.3% of the Company's total non-performing loans).

• Auto and leases — are placed on non-accrual status when they become 90 days past due and partially written-off to collateral value when payments are delinquent 120 days, and fully written-off when payments are delinquent 180 days. At June 30, 2013, the Company's originated non-performing auto and leases amounted to $219 thousand (0.2% of the Company's total non-performing loans), an increase of 67.2% from $131 thousand at December 31, 2012 (0.1% of the Company's total non-performing loans).

2. 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 June 30, 2013, the Company's acquired non-performing commercial lines of credit accounted for under ASC 310-20 amounted to $153 thousand (0.1% of the Company's non-performing loans), a 20.7% decrease when compared to non-

performing commercial lines of credit accounted for under ASC 310-20 of $193 thousand at December 31, 2012 (0.1% 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 and written-off when payments are delinquent 120 days. At June 30, 2013, the Company's acquired non-performing auto loans accounted for under ASC 310-20 totaled $605 thousand (0.5% of the Company's non-performing loans), a 120.0% increase when compared to non-performing auto loans accounted for under ASC 310-20 of $275 thousand at December 31, 2012 (0.2% 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 June 30, 2013, the Company's acquired non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 totaled $1.0 million (0.8% of the Company's non-performing loans), an 8.6% decrease when compared to non-performing consumer lines of credit and credit cards accounted for under ASC 310-20 of $1.1 million at December 31, 2012 (0.7% of the Company's non-performing loans).

3. Acquired loans accounted for under ASC 310-30 are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.

4. Foreclosed real estate is initially recorded at the lower of the related loan balance or fair value less 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 the sale of foreclosed real estate for the quarter and six-month period ended June 30, 2013 amounted to $1.7 million and $3.6 million, respectively, compared to $886 thousand and $1.3 million for the same quarter in 2012.

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 the 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 by the credit underwriting guidelines of FHA/VA/FNMA/FMAC, 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 will 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.

Covered Loans

The allowance for loan and lease losses on covered loans acquired in the FDIC-assisted acquisition of Eurobank 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 shared-loss indemnification asset.

During the quarter ended June 30, 2013, the assessment of actual versus expected cash flows resulted in a net provision of $1.2 million, principally because certain pools of commercial real estate backed loans underperformed. The pools in which an additional allowance was recognized had no offsetting adjustment to the FDIC shared-loss indemnification asset as these losses were not covered by a loss share agreement and were mainly attributed to delay timing in the expected cash flows rather than additional forecasted losses.

For the six-month period ended June 30, 2013, the net provision for covered loans amounted to $1.9 million. The allowance for covered loans decreased from $54.1 million at December 31, 2012 to $53.0 million at June 30, 2013. The decrease in the allowance balance is mainly attributable to the fact that during the first quarter of this period, the assessment of actual versus expected cash flows included the reversal of previously recorded allowance in certain commercial real estate and commercial and industrial pools whose loans the Company has managed to workout with better outcomes than forecasted.

TABLE 8 — ALLOWANCE FOR LOAN AND LEASE LOSSES SUMMARY

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2013	2012	Variance %	2013	2012	Variance %
	(Dollars in thousands)					
Non-covered loans						
Originated loans:						
Balance at beginning of period	$ 42,334	$ 37,361	13.3%	$ 39,921	$ 37,010	7.9%
Provision for non-covered loan and lease losses	35,919	3,800	845.2%	41,715	6,800	513.5%
Charge-offs	(33,038)	(3,853)	757.5%	(36,521)	(6,624)	451.3%
Recoveries	486	94	417.0%	586	216	171.3%
	45,701	37,402	22.2%	45,701	37,402	22.2%
Acquired loans accounted for under ASC 310-20:						
Balance at beginning of period	$ 386	$ -	0.0%	$ -	$ -	0.0%
Provision for non-covered loan and lease losses	1,608	-	100.0%	3,728	-	100.0%
Charge-offs	(2,593)	-	100.0%	(5,764)	-	100.0%
Recoveries	1,523	-	100.0%	2,960	-	100.0%
	924	-	100.0%	924	-	100.0%
Total non-covered loans balance at end of period	**$ 46,625**	**$ 37,402**	**24.7%**	**$ 46,625**	**$ 37,402**	**24.7%**

Allowance for loans and lease losses on originated loans to:								
Total originated loans		2.57%		3.17%	-19.0%	2.57%	3.03%	-15.2%
Non-performing originated loans		51.03%		31.03%	64.4%	51.03%	30.54%	67.1%
Allowance for loans and lease losses on acquired loans accounted for under ASC 310-20:								
Total acquired loans accounted for under ASC 310-20		0.16%		-	100.0%	0.07%	-	100.0%
Non-performing acquired loans accounted for under ASC 310-20		41.32%		-	100.0%	41.32%	-	100.0%
<u>Covered loans</u>								
Balance at beginning of period	$	54,124	$	56,437	-4.1%	$ 54,124	$ 37,256	45.3%
Provision for covered loan and lease losses, net		672		1,467	-54.2%	672	8,624	-92.2%
FDIC shared-loss portion on (provision for) recapture of loan and lease losses		(1,822)		724	-351.7%	(1,822)	12,748	-114.3%

Balance at end of period	**$**	**52,974**	**$**	**58,628**	**-9.6%**	**$**	**52,974**	**$**	**58,628**	**-9.6%**

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TABLE 9 — ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES BREAKDOWN

	June 30, 2013	December 31, 2012	Variance %
	(Dollars in thousands)		
Originated and other loans held for investment			
Allowance balance:			
Mortgage	$ 21,375	$ 21,092	1.3%
Commercial	17,623	17,072	3.2%
Auto and leasing	3,641	533	583.1%
Consumer	2,342	856	173.6%
Unallocated allowance	720	368	95.7%
Total allowance balance	**$ 45,701**	**$ 39,921**	**14.5%**
Allowance composition:			
Mortgage	46.77%	52.83%	-11.5%
Commercial	38.56%	42.76%	-9.8%
Auto and leasing	7.97%	1.34%	494.8%
Consumer	5.12%	2.14%	139.3%
Unallocated allowance	1.58%	0.93%	69.9%
	100.00%	**100.00%**	
Allowance coverage ratio at end of period applicable to:			
Mortgage	2.83%	2.62%	8.0%
Commercial	2.51%	4.82%	-48.0%
Auto and leasing	1.56%	1.05%	48.6%
Consumer	2.61%	1.78%	47.0%
Unallocated allowance to total originated loans	0.04%	0.03%	38.2%
Total allowance to total originated loans	**2.57%**	**3.17%**	**-19.1%**
Allowance coverage ratio to non-performing loans:			
Mortgage	38.40%	18.34%	109.4%
Commercial	54.34%	57.86%	-6.1%
Auto and leasing	332.21%	406.87%	-18.4%
Consumer	631.27%	193.67%	226.0%
Total	**51.03%**	**27.52%**	**85.4%**
Acquired loans accounted for under ASC 310-20			
Allowance balance:			
Commercial	$ 924	$ -	100.0%
Total allowance balance	**$ 924**	**$ -**	**100.0%**
Allowance composition:			

Commercial	100.00%	0.00%	100.0%
	100.00%	**0.00%**	
Allowance coverage ratio at end of period applicable to:			
Commercial	0.60%	0.00%	100.0%
Total allowance to total acquired loans	**0.11%**	**0.00%**	**100.0%**
Allowance coverage ratio to non-performing loans:			
Commercial	187.42%	0.00%	100.0%

TABLE 10 — NET CREDIT LOSSES STATISTICS ON NON-COVERED ORIGINATED LOAN AND LEASES

	Quarter Ended June 30,			Six-Month Period Ended June 30,		
	2013	2012	Variance %	2013	2012	Variance %
	(In thousands)			(In thousands)		
Mortgage			200			
Charge-offs	$ (29,119)	$ (1,948)	1394.8%	$ (31,708)	$ (2,869)	1005.2%
Total	**(29,119)**	**(1,948)**	**1394.8%**	**(31,708)**	**(2,869)**	**1005.2%**
Commercial						
Charge-offs	(2,887)	(1,721)	67.8%	(3,444)	(3,358)	2.6%
Recoveries	234	34	588.2%	262	101	159.4%
Total	**(2,653)**	**(1,687)**	**57.3%**	**(3,182)**	**(3,257)**	**-2.3%**
Consumer						
Charge-offs	(323)	(184)	75.5%	(569)	(366)	55.5%
Recoveries	43	56	-23.2%	108	107	0.9%
Total	**(280)**	**(128)**	**118.8%**	**(461)**	**(259)**	**78.0%**
Auto and leasing						
Charge-offs	(709)	-	-100.0%	(800)	(31)	2480.6%
Recoveries	209	4	5125.0%	216	8	2600.0%
Total	**(500)**	**4**	**-12600%**	**(584)**	**(23)**	**2439.1%**
Net credit losses						
Total charge-offs	(33,038)	(3,853)	757.5%	(36,521)	(6,624)	451.3%
Total recoveries	486	94	417.0%	586	216	171.3%
Total	**$ (32,552)**	**$ (3,759)**	**766.0%**	**$ (35,935)**	**$ (6,408)**	**460.8%**
Net credit losses to average loans outstanding:						
Mortgage	14.38%	0.95%	1413.7%	7.82%	0.69%	1033.3%
Commercial	2.66%	2.17%	22.6%	1.64%	2.13%	-23.0%
Consumer	1.52%	1.29%	17.8%	1.43%	1.34%	6.7%
Auto and leasing	1.05%	-0.06%	-1850.0%	0.81%	0.17%	376.5%
Total	**8.84%**	**1.25%**	**607.2%**	**5.11%**	**1.07%**	**377.6%**
Recoveries to charge-offs	**1.47%**	**2.44%**	**-39.7%**	**1.60%**	**3.26%**	**-50.8%**
Average originated loans:						
Mortgage	$ 809,898	$ 821,807	-1.4%	$ 810,441	$ 828,700	-2.2%
Commercial	398,456	311,299	28.0%	386,882	305,116	26.8%
Consumer	73,776	39,623	86.2%	64,412	38,798	66.0%

Auto and leasing		190,129		27,908	581.3%	144,441		26,719	440.6%
Total	$	**1,472,259**	$	**1,200,637**	**22.6%**	$ **1,406,176**	$	**1,199,333**	**17.2%**

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TABLE 11 — NON-PERFORMING ASSETS

	June 30, 2013	December 31, 2012	Variance (%)
	(Dollars in thousands)		
Non-performing assets:			
Non-accruing loans			
Troubled Debt Restructuring loans	$ 35,566	$ 50,468	-29.5%
Other loans	52,762	96,176	-45.1%
Accruing loans			
Troubled Debt Restructuring loans	2,821	-	0.0%
Other loans	652	-	0.0%
Total non-performing loans	$ 91,801	$ 146,644	-37.4%
Foreclosed real estate not covered under the shared-loss agreements with the FDIC	81,689	75,447	8.3%
Other repossessed asset	8,921	6,084	46.6%
Mortgage loans held for sale	26,586	319	8234.2%
	$ 208,997	**$ 228,494**	**-8.5%**
Non-performing assets to total assets, excluding covered assets and acquired loans with deteriorated credit quality (including those by analogy)	**3.59%**	**3.72%**	**-3.5%**
Non-performing assets to total capital	**24.00%**	**26.46%**	**-9.3%**

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	$ 530	$ 1,642	$ 991	$ 3,075

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TABLE 12 — NON-PERFORMING LOANS

	June 30, 2013	December 31, 2012	Variance %
	(Dollars in thousands)		
Non-performing loans:			
Originated and other loans held for investment			
Mortgage	$ 55,668	$ 115,002	-51.6%
Commercial	32,430	29,506	9.9%
Consumer	371	442	-16.1%
Auto and leasing	1,096	131	736.6%
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	493	193	155.4%
Auto loans	674	275	145.1%
Consumer	1,069	1,095	-2.4%
Total	**$ 91,801**	**$ 146,644**	**-37.4%**
Non-performing loans composition percentages:			
Originated loans			
Mortgage	60.6%	78.4%	
Commercial	35.3%	20.1%	
Consumer	0.4%	0.3%	
Auto and leasing	1.2%	0.1%	
Acquired loans accounted for under ASC 310-20 (Loans with revolving feature and/or acquired at a premium)			
Commercial	0.5%	0.1%	
Auto loans	0.7%	0.2%	
Consumer	1.2%	0.7%	
Total	**100.0%**	**100.0%**	
Non-performing loans to:			
Total loans, excluding covered loans and loans accounted for under ASC 310-30 (including those by analogy)	**3.87%**	**6.90%**	**-43.9%**
Total assets, excluding covered assets and loans accounted for	**1.58%**	**2.39%**	**-34.0%**

under ASC 310-30 (including those by analogy)			
Total capital	**10.54%**	**16.98%**	**-37.9%**
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)	**1.26%**	**2.01%**	**-37.2%**
Non-performing loans	**32.49%**	**29.17%**	**11.4%**
Other non-performing loans ratios:			
Charge-off rate on non-performing loans to non-performing loans			
on which charge-offs have been taken	**40.25%**	**27.86%**	**44.5%**
Allowance for loan and lease losses to non-performing			
loans on which no charge-offs have been taken	**75.23%**	**37.81%**	**99.0%**

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TABLE 13 — HIGHER RISK RESIDENTIAL MORTGAGE LOANS

	June 30, 2013 Higher-Risk Residential Mortgage Loans*								
	Junior Lien Mortgages			Interest Only Loans			High Loan-to-Value Ratio Mortgages LTV 90% and over		
	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage	Carrying Value	Allowance	Coverage
	(In thousands)								
Delinquency:									
0 - 89 days	$ 14,555	$ 353	2.43%	$ 26,680	$ 1,233	4.62%	$ 86,279	$ 3,003	3.48%
90 - 119 days	92	7 7	7.61%	153	9	5.88%	1,783	90	5.05%
120 - 179 days	124	17	13.71%	-	-	0.00%	93	8	8.60%
180 - 364 days	440	30	6.82%	1,375	330	24.00%	1,708	176	10.30%
365+ days	1,787	349	19.53%	2,512	928	36.94%	1,871	266	14.22%
Total	$ 16,998	$ 756	4.45%	$ 30,720	$ 2,500	8.14%	$ 91,734	$ 3,543	3.86%
Percentage of total loans excluding acquired loans accounted for under ASC 310-30	0.69%			1.25%			3.75%		
Refinanced or Modified Loans:									
Amount	$ 2,680	$ 290	10.82%	$ -	$ -	0.00%	$ 19,758	$ 2,066	10.46%
Percentage of Higher-Risk Loan Category	15.77%			0.00%			21.54%		
Loan-to-Value Ratio:									
Under 70%	$ 12,835	$ 612	4.77%	$ 5,599	$ 1,243	22.20%	$ -	$ -	-
70% - 79%	2,834	67	2.36%	3,942	182	4.62%	-	-	-
80% - 89%	1,019	36	3.53%	8,535	489	5.73%	-	-	-
90% and over	310	41	13.23%	12,644	586	4.63%	91,734	3,543	3.86%
	$ 16,998	$ 756	4.45%	$ 30,720	$ 2,500	8.14%	$ 91,734	$ 3,543	3.86%

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

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") and implemented by management through the adoption of a risk management program, which is overseen and monitored by the Chief Risk Officer and the Risk Management 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 highly complex, and use many simplifying 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 June 30, 2013 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	$	8,494	2.08%	$	11,596	2.90%
+ 100 Basis points	$	5,441	1.33%	$	7,067	1.77%
- 50 Basis points	$	(273)	-0.07%	$	(93)	-0.02%

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 its structured repurchase agreements and advances from the FHLB. 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 maturity and the re-pricing frequency of the liabilities have been extended to longer terms and the amounts of its structured repurchase agreements and advances from the FHLB been reduced.

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

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expense attributable to the one-month LIBOR rate corresponding to the swap notional stated rate. A derivative liability of $13.2 million was recognized at June 30, 2013, related to the valuation of these swaps. Refer to Note 7 of the unaudited consolidated financial statements for a description of these swaps.

As part of the BBVAPR Acquisition, the Company assumed certain derivative contracts from BBVAPR, including interest rate swaps not designated as hedging instruments which are utilized to convert certain fixed-rate loans to variable rates, and the mirror-images of these interest rate swaps in which BBVAPR entered 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 June 30, 2013, interest rate swaps offered to clients not designated as hedging instruments represented a derivative asset of $3.2 million, and the mirror-image interest rate swaps in which BBVAPR entered into represented a derivative liability of $3.2 million. Refer to Note 7 of the unaudited consolidated financial statements for a description of these swaps.

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 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 June 30, 2013 and December 31, 2012, 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 $16.0 million and $13.2 million, respectively, and the options sold to customers embedded in the certificates of deposit represented a liability of $15.3 million and $12.7 million, respectively.

Wholesale borrowings — The Company uses interest rate swaps to hedge the variability of interest cash flows of certain advances from FHLB that are tied to a variable rate index. The interest rate swaps effectively fix the Company’s interest payments on these borrowings. As of June 30, 2013, the Company had $225 million in interest rate swaps at an average rate of 2.63% designated as cash flow hedges for $225 million in advances from FHLB 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 growth remains a challenge due to the lack of significant employment growth, a housing sector that remains under pressure and the Puerto Rico government's large structural deficit.

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 of New York 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 significantly dependent on repurchase agreements. The Company's repurchase agreements have been structured with initial terms that mature from one month to two years for five repurchase agreements amounting to $811.6 million, and a $500 million repurchase agreement that matures on March 2, 2017.

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 the 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 June 30, 2013, the Company had approximately $748.3 million in cash and cash equivalents, $183 million in investment securities, $714 million in borrowing capacity at the FHLB of New York and $885 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. 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 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 Risk Management and Compliance Committee.

The Company is subject to extensive United States federal and Puerto Rico regulation, 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 June 30, 2013, 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***

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, 2012. 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.

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

None

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:**
10	Amendment and Termination Agreement, dated April 16, 2013, of Omnibus Asset Servicing Agreement between Oriental Bank and Bayview Loan Servicing, LLC.
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 June 30, 2013, 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.

Explanation of Responses:

Explanation of Responses:

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: August 8, 2013

José Rafael Fernández
President and Chief Executive Officer

By: /s/ Ganesh Kumar Date: August 8, 2013

Ganesh Kumar
Executive Vice President and Chief Financial Officer

Explanation of Responses: