

FIRST BANCORP /PR/  
Form 10-Q  
May 10, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

---

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 001-14793

**First BanCorp.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Puerto Rico  
(State or other jurisdiction of

66-0561882  
(I.R.S. employer

incorporation or organization)

identification number)

1519 Ponce de León Avenue, Stop 23

00908

Santurce, Puerto Rico

(Zip Code)

(Address of principal executive offices)

(787) 729-8200

(Registrant's telephone number, including area code)

Not applicable

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company

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

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

Common stock: 217,047,224 shares outstanding as of April 30, 2016.

---

**FIRST BANCORP.**

**INDEX PAGE**

<b>PART I. FINANCIAL INFORMATION</b>	<b>PAGE</b>
Item 1. Financial Statements:	
Consolidated Statements of Financial Condition (Unaudited) as of March 31, 2016 and December 31, 2015	5
Consolidated Statements of Income (Unaudited) – Quarters ended March 31, 2016 and March 31, 2015	6
Consolidated Statements of Comprehensive Income (Unaudited) – Quarters ended March 31, 2016 and March 31, 2015	7
Consolidated Statements of Cash Flows (Unaudited) – Quarters ended March 31, 2016 and March 31, 2015	8
Consolidated Statements of Changes in Stockholders’ Equity (Unaudited) – Quarters ended March 31, 2016 and March 31, 2015	9
Notes to Consolidated Financial Statements (Unaudited)	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	69
Item 3. Quantitative and Qualitative Disclosures About Market Risk	119
Item 4. Controls and Procedures	119
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	120
Item 1A. Risk Factors	120
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	122
Item 3. Defaults Upon Senior Securities	123
Item 4. Mine Safety Disclosures	123
Item 5. Other Information	123
Item 6. Exhibits	124

**SIGNATURES**



### Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the safe harbors created by such sections. When used in this Form 10-Q or future filings by First BanCorp. (the “Corporation”) with the U.S. Securities and Exchange Commission (“SEC”), in the Corporation’s press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases “would,” “will allow,” “intends,” “will likely result,” “expect to,” “should,” “anticipate,” “look forward,” “believes,” and other terms of similar meaning or import in connection with any discussion of future operating, financial or other performance are meant to identify “forward-looking statements.”

FirstBanCorp. wishes to caution readers not to place undue reliance on any such “forward-looking statements,” which speak only as of the date made, and to advise readers that these forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by us that are difficult to predict. Various factors, some of which are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the risks described or referenced below in Item 1A. “Risk Factors,” and the following:

- the ability of the Puerto Rico government or any of its public corporations or other instrumentalities to repay its respective debt obligations, including the effect of the recent payment defaults on bonds of the Government Development Bank for Puerto Rico (“GDB”) and certain bonds of government public corporations, recent and any future downgrades of the long-term and short-term debt ratings of the Puerto Rico government, and uncertainties as to how the United States (“U.S.”) government will address Puerto Rico’s financial problems, which could exacerbate Puerto Rico’s adverse economic conditions and, in turn, further adversely impact the Corporation;
- uncertainty about whether the Corporation will be able to continue to fully comply with the written agreement dated June 3, 2010 (the “Written Agreement”) that the Corporation entered into with the Federal Reserve Bank of New York (the “New York FED” or “Federal Reserve”) that, among other things, requires the Corporation to serve as a source of strength to FirstBank Puerto Rico (“FirstBank” or the “Bank”) and that, except with the consent generally of the New York FED and the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”), prohibits the Corporation from paying dividends to stockholders or receiving dividends from FirstBank, making payments on trust preferred securities or subordinated debt and incurring, increasing or guaranteeing debt or repurchasing any capital securities;
- a decrease in demand for the Corporation’s products and services and lower revenues and earnings because of the continued recession in Puerto Rico;

- uncertainty as to the availability of certain funding sources, such as retail brokered certificates of deposit (“brokered CDs”);
- the Corporation’s reliance on brokered CDs to fund operations and provide liquidity;
- the risk of not being able to fulfill the Corporation’s cash obligations or resume paying dividends to the Corporation’s stockholders in the future due to the Corporation’s need to receive approval from the New York FED and the Federal Reserve Board to declare or pay any dividends and to take dividends or any other form of payment representing a reduction in capital from FirstBank or FirstBank’s failure to generate sufficient cash flow to make a dividend payment to the Corporation;
- the weakness of the real estate markets and of the consumer and commercial sectors and their impact on the credit quality of the Corporation’s loans and other assets, which has contributed and may continue to contribute to, among other things, high levels of non-performing assets, charge-offs and provisions for loan and lease losses and may subject the Corporation to further risk from loan defaults and foreclosures;
- the ability of FirstBank to realize the benefits of its deferred tax assets subject to the remaining valuation allowance;
- adverse changes in general economic conditions in Puerto Rico, the U.S., and the U.S. Virgin Islands (“USVI”) and British Virgin Islands (“BVI”), including the interest rate environment, market liquidity, housing absorption rates, real estate prices, and disruptions in the U.S. capital markets, which reduced interest margins and affected funding sources, and has affected demand for all of the Corporation’s products and services and reduced the Corporation’s revenues and earnings, and the value of the Corporation’s assets, and may continue to have these effects;
- an adverse change in the Corporation’s ability to attract new clients and retain existing ones;

- the risk that additional portions of the unrealized losses in the Corporation's investment portfolio are determined to be other-than-temporary, including additional impairments on the Puerto Rico government's obligations;
- uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the U.S., the USVI and the BVI, which could affect the Corporation's financial condition or performance and could cause the Corporation's actual results for future periods to differ materially from prior results and anticipated or projected results;
- changes in the fiscal and monetary policies and regulations of the U.S. federal government and the Puerto Rico and other governments, including those determined by the Federal Reserve Board, the New York FED, the Federal Deposit Insurance Corporation ("FDIC"), government-sponsored housing agencies, and regulators in Puerto Rico, the USVI and the BVI;
- the risk of possible failure or circumvention of controls and procedures and the risk that the Corporation's risk management policies may not be adequate;
- the risk that the FDIC may increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in the Corporation's non-interest expenses;
- the impact on the Corporation's results of operations and financial condition of acquisitions and dispositions;
- a need to recognize impairments on the Corporation's financial instruments, goodwill or other intangible assets relating to acquisitions;
- the risk that downgrades in the credit ratings of the Corporation's long-term senior debt will adversely affect the Corporation's ability to access necessary external funds;
- the impact on the Corporation's businesses, business practices and results of operations of a potential higher interest rate environment; and



- general competitive factors and industry consolidation.

The Corporation does not undertake, and specifically disclaims any obligation, to update any of the “forward-looking statements” to reflect occurrences or unanticipated events or circumstances after the date of such statements, except as required by the federal securities laws.

Investors should refer to the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2015, as well as “Part II, Item 1A, Risk Factors” in this quarterly report on Form 10-Q, for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

**FIRST BANCORP.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(Unaudited)**

	<b>March 31, 2016</b>		<b>December 31, 2015</b>	
(In thousands, except for share information)				
<b>ASSETS</b>				
Cash and due from banks	\$	813,732	\$	532,985
Money market investments:				
Time deposits with other financial institutions		3,000		3,000
Other short-term investments		210,093		216,473
Total money market investments		213,093		219,473
Investment securities available for sale, at fair value:				
Securities pledged that can be repledged		793,303		793,562
Other investment securities		1,110,952		1,092,833
Total investment securities available for sale		1,904,255		1,886,395
Other equity securities		32,310		32,169
Loans, net of allowance for loan and lease losses of \$238,125				
(2015 - \$240,710)		8,893,217		9,033,155
Loans held for sale, at lower of cost or market		37,868		35,869
Total loans, net		8,931,085		9,069,024
Premises and equipment, net		159,151		161,016
Other real estate owned		142,888		146,801
Accrued interest receivable on loans and investments		44,891		48,697
Other assets		472,965		476,459
Total assets	\$	12,714,370	\$	12,573,019
<b>LIABILITIES</b>				
Non-interest-bearing deposits	\$	1,422,346	\$	1,336,559
Interest-bearing deposits		8,012,434		8,001,565
Total deposits		9,434,780		9,338,124
Securities sold under agreements to repurchase		700,000		700,000
Advances from the Federal Home Loan Bank (FHLB)		455,000		455,000
Other borrowings		216,183		226,492
Accounts payable and other liabilities		159,240		159,269
Total liabilities		10,965,203		10,878,885
<b>STOCKHOLDERS' EQUITY</b>				

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Preferred stock, authorized, 50,000,000 shares:					
Non-cumulative Perpetual Monthly Income Preferred Stock:					
issued 22,004,000 shares, outstanding 1,444,146 shares, aggregate					
liquidation value of \$36,104		36,104			36,104
Common stock, \$0.10 par value, authorized, 2,000,000,000 shares;					
issued, 218,089,106 shares (2015 - 216,051,128 shares issued)		21,809			21,605
Less: Treasury stock (at par value)		(108)			(96)
Common stock outstanding, 217,011,555 shares outstanding (2015 - 215,088,698					
shares outstanding)		21,701			21,509
Additional paid-in capital		927,454			926,348
Retained earnings, includes legal surplus reserve of \$42.8 million		761,266			737,922
Accumulated other comprehensive income (loss), net of tax of \$7,752		2,642			(27,749)
Total stockholders' equity		1,749,167			1,694,134
Total liabilities and stockholders' equity	\$	12,714,370		\$	12,573,019

The accompanying notes are an integral part of these statements.

**FIRST BANCORP.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

	<b>Quarter Ended</b>			
	<b>March 31, 2016</b>		<b>March 31, 2015</b>	
(In thousands, except per share information)				
<b>Interest and dividend income:</b>				
Loans	\$	137,033	\$	139,344
Investment securities		12,725		12,604
Money market investments		1,073		537
Total interest income		150,831		152,485
<b>Interest expense:</b>				
Deposits		17,257		17,694
Securities sold under agreements to repurchase		5,476		6,393
Advances from FHLB		1,471		934
Other borrowings		1,979		1,817
Total interest expense		26,183		26,838
Net interest income		124,648		125,647
<b>Provision for loan and lease losses</b>		21,053		32,970
Net interest income after provision for loan and lease losses		103,595		92,677
<b>Non-interest income:</b>				
Service charges and fees on deposit accounts		5,800		4,555
Mortgage banking activities		4,753		3,618
Net gain on sale of investments		8		-
Other-than-temporary impairment (OTTI) losses on available-for-sale debt securities:				
Total other-than-temporary impairment losses		(1,845)		-
Portion of other-than-temporary impairment recognized in other comprehensive income (OCI)		(4,842)		(156)
Net impairment losses on available-for-sale debt securities		(6,687)		(156)
Gain on early extinguishment of debt		4,217		-
Insurance commission income		3,269		3,022
Bargain purchase gain		-		13,443
Other non-interest income		7,109		8,247
Total non-interest income		18,469		32,729
<b>Non-interest expenses:</b>				
Employees' compensation and benefits		38,435		35,654
Occupancy and equipment		14,183		14,349
Business promotion		4,003		2,868
Professional fees		10,776		15,218

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Taxes, other than income taxes		3,792		3,001
Insurance and supervisory fees		7,343		6,860
Net loss on other real estate owned (OREO) and OREO operations		3,206		2,628
Credit and debit card processing expenses		3,282		3,957
Communications		1,808		1,608
Other non-interest expenses		6,169		5,585
Total non-interest expenses		92,997		91,728
<b>Income before income taxes</b>		29,067		33,678
<b>Income tax expense</b>		(5,723)		(8,032)
<b>Net income</b>	\$	23,344	\$	25,646
<b>Net income attributable to common stockholders</b>	\$	23,344	\$	25,646
<b>Net income per common share:</b>				
Basic	\$	0.11	\$	0.12
Diluted	\$	0.11	\$	0.12
<b>Dividends declared per common share</b>	\$	-	\$	-
The accompanying notes are an integral part of these statements.				

**FIRST BANCORP.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Quarter Ended			
		March 31,		March 31,
		2016		2015
(In thousands)				
Net income	\$	23,344		\$ 25,646
Available-for-sale debt securities on which an other-than-temporary impairment has been recognized:				
Unrealized (loss) gain on debt securities on which an other-than-temporary impairment has been recognized		(998)		689
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income		6,687		156
All other unrealized gains and losses on available-for-sale securities:				
Reclassification adjustments for net gain included in net income		(8)		-
All other unrealized holding gains on available-for-sale securities arising during the period		24,710		6,295
Other comprehensive income for the period, net of tax		30,391		7,140
Total comprehensive income	\$	53,735		\$ 32,786
The accompanying notes are an integral part of these statements.				

## FIRST BANCORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Quarter Ended			
	March 31, 2016		March 31, 2015	
(In thousands)				
<b>Cash flows from operating activities:</b>				
Net income	\$	23,344	\$	25,646
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		4,588		5,306
Amortization of intangible assets		1,214		1,093
Provision for loan and lease losses		21,053		32,970
Deferred income tax expense		3,635		2,060
Stock-based compensation		1,557		1,457
Gain on sales of investments		(8)		-
Bargain purchase gain		-		(13,443)
Gain on early extinguishment of debt		(4,217)		-
Other-than-temporary impairments on debt securities		6,687		156
Unrealized loss on derivative instruments		153		72
Gain on sales of premises and equipment and other assets		-		(194)
Net gain on sales of loans		(2,488)		(1,689)
Net amortization/accretion of premiums, discounts and deferred loan fees and costs		(2,343)		(673)
Originations and purchases of loans held for sale		(107,034)		(89,425)
Sales and repayments of loans held for sale		108,615		87,051
Amortization of broker placement fees		858		1,335
Net amortization/accretion of premium and discounts on investment securities		447		1,269
Decrease in accrued interest receivable		3,806		1,953
Increase in accrued interest payable		2,257		1,000
Decrease in other assets		3,320		8,562
(Decrease) increase in other liabilities		(11,167)		11,007
Net cash provided by operating activities		54,277		75,513
<b>Cash flows from investing activities:</b>				
Principal collected on loans		735,801		751,062
Loans originated and purchased		(627,105)		(705,621)
Proceeds from sales of loans held for investment		-		2,230
Proceeds from sales of repossessed assets		12,375		18,446
Proceeds from sales of available-for-sale securities		14,990		-

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Purchases of securities available for sale		(62,770)			(56,429)
Proceeds from principal repayments and maturities of securities available for sale		62,418			53,596
Additions to premises and equipment		(3,006)			(3,027)
Purchases of other equity securities		(141)			(433)
Proceeds from sale of premises and equipment and other assets		-			2,492
Net cash received from acquisition		-			217,659
Purchase of insurance contracts		(1,067)			-
Net cash provided by investing activities		131,495			279,975
<b>Cash flows from financing activities:</b>					
Net increase (decrease) in deposits		95,879			(166,924)
Repurchase of outstanding common stock		(259)			(236)
Repayment of junior subordinated debentures		(7,025)			-
Net cash provided by (used in) financing activities		88,595			(167,160)
Net increase in cash and cash equivalents		274,367			188,328
Cash and cash equivalents at beginning of period		752,458			796,108
Cash and cash equivalents at end of period	\$	1,026,825		\$	984,436
<b>Cash and cash equivalents include:</b>					
Cash and due from banks	\$	813,732		\$	767,471
Money market instruments		213,093			216,965
	\$	1,026,825		\$	984,436
The accompanying notes are an integral part of these statements.					



## FIRST BANCORP.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Quarter Ended			
	March 31,		March 31,	
	2016		2015	
(In thousands)				
<b>Preferred Stock</b>	\$	36,104	\$	36,104
<b>Common Stock outstanding:</b>				
Balance at beginning of period		21,509		21,298
Common stock issued as compensation		25		8
Common stock withheld for taxes		(12)		(5)
Restricted stock grants		179		83
Restricted stock forfeited		-		(1)
Balance at end of period		21,701		21,383
<b>Additional Paid-In-Capital:</b>				
Balance at beginning of period		926,348		916,067
Stock-based compensation		1,557		1,457
Common stock withheld for taxes		(247)		(231)
Restricted stock grants		(179)		(83)
Common stock issued as compensation		(25)		(8)
Restricted stock forfeited		-		1
Balance at end of period		927,454		917,203
<b>Retained Earnings:</b>				
Balance at beginning of period		737,922		716,625
Net income		23,344		25,646
Balance at end of period		761,266		742,271
<b>Accumulated Other Comprehensive Income (Loss), net of tax:</b>				
Balance at beginning of period		(27,749)		(18,351)
Other comprehensive income, net of tax		30,391		7,140
Balance at end of period		2,642		(11,211)
Total stockholders' equity	\$	1,749,167	\$	1,705,750
The accompanying notes are an integral part of these statements.				



**FIRST BANCORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Consolidated Financial Statements (unaudited) of First BanCorp. (the “Corporation”) have been prepared in conformity with the accounting policies stated in the Corporation’s Audited Consolidated Financial Statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2015. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2015, which are included in the Corporation’s 2015 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire year.

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

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

In May 2014, the FASB updated the Accounting Standards Codification (the “Codification” or the “ASC”) to create a new, principles-based revenue recognition framework. The Update is the culmination of efforts by the FASB and the International Accounting Standards Board to develop a common revenue standard for GAAP and International Financial Reporting Standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance describes a 5-step process that entities

can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The new framework is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those reporting periods, as a result of the FASB's recent amendment to the standard to defer the effective date by one year. Early adoption is permitted for interim periods beginning after December 15, 2016. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements.

In June 2014, the FASB updated the Codification to provide guidance for determining compensation cost when an employee's compensation award is eligible to vest regardless of whether the employee is rendering service on the date the performance target is achieved. This Update is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance did not have an impact on the Corporation's financial statements.

In August 2014, the FASB updated the Codification to provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plans, the entity should disclose information that enables users of the financial statements to understand such determination. The Update is effective for all business entities for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Corporation expects the adoption of this guidance will have no impact on the Corporation's financial position, results of operations, comprehensive income, cash flows and disclosures.

In November 2014, the FASB updated the Codification to clarify how current GAAP should be interpreted in evaluating the economic characteristics and risk of a host contract in a hybrid financial instrument that is issued in the form of a share. In addition, the Update was issued to clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (that is, the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The effects of initially adopting this Update should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this guidance did not have an impact on the Corporation's financial statements.

In January 2015, the FASB updated the Codification to eliminate from GAAP the concept of extraordinary items as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). Under current GAAP, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. In order to be classified as an extraordinary item, the event or transaction must be: (i) unusual in nature and (ii) infrequent in occurrence. Before the Update was issued, an entity was required to segregate these items from the results of ordinary operations and show the items separately in the income statement, net of tax, after income from continuing operations. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this guidance did not have an impact on the Corporation's financial statements.

In February 2015, the FASB updated the Codification to eliminate the deferral of the requirements of Accounting Standards Update ("ASU") No. 2009-17 for certain interests in investment funds and provide a scope for exception for certain investments in money market funds. While the Update is aimed at asset managers, it will affect all reporting entities involved with limited partnerships or similar entities. In some cases, consolidation conclusions will change. In other cases, reporting entities will need to provide additional disclosure about entities that currently are not considered Variable Interest Entities ("VIEs") but will be considered VIEs under the new guidance when they have a variable interest in those VIEs. Regardless of whether conclusions change or additional disclosure requirements are triggered, reporting entities will need to re-evaluate limited partnerships and similar entities for consolidation and revise their documentation. For public business entities, the Update is effective for annual and interim periods beginning after December 15, 2015. A reporting entity must apply the amendments retrospectively. The adoption of this guidance did not have an impact on the Corporation's financial statements.

In April 2015, the FASB updated the Codification to clarify that customers should determine whether a cloud computing arrangement includes the license of software by applying the same guidance cloud service providers use to make this determination. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service and other hosting arrangements. If a hosting arrangement includes a software license for internal use software, the software license should be accounted for by the customer under ASC 350-40. A license of software other than internal use software would be accounted for by the customer under other GAAP (e.g., a research and development cost and software to be sold, leased or otherwise marketed). A software license included in a hosting arrangement would be accounted for separately from any service contract in the arrangement. Hosting arrangements that do not include software licenses should be accounted for as service contracts. The Update also eliminates the existing requirement for customers to account for software licenses they acquire by analogizing to the guidance on leases. Instead, customers will account for software licenses that are in the scope of ASC 350-40 in the same manner as licenses of other intangible assets. Entities have the option of applying the guidance (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. Entities that elect prospective application are required to disclose the reason for the change in accounting principle, the transition method, and a description of the financial statement line items affected by the change. Entities that elect retrospective application must disclose the information required by ASC 250. For public business entities, the guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The adoption of this guidance did not have an impact on the Corporation's financial statements.

In May 2015, the FASB updated the Codification to provide guidance on disclosures for investments in certain entities that calculate net asset value (NAV) per share (or its equivalent). This Update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and modifies certain disclosure requirements. This guidance is effective for interim and annual reporting periods in fiscal years beginning after December 31, 2015, and requires retrospective adoption. The adoption of this pronouncement did not have an impact on the Corporation's financial statements.

In September 2015, the FASB updated the Codification to simplify the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. This Update allows the acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer must record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Also, this Update requires entities to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Prior to this Update, GAAP required that, during the measurement period, the acquirer retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. The acquirer also had to revise comparative information for prior periods presented in financial statements as needed, including revising depreciation, amortization, or other income effects as a result of changes made to provisional amounts. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued. The adoption of this guidance did not have an impact on the Corporation's financial statements.

In January 2016, the FASB updated the Codification to require an entity to: (i) measure equity investments at fair value through net income, with certain exceptions, (ii) present in other comprehensive income (“OCI”) the changes in instrument-specific credit risk for financial liabilities measured using the fair value option, (iii) present financial assets and financial liabilities by measurement category and form of financial asset, (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price, and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available-for-sale debt securities in combination with other deferred tax assets. The Update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment, adjusted for certain observable price changes. The Update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. For public companies, the Update is effective for fiscal years beginning after December 15, 2017. Early adoption is only permitted for the provision related to instrument-specific credit risk and the fair value disclosure exemption provided to nonpublic entities. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In February 2016, the FASB updated the Codification to provide guidance for the financial reporting about leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the guidance will require both types of leases to be recognized on the balance sheet. The guidance will also require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative disclosures intended to provide additional information about the amounts recorded in the financial statements. The guidance on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early application is permitted. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In March 2016, the FASB updated the Codification to simplify certain aspects of the accounting for share-based payment transactions. The main provisions in this Update include: (i) recognition of all tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) as income tax expense or benefit in the income statement, (ii) classification of the excess tax benefit along with other income tax cash flows as an operating activity, (iii) an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur, (iv) a threshold to qualify for equity classification which permits withholding up to the maximum statutory tax rates in the applicable jurisdictions, (v) classification of cash paid by an employer as a financing activity when the payment results from the withholding of shares for tax withholding purposes. In addition to those simplifications, the amendments eliminate the guidance in ASC 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. This should not result in a change in practice because the guidance that is being superseded was never effective. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In March 2016, the FASB updated the Codification to require an equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. Also, this Update requires that an entity that has an available-for sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.



**NOTE 2 – EARNINGS PER COMMON SHARE**

	The calculations of earnings per common share for the quarters ended on March 31, 2016 and 2015 are as follows:					
		<b>Quarter Ended</b>				
		<b>March 31,</b>			<b>March 31,</b>	
		<b>2016</b>			<b>2015</b>	
<b>(In thousands, except per share information)</b>						
Net income	\$	23,344		\$	25,646	
Net income attributable to common stockholders	\$	23,344		\$	25,646	
<b>Weighted-Average Shares:</b>						
Average common shares outstanding		212,348			210,686	
Average potential dilutive common shares		926			2,060	
Average common shares outstanding-assuming dilution		213,274			212,746	
<b>Earnings per common share:</b>						
Basic	\$	0.11		\$	0.12	
Diluted	\$	0.11		\$	0.12	

Earnings per common share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares issued and outstanding. Net income attributable to common stockholders represents net income adjusted for any preferred stock dividends, including any dividends declared, and any cumulative dividends related to the current dividend period that have not been declared as of the end of the period.

Potential common shares consist of common stock issuable under the assumed exercise of stock options, unvested shares of restricted stock, and outstanding warrants using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from the exercise, in addition to the amount of compensation cost attributable to future services, are used to purchase common stock at the exercise date. The difference between the numbers of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. Stock options not included in the computation of outstanding shares because they were antidilutive amounted to 39,855 and 69,848 for the quarters ended March 31, 2016 and 2015, respectively.



**NOTE 3 – STOCK-BASED COMPENSATION**

As of January 21, 2007, the Corporation’s 1997 stock option plan expired and no additional awards could be granted under that plan. All outstanding awards granted under this plan have continued in full force and effect since then, subject to their original terms. No awards of shares could be granted under the 1999 stock option plan as of its expiration.

The activity of stock options granted under the 1997 stock option plan for the quarter ended March 31, 2016 is set forth below:								
	Number of Options		Weighted-Average Exercise Price			Weighted-Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value (In thousands)
Beginning of period outstanding								
and exercisable	69,848		\$	160.30				
Options expired	(29,993)			190.07				
End of period outstanding and								
exercisable	39,855		\$	137.89		0.8	\$	-

On April 29, 2008, the Corporation’s stockholders approved the First BanCorp. 2008 Omnibus Incentive Plan (the “Omnibus Plan”). The Omnibus Plan provides for equity-based compensation incentives (the “awards”) through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other stock-based awards. The Omnibus Plan authorizes the issuance of up to 8,169,807 shares of common stock, subject to adjustments for stock splits, reorganizations, and other similar events. The Corporation’s Board of Directors, upon receiving the relevant recommendation of the Compensation Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards, subject to various limits and vesting restrictions that apply to individual and aggregate awards.

Under the Omnibus Plan, during the first quarter of 2016, the Corporation awarded 1,785,137 shares of restricted stock to employees subject to a vesting period of two years. Included in those 1,785,137 shares of restricted stock are 1,546,137 shares granted to certain senior officers consistent with the requirements of the Troubled Asset Relief Program (“TARP”) Interim Final Rule, which permit TARP recipients to grant “long-term restricted stock” without violating the prohibition on paying or accruing a bonus payment provided that: (i) the value of the grant may not exceed one-third of the amount of the employee’s annual compensation, (ii) no portion of the grant may vest before two years after the grant date, and (iii) the grant must be subject to a further restriction on transfer or payment as

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

described below. Specifically, the stock that has otherwise vested may not become transferable at any time earlier than as permitted under the schedule set forth by TARP, which is based on the repayment in 25% increments of the aggregate financial assistance received from the U.S. Treasury. Hence, notwithstanding the vesting period mentioned above, the senior officers covered by TARP are restricted from transferring the shares. The U.S. Treasury confirmed that, effective March 2014, it has recovered more than a 25% of its investment in First BanCorp. Therefore, the restriction on transfer relating to 25% of the shares granted under TARP requirements was released.

The fair value of the shares of restricted stock granted in the first quarter of 2016 was based on the market price of the Corporation's outstanding common stock on the date of the grant. For the 1,546,137 shares of restricted stock granted under the TARP requirements, the market price was discounted due to TARP transferability restrictions. For purposes of determining the awards' fair value, the Corporation estimated an appreciation of 14% in the value of the common stock using the Capital Asset Pricing Model as a basis of what would be a market participant's expected return on the Corporation's stock and assumed that the U.S. Treasury would hold the common stock of the Corporation that it currently owns for a period not to exceed two years, resulting in a fair value of \$1.43 for restricted shares granted under the TARP requirements. Also, the Corporation used empirical data to estimate employee terminations; separate groups of employees that have similar historical exercise behavior were considered separately for valuation purposes.

The following table summarizes the restricted stock activity in the first quarter of 2016 under the Omnibus Plan for both executive officers covered by the TARP requirements and other employees as well as for the independent directors:

	Quarter Ended			
	March 31, 2016			
	Number of			Weighted-Average
	shares of			Grant Date
	restricted			Fair Value
	stock			
Non-vested shares at beginning of period	2,968,461		\$	3.34
Granted	1,785,137			1.62
Vested	(377,747)			3.35
Non-vested shares at March 31, 2016	4,375,851		\$	2.64

For the quarters ended March 31, 2016 and 2015, the Corporation recognized \$0.9 million and \$1.0 million, respectively, of stock-based compensation expense related to restricted stock awards. As of March 31, 2016, there was \$5.9 million of total unrecognized compensation cost related to non-vested shares of restricted stock. The weighted average period over which the Corporation expects to recognize such cost is 1.8 years.

During the first quarter of 2015, 30,068 shares of restricted stock were awarded to one of the Corporation's independent directors subject to vesting periods that range from 1 to 5 years. In addition, in the first quarter of 2015, the Corporation issued 791,464 shares of restricted stock subject to vesting periods that range from 3 months to 3 years. Included in those 791,464 shares of restricted stock are 615,464 shares granted to certain senior officers consistent with the requirements of TARP. The employees covered by TARP are restricted from transferring the shares, subject to certain conditions as explained above.

The fair value of the shares of restricted stock granted in the first quarter of 2015 was based on the market price of the Corporation's outstanding common stock on the date of the grant. For the 615,464 shares of restricted stock granted under the TARP requirements, the market price was discounted due to the post-vesting restrictions. For purposes of computing the discount, the Corporation estimated an appreciation of 14% in the value of the common stock using the Capital Asset Pricing Model as a basis of what would be a market participant's expected return on the Corporation's stock and assumed that the U.S. Treasury would hold the common stock of the Corporation that it owned as of the date of the grants for a period not to exceed one year, resulting in a fair value of \$3.18 for restricted shares granted under the TARP requirements.

Stock-based compensation accounting guidance requires the Corporation to reverse compensation expense for any awards that are forfeited due to employee or director turnover. Approximately \$26 thousand of compensation expense

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

was reversed during the first quarter of 2015, related to forfeited awards. No forfeitures occurred during the first quarter of 2016.

Also, under the Omnibus Plan, effective April 1, 2013, the Corporation's Board of Directors determined to increase the salary amounts paid to certain executive officers primarily by paying the increased salary amounts in the form of shares of the Corporation's common stock, instead of cash. During the first quarter of 2016, the Corporation issued 252,841 shares of common stock (first quarter of 2015 – 80,234 shares) with a weighted average market value of \$2.70 (first quarter of 2015 - \$6.02) as salary stock compensation. This resulted in a compensation expense of \$0.7million recorded in the first quarter of 2016 (first quarter of 2015 - \$0.4 million).

For the quarter ended March 31, 2016, the Corporation withheld 79,954 shares (first quarter of 2015 – 28,183 shares) from the common stock paid to certain senior officers as additional compensation and 35,167 shares of the restricted stock that vested during the first quarter of 2016 (first quarter of 2015 – 22,525 shares) to cover employees' payroll and income tax withholding liabilities; these shares are held as treasury shares. The Corporation paid any fractional share of salary stock that the officer was entitled to in cash. In the consolidated financial statements, the Corporation treats shares withheld for tax purposes as common stock repurchases.

**NOTE 4 – INVESTMENT SECURITIES***Investment Securities Available for Sale*

The amortized cost, non-credit loss component of other-than-temporary impairment (“OTTI”) recorded in other comprehensive income (“OCI”), gross unrealized gains and losses recorded in OCI, approximate fair value, and weighted average yield of investment securities available for sale by contractual maturities as of March 31, 2016 and December 31, 2015 were as follows:

		March 31, 2016							
		Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized		Fair value	Weighted average yield %		
				gains	losses				
(Dollars in thousands)									
U.S. Treasury securities:									
	After 1 to 5 years	\$ 7,525	\$ -	\$ -	\$ 7	\$ 7,518	0.57		
Obligations of U.S. government-sponsored agencies:									
	Due within one year	14,626	-	10	-	14,636	0.68		
	After 1 to 5 years	385,103	-	2,148	-	387,251	1.32		
	After 5 to 10 years	51,089	-	1,131	-	52,220	2.42		
	After 10 years	13,930	-	14	20	13,924	0.84		
Puerto Rico Government obligations:									
		21,423	11,501	-	-	9,922	4.38		

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

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

	After 1 to 5 years												
	After 5 to 10 years	855	-	1	-	856	5.20						
	After 10 years	21,141	3,962	147	1,656	15,670	5.38						
United States and Puerto Rico Government obligations		515,692	15,463	3,451	1,683	501,997	1.69						
Mortgage-backed securities:													
FHLMC certificates:													
	After 5 to 10 years	321	-	31	-	352	4.95						
	After 10 years	277,487	-	4,063	5	281,545	2.15						
		277,808	-	4,094	5	281,897	2.15						
GNMA certificates:													
	Due within one year	1	-	-	-	1	1.78						
	After 1 to 5 years	100	-	4	-	104	4.29						
	After 5 to 10 years	112,732	-	2,839	-	115,571	3.07						
	After 10 years	157,658	-	13,095	6	170,747	4.38						
		270,491	-	15,938	6	286,423	3.83						
FNMA certificates:													
	After 1 to 5 years	30,223	-	63	21	30,265	1.50						
	After 5 to 10 years	21,429	-	835	-	22,264	2.73						
	After 10 years	744,660	-	11,641	-	756,301	2.35						
		796,312	-	12,539	21	808,830	2.33						
Other mortgage pass-through trust certificates:													
	After 5 to 10 years	89	-	-	-	89	7.26						



Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

	After 10 years		32,962		8,457		-		-		24,505	2.34
			33,051		8,457		-		-		24,594	2.34
Total mortgage-backed securities			1,377,662		8,457		32,571		32		1,401,744	2.59
Other												
	After 1 to 5 years		100		-		-		-		100	1.50
	Equity securities <sup>(1)</sup>		408		-		6		-		414	-
Total investment securities												
	available for sale	\$	1,893,862	\$	23,920	\$	36,028	\$	1,715	\$	1,904,255	2.34
(1) Equity securities consisted of investment in a Community Reinvestment Act Qualified Investment Fund.												

		December 31, 2015									
		Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized				Fair value	Weighted average yield %		
				gains	losses						
(Dollars in thousands)											
U.S. Treasury securities:											
	After 1 to 5 years	\$ 7,530	\$ -	\$ -	\$ 33	\$ 7,497	0.57				
Obligations of U.S. government-sponsored agencies:											
	Due within one year	14,624	-	4	10	14,618	0.68				
	After 1 to 5 years	384,323	-	174	4,305	380,192	1.32				
	After 5 to 10 years	58,150	-	343	242	58,251	2.34				
Puerto Rico Government obligations:											
	After 1 to 5 years	25,663	14,662	-	-	11,001	4.38				
	After 5 to 10 years	855	-	-	-	855	5.20				
	After 10 years	23,162	5,255	134	1,680	16,361	5.40				
United States and Puerto Rico Government obligations											
		514,307	19,917	655	6,270	488,775	1.75				
Mortgage-backed securities:											
FHLMC certificates:											

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

	After 5 to 10 years	336	-	31	-	367	4.95
	After 10 years	287,711	-	1,073	1,706	287,078	2.14
		288,047	-	1,104	1,706	287,445	2.15
GNMA certificates:							
	Due within one year	2	-	-	-	2	1.70
	After 1 to 5 years	109	-	5	-	114	4.26
	After 5 to 10 years	120,298	-	3,182	-	123,480	3.07
	After 10 years	165,175	-	12,822	20	177,977	4.38
		285,584	-	16,009	20	301,573	3.83
FNMA certificates:							
	After 1 to 5 years	2,552	-	74	-	2,626	3.32
	After 5 to 10 years	21,557	-	433	233	21,757	2.73
	After 10 years	759,247	-	5,628	6,063	758,812	2.34
		783,356	-	6,135	6,296	783,195	2.35
Other mortgage pass-through trust certificates:							
	After 5 to 10 years	92	-	1	-	93	7.26
	After 10 years	34,905	9,691	-	-	25,214	2.26
		34,997	9,691	1	-	25,307	2.26
Total mortgage-backed securities							
		1,391,984	9,691	23,249	8,022	1,397,520	2.61
Other							
	After 1 to 5 years	100	-	-	-	100	1.50
Total investment securities							
	available for sale	\$ 1,906,391	\$ 29,608	\$ 23,904	\$ 14,292	\$ 1,886,395	2.38

--	--	--	--	--	--	--	--	--	--



Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Puerto Rico Government obligations	\$	-	\$	-	\$	23,008	\$	21,597	\$	23,008	\$	21,597
U.S. Treasury and U.S. government agencies obligations		198,243		929		210,504		3,661		408,747		4,590
<b>Mortgage-backed securities:</b>												
FNMA		437,305		4,516		88,013		1,780		525,318		6,296
FHLMC		141,890		1,338		19,306		368		161,196		1,706
GNMA		1,047		20		-		-		1,047		20
Other mortgage pass-through trust certificates		-		-		25,214		9,691		25,214		9,691
	\$	778,485	\$	6,803	\$	366,045	\$	37,097	\$	1,144,530	\$	43,900

**Assessment for OTTI**

Debt securities issued by U.S. government agencies, U.S. government-sponsored entities and the U.S. Treasury accounted for approximately 97% of the total available-for-sale portfolio as of March 31, 2016 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation's OTTI assessment was concentrated mainly on Puerto Rico Government debt securities, with an amortized cost of \$43.4 million, and on private label mortgage-backed securities ("MBS") with an amortized cost of \$33.0 million for which credit losses are evaluated on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the financial condition of the issuer, credit ratings, the failure of the issuer to make scheduled principal or interest payments, recent legislation and government actions affecting the issuer's industry and actions taken by the issuer to deal with the present economic climate;
- Changes in the near term prospects of the underlying collateral of a security, if any, such as changes in default rates, loss severity given default, and significant changes in prepayment assumptions; and
- The level of cash flows generated from the underlying collateral, if any, supporting the principal and interest payments of the debt securities.

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

	<b>Quarter ended March 31,</b>			
	<b>2016</b>		<b>2015</b>	
(In thousands)				
Total other-than-temporary impairment losses	\$	(1,845)	\$	-
Portion of other-than-temporary impairment recognized in OCI		(4,842)		(156)
Net impairment losses recognized in earnings <sup>(1)(2)</sup>	\$	(6,687)	\$	(156)
<p>(1) For the quarter ended March 31, 2016, approximately \$6.3 million of the credit impairment recognized in earnings consisted of credit losses on Puerto Rico Government debt securities and \$0.4 million was associated with credit losses on private label MBS.</p>				

(2) The \$0.2 million credit impairment recognized in earnings in the first quarter of 2015 was associated with private label MBS.

The following tables summarize the roll-forward of credit losses on debt securities held by the Corporation for which a portion of an OTTI is recognized in OCI:							
Cumulative OTTI credit losses recognized in earnings on securities still held							
December 31,				Credit impairments recognized in earnings on securities that have been previously impaired		March 31,	
2015				2016		2016	
Balance				Balance		Balance	
(In thousands)							
Available-for-sale securities							
Puerto Rico Government obligations	\$	15,889	\$	6,300	\$	22,189	
Private label MBS		6,405		387		6,792	
Total OTTI credit losses for available-for-sale debt securities	\$	22,294	\$	6,687	\$	28,981	

Cumulative OTTI credit losses recognized in earnings on securities still held							
December 31,				Credit impairments recognized in earnings on securities that have been previously impaired		March 31,	
2014				2015		2015	
Balance				Balance		Balance	
(In thousands)							
Available for sale securities							
Private label MBS	\$	5,777	\$	156	\$	5,933	



During the first quarter of 2016, the Corporation recorded a \$6.3 million OTTI charge on three Puerto Rico Government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the GDB and the Puerto Rico Public Buildings Authority. This is the third OTTI charge on these securities recorded since June 30, 2015, as OTTI charges of \$12.9 million and \$3.0 million were booked in the second and fourth quarters of 2015, respectively.

During the first quarter of 2016, in consideration of the latest available information about the Puerto Rico Government's financial condition, including the enactment of a debt moratorium law and the declaration of a state of emergency at the GDB as well as issuance of exchange proposals with the Commonwealth's creditors related to its outstanding bond obligations, the Corporation applied a discounted cash flow analysis to its Puerto Rico Government debt securities in order to calculate the cash flows expected to be collected and to determine if any portion of the decline in market value of these securities was considered a credit-related other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted cash flows of the underlying securities and included the following components:

- The contractual future cash flows of the bonds are projected based on the key terms as set forth in the official statements for each security. Such key terms include, among others, the interest rate, amortization schedule, if any, and maturity date.
- The risk-adjusted cash flows are calculated based on a probability of default analysis and recovery rate assumptions, including the weighting of different scenarios of ultimate recovery, considering the credit rating of each security. Constant monthly default rates are assumed throughout the life of the bonds, which considers the respective security's credit rating as of the date of the analysis.
- The adjusted future cash flows are then discounted at the original effective yield of each investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of each investment.

The discounted risk-adjusted cash flow analysis for the three Puerto Rico Government bonds mentioned above assumed a default probability of 100%, thus reflecting that it is more likely than not that these three bonds will default during their remaining terms. Based on this analysis, the Corporation determined that it is unlikely to receive all the remaining contractual interest and principal amounts when due on these bonds and recorded, in the first quarter of 2016, other-than-temporary credit-related impairment charges amounting to \$6.3 million, assuming recovery rates ranging from 35% to 80% (weighted average of 61%).

The Corporation does not have the intention to sell these securities and has sufficient capital and liquidity to hold these securities until a recovery of the fair value occurs; as such, only the credit loss component was reflected in earnings. Given the significant and prolonged uncertainty of a debt restructuring process, the Corporation cannot be certain that future impairment charges will not be required against these securities.

In addition, during the first quarter of 2016, the Corporation recorded a \$0.4 million credit-related impairment loss associated with private label MBS, which are collateralized by fixed-rate mortgages on single-family residential properties in the United States. The interest rates on these private-label MBS is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The underlying mortgages are fixed-rate, single-family loans with original high FICO scores (over 700) and moderate original loan-to-value ratios (under 80%), as well as moderate delinquency levels.

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

	March 31, 2016			December 31, 2015		
	Weighted			Weighted		
	Average		Range	Average		Range
Discount rate	14.5%		14.5%	14.5%		14.5%
Prepayment rate	30%		21.45% - 100.00%	28%		15.92% - 100.00%
Projected Cumulative Loss Rate	7%		0.50% - 80.00%	7%		0.18% - 80.00%

**NOTE 5 – OTHER EQUITY SECURITIES**

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

As of March 31, 2016 and December 31, 2015, the Corporation had investments in FHLB stock with a book value of \$31.3 million. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for each of the quarters ended March 31, 2016 and 2015 was \$0.3 million.

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

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of March 31, 2016 and December 31, 2015 was \$1.0 million and \$0.9 million, respectively.

#### NOTE 6 – LOANS HELD FOR INVESTMENT

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

		As of		As of
		March 31,		December 31,
		2016		2015
(In thousands)				
Residential mortgage loans, mainly secured by first mortgages	\$	3,330,945	\$	3,344,719
Commercial loans:				
Construction loans		146,129		156,195
Commercial mortgage loans		1,524,491		1,537,806
Commercial and Industrial loans (1)		2,343,416		2,407,996
Total Commercial loans		4,014,036		4,101,997
Finance leases		230,801		229,165
Consumer loans		1,555,560		1,597,984

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

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Loans held for investment		9,131,342			9,273,865
Allowance for loan and lease losses		(238,125)			(240,710)
Loans held for investment, net	\$	8,893,217		\$	9,033,155
<hr/>					
(1)	As of March 31, 2016 and December 31, 2015, includes \$1.0 billion of commercial loans that are secured by real estate but are not dependent upon the real estate for repayment.				

Loans held for investment on which accrual of interest income had been discontinued as of the indicated dates were as follows:					
		As of		As of	
(In thousands)		March 31,		December 31,	
		2016		2015	
Non-performing loans:					
Residential mortgage	\$	172,890		\$	169,001
Commercial mortgage		182,763			51,333
Commercial and Industrial		137,896			137,051
Construction:					
Land		12,082			12,174
Construction-commercial		39,037			39,466
Construction-residential		2,917			2,996
Consumer:					
Auto loans		15,038			17,435
Finance leases		2,136			2,459
Other consumer loans		10,177			10,858
Total non-performing loans held for investment (1)(2)(3)	\$	574,936		\$	442,773
(1)	As of March 31, 2016 and December 31, 2015, excludes \$8.1 million of non-performing loans held for sale.				
(2)	Amount excludes purchased-credit impaired ("PCI") loans with a carrying value of approximately \$172.3 million and \$173.9 million as of March 31, 2016 and December 31, 2015, respectively, primarily mortgage loans acquired from Doral Bank in the first quarter of 2015 and from Doral Financial in the second quarter of 2014, as further discussed below. These loans are not considered non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using an estimated cash flow analysis.				
(3)	Non-performing loans exclude \$413.4 million and \$414.9 million of Troubled Debt Restructuring ("TDR") loans that are in compliance with the modified terms and in accrual status as of March 31, 2016 and December 31, 2015, respectively.				

**Loans in Process of Foreclosure**

As of March 31, 2016, the recorded investment of residential mortgage loans collateralized by residential real estate property that are in the process of foreclosure amounted to \$153.5 million. The Corporation commences the foreclosure process on residential real estate loans when a borrower becomes 120 days delinquent in accordance with the guidelines of the Consumer Financial Protection Bureau (CFPB). Foreclosure procedures and timelines vary depending on whether the property is located in a judicial or non-judicial state. Judicial states (Puerto Rico) require the foreclosure to be processed through the state's court while foreclosures in non-judicial states are processed without court intervention. Foreclosure timelines vary according to state law and Investor Guidelines. Occasionally foreclosures may be delayed due to mandatory mediations, bankruptcy, court delays and title issues, among other reasons.

The Corporation's aging of the loans held for investment portfolio is as follows:									
As of March 31, 2016	(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing (2)
Residential mortgage:									
FHA/VA and other government-guaranteed loans	\$	-	\$ 5,338	\$ 84,217	\$ 89,555	\$ -	\$ 47,149	\$ 136,704	\$ 84,217
Other residential mortgage loans	(2)(3)(4)	-	94,576	189,615	284,191	169,190	2,740,860	3,194,241	16,725
Commercial:									
Commercial and Industrial loans		12,079	6,943	144,311	163,333	-	2,180,083	2,343,416	6,415

Commercial mortgage loans (4)	-	10,408	211,576	221,984	3,142	1,299,365	1,524,491	28,813
Construction:								
Land (4)	-	241	12,533	12,774	-	34,051	46,825	451
Construction-commercial	-		54,460	54,460	-	26,754	81,214	15,423
Construction-residential (4)	-		5,948	5,948	-	12,142	18,090	3,031
Consumer:								
Auto loans	61,558	13,489	15,038	90,085	-	814,249	904,334	-
Finance leases	8,993	2,116	2,136	13,245	-	217,556	230,801	-
Other consumer loans	10,287	6,044	14,059	30,390	-	620,836	651,226	3,882
Total loans held for investment	\$ 92,917	\$ 139,155	\$ 733,893	\$ 965,965	\$ 172,332	\$ 7,993,045	\$ 9,131,342	\$ 158,957

- (1) Includes non-performing loans and accruing loans that are contractually delinquent 90 days or more (i.e., FHA/VA guaranteed loans and credit cards). Credit card loans continue to accrue finance charges fees until charged-off at 180 days.
- (2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include \$34.9 million of residential mortgage loans insured by the FHA or guaranteed by the VA which are over 15 months delinquent, and are no longer accruing interest as of March 31, 2016.
- (3) As of March 31, 2016, includes \$40.0 million of defaulted loans collateralizing Government National Mortgage Association ("GNMA") securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.
- (4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA government-guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans, construction-commercial and construction-residential

loans past due 30-59 days as of March 31, 2016 amounted to \$10.0 million, \$155.9 million, \$74.8 million, \$0.5 million, \$5.2 million and \$0.7 million, respectively.



As of December 31, 2015									
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing (2)	
Residential mortgage:									
FHA/VA and other government-guaranteed loans (2)(3)(4)	\$ -	\$ 6,048	\$ 90,168	\$ 96,216	\$ -	\$ 46,925	\$ 143,141	\$ 90,168	
Other residential mortgage loans (4)	-	90,406	185,018	275,424	170,766	2,755,388	3,201,578	16,017	
Commercial:									
Commercial and Industrial loans	5,577	6,412	150,893	162,882	-	2,245,114	2,407,996	13,842	
Commercial mortgage loans (4)	-	24,729	63,805	88,534	3,147	1,446,125	1,537,806	12,472	
Construction:									
Land (4)	-	161	12,350	12,511	-	39,363	51,874	176	
Construction-commercial	-	11,722	39,466	51,188	-	32,142	83,330	-	
Construction-residential (4)	-	-	6,042	6,042	-	14,949	20,991	3,046	

Consumer:									
Auto loans	70,836	16,787	17,435	105,058	-	829,922	934,980	-	
Finance leases	7,664	3,100	2,459	13,223	-	215,942	229,165	-	
Other consumer loans	9,462	5,524	15,124	30,110	-	632,894	663,004	4,266	
Total loans held for investment	\$ 93,539	\$ 164,889	\$ 582,760	\$ 841,188	\$ 173,913	\$ 8,258,764	\$ 9,273,865	\$ 139,987	
<p>(1) Includes non-performing loans and accruing loans that are contractually delinquent 90 days or more (i.e. FHA/VA guaranteed loans and credit cards). Credit card loans continue to accrue finance charges and fees until charged-off at 180 days.</p> <p>(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include \$37.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA which are over 15 months delinquent, and are no longer accruing interest as of December 31, 2015.</p> <p>(3) As of December 31, 2015, includes \$38.5 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.</p> <p>(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA government guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans and construction-residential loans past due 30-59 days as of December 31, 2015 amounted to \$11.0 million, \$162.9 million, \$38.6 million, \$5.7 million and \$0.8 million, respectively.</p>									

The Corporation's credit quality indicators by loan type as of March 31, 2016 and December 31, 2015 are summarized below:											
<b>Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness Category:</b>											
<b>March 31, 2016</b>	<b>Substandard</b>		<b>Doubtful</b>		<b>Loss</b>		<b>Total Adversely Classified (1)</b>		<b>Total Portfolio</b>		
(In thousands)											
Commercial mortgage	\$ 213,990		\$ 37,673		\$ -		\$ 251,663		\$ 1,524,491		
Construction:											
Land	13,803		-		-		13,803		46,825		
Construction-commercial	39,037		-		-		39,037		81,214		
Construction-residential	5,949		-		-		5,949		18,090		
Commercial and Industrial	186,580		71,706		395		258,681		2,343,416		
<b>Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness Category:</b>											
<b>December 31, 2015</b>	<b>Substandard</b>		<b>Doubtful</b>		<b>Loss</b>		<b>Total Adversely Classified (1)</b>		<b>Total Portfolio</b>		
(In thousands)											
Commercial mortgage	\$ 252,941		\$ 140		\$ -		\$ 253,081		\$ 1,537,806		
Construction:											
Land	14,035		1		-		14,036		51,874		
Construction-commercial	39,466		-		-		39,466		83,330		
Construction-residential	2,996		-		-		2,996		20,991		
Commercial and Industrial	140,827		71,341		354		212,522		2,407,996		
(1)	Excludes \$8.1 million as of March 31, 2016 and December 31, 2015, of construction-land non-performing loans held for sale.										

The Corporation considers a loan as adversely classified if its risk rating is Substandard, Doubtful or Loss. These categories are defined as follows:

Substandard- A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful- Doubtful classifications have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. A Doubtful classification may be appropriate in cases where significant risk exposures are perceived, but loss cannot be determined because of specific reasonable pending factors, which may strengthen the credit in the near term.

Loss- Assets classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. There is little or no prospect for near term improvement and no realistic strengthening action of significance pending.

<b>March 31, 2016</b>		<b>Consumer Credit Exposure-Credit Risk Profile Based on Payment Activity</b>										
		<b>Residential Real-Estate</b>					<b>Consumer</b>					
		<b>FHA/VA/ Guaranteed (1)</b>		<b>Other residential loans</b>			<b>Auto</b>		<b>Finance Leases</b>		<b>Other Consumer</b>	
(In thousands)												
Performing	\$	136,704		\$	2,852,161		\$	889,296	\$	228,665	\$	641,049
Purchased Credit-Impaired (2)		-			169,190			-		-		-
Non-performing		-			172,890			15,038		2,136		10,177
<b>Total</b>	<b>\$</b>	<b>136,704</b>		<b>\$</b>	<b>3,194,241</b>		<b>\$</b>	<b>904,334</b>	<b>\$</b>	<b>230,801</b>	<b>\$</b>	<b>651,226</b>
(1)	It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include \$34.9 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 15 months delinquent, and are no longer accruing interest as of March 31, 2016.											
(2)	PCI loans are excluded from non-performing statistics due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.											
<b>December 31, 2015</b>		<b>Consumer Credit Exposure-Credit Risk Profile Based on Payment Activity</b>										
		<b>Residential Real-Estate</b>					<b>Consumer</b>					
		<b>FHA/VA/ Guaranteed (1)</b>		<b>Other residential loans</b>			<b>Auto</b>		<b>Finance Leases</b>		<b>Other Consumer</b>	
(In thousands)												
Performing	\$	143,141		\$	2,861,811		\$	917,545	\$	226,706	\$	652,146
Purchased Credit-Impaired (2)		-			170,766			-		-		-
Non-performing		-			169,001			17,435		2,459		10,858
<b>Total</b>	<b>\$</b>	<b>143,141</b>		<b>\$</b>	<b>3,201,578</b>		<b>\$</b>	<b>934,980</b>	<b>\$</b>	<b>229,165</b>	<b>\$</b>	<b>663,004</b>
(1)	It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include \$37.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 15 months delinquent, and are no longer accruing interest as of December 31, 2015.											
(2)												

PCI loans are excluded from non-performing statistics due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.



Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Construction:													
Land	9,522		13,759		1,059		9,550		9			9	
Construction-commercial	-		-		-		-		-			-	
Construction-residential	1,348		2,082		143		1,348		-			-	
Consumer:													
Auto loans	23,475		23,475		7,459		24,049		446			-	
Finance leases	2,468		2,468		144		2,563		54			-	
Other consumer loans	14,601		14,846		1,784		14,916		373			12	
	\$ 744,737		\$ 829,849		\$ 81,495		\$ 750,281		\$ 6,272			\$ 510	
<b>Total:</b>													
FHA/VA-Guaranteed loans	\$ -		\$ -		\$ -		\$ -		\$ -			\$ -	
Other residential mortgage loans	461,606		518,379		16,150		463,874		4,807			517	
Commercial:													
Commercial mortgage loans	191,251		209,901		36,007		191,764		340			161	
Commercial and Industrial Loans	168,160		195,865		18,749		171,077		535			26	
Construction:													
Land	9,522		13,759		1,059		9,550		9			9	
Construction-commercial	39,037		40,000		-		39,252		-			-	
Construction-residential	4,379		5,113		143		4,387		42			-	
Consumer:													
Auto loans	23,475		23,475		7,459		24,049		446			-	
Finance leases	2,468		2,468		144		2,563		54			-	
Other consumer loans	17,693		18,685		1,784		17,866		374			50	
	\$ 917,591		\$ 1,027,645		\$ 81,495		\$ 924,382		\$ 6,607			\$ 763	



<b>Impaired Loans</b>										
(In thousands)										
	<b>Recorded Investment</b>		<b>Unpaid Principal Balance</b>		<b>Related Specific Allowance</b>		<b>Average Recorded Investment</b>			
<b>As of December 31, 2015</b>										
<b>With no related allowance recorded:</b>										
FHA/VA-Guaranteed loans	\$	-	\$	-	\$	-	\$	-		
Other residential mortgage loans		65,495		74,146		-		67,282		
Commercial:										
Commercial mortgage loans		54,048		66,448		-		54,967		
Commercial and Industrial Loans		27,492		29,957		-		28,326		
Construction:										
Land		-		-		-		-		
Construction-commercial		39,466		40,000		-		39,736		
Construction-residential		3,046		3,046		-		3,098		
Consumer:										
Auto loans		-		-		-		-		
Finance leases		-		-		-		-		
Other consumer loans		2,618		4,300		-		2,766		
	\$	192,165	\$	217,897	\$	-	\$	196,175		
<b>With an allowance recorded:</b>										
FHA/VA-Guaranteed loans	\$	-	\$	-	\$	-	\$	-		
Other residential mortgage loans		395,173		440,947		21,787		398,790		
Commercial:										
Commercial mortgage loans		27,479		40,634		3,073		30,518		
Commercial and Industrial Loans		143,214		164,050		18,096		148,547		
Construction:										
Land		9,578		13,758		1,060		9,727		
Construction-commercial		-		-		-		-		
Construction-residential		1,426		2,180		142		1,476		
Consumer:										
Auto loans		21,581		21,581		6,653		23,531		
Finance leases		2,077		2,077		86		2,484		
Other consumer loans		13,816		14,043		1,684		14,782		
	\$	614,344	\$	699,270	\$	52,581	\$	629,855		
<b>Total:</b>										
FHA/VA-Guaranteed loans	\$	-	\$	-	\$	-	\$	-		
Other residential mortgage loans		460,668		515,093		21,787		466,072		
Commercial:										
Commercial mortgage loans		81,527		107,082		3,073		85,485		
Commercial and Industrial Loans		170,706		194,007		18,096		176,873		

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Construction:										
Land		9,578		13,758		1,060			9,727	
Construction-commercial		39,466		40,000		-			39,736	
Construction-residential		4,472		5,226		142			4,574	
Consumer:										
Auto loans		21,581		21,581		6,653			23,531	
Finance leases		2,077		2,077		86			2,484	
Other consumer loans		16,434		18,343		1,684			17,548	
	\$	806,509		\$ 917,167		\$ 52,581			\$ 826,030	

Interest income of approximately \$9.7 million (\$8.2 million on an accrual basis and \$1.5 million on a cash basis) was recognized on impaired loans for the first quarter of 2015.

The following table shows the activity for impaired loans and the related specific reserve during the first quarter of 2016 and 2015:

	Quarter ended			
	March 31, 2016		March 31, 2015	
<b>Impaired Loans:</b>	(In thousands)			
Balance at beginning of period	\$	806,509	\$	945,407
Loans determined impaired during the period		157,984		62,933
Charge-offs		(8,352)		(11,715)
Loans sold, net of charge-offs		-		(1,137)
Increases to impaired loans- additional disbursements		1,347		519
Foreclosures		(7,421)		(9,952)
Loans no longer considered impaired		(20,339)		(9,898)
Paid in full or partial payments		(12,137)		(21,176)
Balance at end of period	\$	917,591	\$	954,981

	Quarter ended			
	March 31, 2016		March 31, 2015	
<b>Specific Reserve:</b>	(In thousands)			
Balance at beginning of period	\$	52,581	\$	55,205
Provision for loan losses		37,266		18,650
Charge-offs		(8,352)		(11,715)
Balance at end of period	\$	81,495	\$	62,140

### PCI Loans

The Corporation acquired PCI loans accounted under ASC 310-30 as part of transaction closed on February 27, 2015 in which FirstBank acquired 10 Puerto Rico branches of Doral Bank, and acquired certain assets, including PCI loans, and assumed deposits, through an alliance with Banco Popular of Puerto Rico, which was the successful lead bidder with the FDIC on the failed Doral Bank, as well as other co-bidders. The Corporation also acquired PCI loans in previously completed asset acquisitions which are accounted for under ASC 310-30. These previous transactions include the acquisition from Doral Financial in the second quarter of 2014 of all its rights, title and interest in first and second residential mortgages loans in full satisfaction of secured borrowings owed by such entity to FirstBank, and the acquisition in 2012 of a FirstBank-branded credit card loans portfolio from FIA Card Services ("FIA").

Under ASC 310-30, the acquired PCI loans were aggregated into pools based on similar characteristics (i.e. delinquency status, loan terms). Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Since the loans are accounted for by the Corporation under ASC 310-30, they are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The Corporation recognizes additional losses on this portfolio when it is probable that the Corporation will be unable to collect all cash flows expected as of the acquisition date plus additional cash flows expected to be collected arising from changes in estimates after the acquisition date.

The carrying amount of PCI loans follows:						
			<b>March 31,</b>			<b>December 31,</b>
			<b>2016</b>			<b>2015</b>
(In thousands)						
Residential mortgage loans	\$		169,190		\$	170,766
Commercial mortgage loans			3,142			3,147
Total PCI loans	\$		172,332		\$	173,913
Allowance for loan losses			(4,568)			(3,962)
Total PCI loans, net of allowance for loan losses	\$		167,764		\$	169,951

The following tables present PCI loans by past due status as of March 31, 2016 and December 31, 2015:													
As of March 31, 2016		30-59 Days		60-89 Days		90 days or more		Total Past Due		Current		Total PCI loans	
		(In thousands)											
Residential mortgage loans (1)		\$	-	\$	12,999	\$	24,941	\$	37,940	\$	131,250	\$	169,190
Commercial mortgage loans (1)			-		-		992		992		2,150		3,142
		\$	-	\$	12,999	\$	25,933	\$	38,932	\$	133,400	\$	172,332
(1)		According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans past due 30-59 days as of March 31, 2016 amounted to \$23.5 million.											
As of December 31, 2015		30-59 Days		60-89 Days		90 days or more		Total Past Due		Current		Total PCI loans	
		(In thousands)											
Residential mortgage loans (1)		\$	-	\$	16,094	\$	22,218	\$	38,312	\$	132,454	\$	170,766
Commercial mortgage loans (1)			-		-		992		992		2,155		3,147
		\$	-	\$	16,094	\$	23,210	\$	39,304	\$	134,609	\$	173,913
(1)		According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans past due 30-59 days as of December 31, 2015 amounted to \$23.6 million.											

#### Initial Fair Value and Accretable Yield of PCI Loans

At acquisition, the Corporation estimated the cash flows the Corporation expected to collect on PCI loans. Under the accounting guidance for PCI loans, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. This difference is neither accreted into income nor recorded on the Corporation's consolidated statement of financial condition. The excess of

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

cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans, using the effective-yield method.

*Changes in accretable yield of acquired loans*

Subsequent to acquisition, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications from nonaccretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation's provision for loan and lease losses, resulting in an increase to the allowance for loan losses. During the first quarter of 2016, the Corporation increased by \$0.6 million to \$4.6 million the reserve related to PCI loans acquired from Doral Financial in 2014. The reserve is driven by the revisions to the expected cash flows of the portfolio for the remaining term of the loan pool based on market conditions.

Changes in the accretable yield of PCI loans for the quarters ended March 31, 2016 and 2015 were as follows:					
		<b>March 31, 2016</b>		<b>March 31, 2015</b>	
		(In thousands)			
Balance at beginning of period	\$	118,385		\$	82,460
Additions (accretable yield at acquisition of loans from Doral Bank)		-			38,319
Accretion recognized in earnings		(2,889)			(2,277)
Reclassification to non-accretable		(1,398)			-
Balance at end of period	\$	114,098		\$	118,502

Changes in the carrying amount of loans accounted for pursuant to ASC 310-30 follows:					
		<b>Quarter ended</b>		<b>Quarter ended</b>	
		<b>March 31, 2016</b>		<b>March 31, 2015</b>	
		(In thousands)			
Balance at beginning of period	\$	173,913		\$	102,604
Additions		-			79,889
Accretion		2,889			2,277
Collections		(4,371)			(3,656)
Foreclosures		(99)			-
Ending balance	\$	172,332		\$	181,114
Allowance for loan losses		(4,568)			-
Ending balance, net of allowance for loan losses	\$	167,764		\$	181,114

Changes in the allowance for loan losses related to PCI loans follows:					
		<b>Quarter ended</b>		<b>Quarter ended</b>	
		<b>March 31, 2016</b>		<b>March 31, 2015</b>	
		(In thousands)			
Balance at beginning of period	\$	3,962		\$	-
Provision for loan losses		606			-
Balance at the end of period	\$	4,568		\$	-

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to \$216.1 million as of March 31, 2016 (December 31, 2015- \$218.1 million).



## Purchases and Sales of Loans

During the first quarter of 2016, the Corporation purchased \$19.1 million of residential mortgage loans consistent with a strategic program established by the Corporation in 2005 to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. Generally, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions, depending upon the Corporation's interest rate risk management strategies. When the Corporation sells such loans, it generally keeps the servicing of the loans.

In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to GNMA and government-sponsored entities ("GSEs") such as Fannie Mae ("FNMA") and Freddie Mac ("FHLMC"), which generally securitize the transferred loans into mortgage-backed securities for sale into the secondary market. The Corporation sold approximately \$38.3 million of performing residential mortgage loans to FNMA and FHLMC during the first quarter of 2016. Also, during the first quarter of 2016, the Corporation sold \$67.7 million of FHA/VA mortgage loans to GNMA, which packages them into mortgage-backed securities. The Corporation's continuing involvement in these loan sales consists primarily of servicing the loans. In addition, the Corporation agreed to repurchase loans when it breaches any of the representations and warranties included in the sale agreement. These representations and warranties are consistent with the GSEs' selling and servicing guidelines (i.e., ensuring that the mortgage was properly underwritten according to established guidelines).

For loans sold to GNMA, the Corporation holds an option to repurchase individual delinquent loans issued on or after January 1, 2003 when the borrower fails to make any payment for three consecutive months. This option gives the Corporation the ability, but not the obligation, to repurchase the delinquent loans at par without prior authorization from GNMA.

Under ASC 860, *Transfer and Servicing*, once the Corporation has the unilateral ability to repurchase the delinquent loan, it is considered to have regained effective control over the loan and is required to recognize the loan and a corresponding repurchase liability on the balance sheet regardless of the Corporation's intent to repurchase the loan.

During the first quarter of 2016 and 2015, the Corporation repurchased pursuant to its repurchase option with GNMA \$8.4 million and \$3.0 million, respectively, of loans previously sold to GNMA. The principal balance of these loans is fully guaranteed and the risk of loss related to the repurchased loans is generally limited to the difference between the delinquent interest payment advanced to GNMA computed at the loan's interest rate and the interest payments reimbursed by FHA, which are computed at a pre-determined debenture rate. Repurchases of GNMA loans allow the Corporation, among other things, to maintain acceptable delinquency rates on outstanding GNMA pools and remain as a seller and servicer in good standing with GNMA. The Corporation generally remediates any breach of representations and warranties related to the underwriting of such loans according to established GNMA guidelines without incurring losses. The Corporation does not maintain a liability for estimated losses as a result of breaches in

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

representations and warranties.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation repurchased at par loans previously sold to FNMA and FHLMC in the amount of \$0.5 million and \$0.2 million during the first quarter of 2016 and 2015, respectively. The Corporation's risk of loss with respect to these loans is also minimal as these repurchased loans are generally performing loans with documentation deficiencies. No losses related to breaches of representations and warranties were incurred in the first quarter of 2016. Historically, losses experienced on these loans have been immaterial. As a consequence, as of March 31, 2016, the Corporation does not maintain a liability for estimated losses on loans expected to be repurchased as a result of breaches in loan and servicer representations and warranties.

### **Loan Portfolio Concentration**

The Corporation's primary lending area is Puerto Rico. The Corporation's banking subsidiary, First Bank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of \$9.1 billion as of March 31, 2016, approximately 80% have credit risk concentration in Puerto Rico, 13% in the United States, and 7% in the USVI and BVI.

As of March 31, 2016, the Corporation had \$315.6 million of credit facilities, excluding investment securities, extended to the Puerto Rico government, its municipalities and public corporations, of which \$302.2 million was outstanding (book value of \$297.2 million), compared to \$314.6 million outstanding as of December 31, 2015. In addition, the outstanding balance of facilities granted to the government of the Virgin Islands amounted to \$67.4 million as of March 31, 2016, compared to \$126.2 million as of December 31, 2015. Approximately \$199.3 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico whose revenues are independent of the Puerto Rico central government. Municipal debt exposure is secured by ad valorem taxation without limitation as to rate or amount on all taxable property within the boundaries of each municipality. The good faith, credit, and unlimited taxing power of the applicable municipality have been pledged to the repayment of the municipality's loans. Approximately 88% of the Corporation's municipality exposure consists primarily of senior priority loans concentrated on five of the largest

municipalities on Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as required for the payment of all their respective general obligation bonds and loans. In addition to municipalities, loans extended to the Puerto Rico Government include \$6.9 million of loans to units of the Puerto Rico central government, and approximately \$96.0 million (\$91.0 million book value) consisted of loans to public corporations that generally receive revenues from the rates they charge for services or products, such as electric power services, including a credit facility extended to the Puerto Rico Electric Power Authority (“PREPA”) with a book value of \$69.7 million as of March 31, 2016. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments are recorded on a cost recovery basis. Major public corporations have varying degrees of independence from the central government and many receive appropriations or other payments from the Puerto Rico government’s general fund. Debt issued by the Puerto Rico central government can either carry the full faith, credit and taxing power of the Commonwealth of Puerto Rico or represent an obligation that is subject to annual budget appropriations.

Furthermore, as of March 31, 2016, the Corporation had \$128.6 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and operations of the underlying collateral are the primary sources of repayment and the Puerto Rico Tourism Development Fund (the “TDF”) provides a secondary guarantee for payment performance, compared to \$129.4 million as of December 31, 2015. The TDF is a subsidiary of the GDB that facilitates private-sector financings to Puerto Rico’s hotel industry. The TDF provides guarantees to financings and may provide direct loans. The Corporation placed the \$128.6 million exposure to loans guaranteed by the TDF in non-accrual status in the first quarter of 2016. Recent developments related to the Puerto Rico government’s fiscal situation introduced additional uncertainty regarding TDF’s ability to honor its guarantee, including the enactment on April 6, 2016 of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act. This Act gives Puerto Rico’s governor emergency powers to deal with the Puerto Rico government’s challenging fiscal situation, including the ability to declare a moratorium on all bonds and other payments. Puerto Rico’s governor issued an executive order intended to protect the GDB’s liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services. Most recently, the GDB paid the scheduled interest payment but defaulted on the principal payment of \$367 million notes due on May 1, 2016 and entered into an agreement with credit unions in Puerto Rico to exchange \$33 million of notes maturing on May 1, 2016 for newly issued notes with substantially the same terms, but maturing on May 1, 2017.

The Corporation has been receiving combined payments from the borrowers and TDF as guarantor sufficient to cover contractual payments on these loans, including collections of principal and interest from TDF of \$0.6 million in the first quarter of 2016 and \$5.3 million in the entire year 2015. These loans, which have been adversely classified since the third quarter of 2015, were current in contractual payments as of March 31, 2016. Prospectively, principal and interest payment collections received by the Corporation for these loans will be applied against the outstanding balance of the loans.

The general reserve for commercial loans was increased in the fourth quarter of 2015 due to qualitative factors that stressed the historical loss rates applied to the Puerto Rico Government-related exposure, including the TDF-guaranteed portfolio. The migration of the loans guaranteed by the TDF to non-accrual status in the first quarters of 2016 did not result in a significant increase to the allowance for loan losses. As of March 31, 2016, the total reserve coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding

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

municipalities) was 20%.

In addition, the Corporation had \$124.3 million in indirect exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico government guarantees up to \$75 million of the principal insured by the mortgage loans insurance program. According to the most recently released audited financial statements of the Puerto Rico Housing Financing Authority, as of June 30, 2015, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans aggregating to approximately \$552 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. As of June 30, 2015, the Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately \$77.4 million.

The Corporation cannot predict at this time the impact that the current fiscal situation of the Commonwealth of Puerto Rico, including the payment defaults on certain bonds, the uncertainty about the debt restructuring process and how the U.S. government may address Puerto Rico's financial problems, and the various legislative and other measures adopted and to be adopted by the Puerto Rico government in response to such fiscal situation, will have on the Puerto Rico economy and on the Corporation's financial condition and results of operations.

### **Troubled Debt Restructurings**

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico that is similar to the U.S. government's Home Affordable Modification Program guidelines. Depending upon the nature of borrowers' financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction, and residential mortgage loans in the U.S. mainland fit the definition of a TDR. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession

to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of March 31, 2016, the Corporation's total TDR loans held for investment of \$659.1 million consisted of \$384.3 million of residential mortgage loans, \$144.8 million of commercial and industrial loans, \$43.5 million of commercial mortgage loans, \$45.2 million of construction loans, and \$41.3 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to \$0.3 million as of March 31, 2016.

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

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in, or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDR regardless of whether the borrower enters into a permanent modification. As of March 31, 2016, we classified an additional \$7.2 million of residential mortgage loans as TDRs that were participating in or had been offered a trial modification.

For the commercial real estate, commercial and industrial, and construction loan portfolios, at the time of a restructuring, the Corporation determines, on a loan-by-loan basis, whether a concession was granted for economic or legal reasons related to the borrower's financial difficulty. Concessions granted for commercial loans could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waivers of borrower covenants; forgiveness of principal or interest; or other contractual changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collection function. The function's objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of the commercial and industrial, commercial mortgage, and construction loan portfolios, the Corporation's Special Asset Group ("SAG") focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists, and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary. The SAG utilizes its collections infrastructure of workout collection officers, credit work-out specialists, in-house legal counsel,

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

and third-party consultants. In the case of residential construction projects and large commercial loans, the SAG function also utilizes third-party specialized consultants to monitor the residential and commercial construction projects in terms of construction, marketing and sales, and to assist with the restructuring of large commercial loans.

In addition, the Corporation extends, renews, and restructures loans with satisfactory credit profiles. Many commercial loan facilities are structured as lines of credit, which are mainly one year in term and therefore are required to be renewed annually. Other facilities may be restructured or extended from time to time based upon changes in the borrower's business needs, use of funds, timing of completion of projects, and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals, and restructurings are done in the normal course of business and not considered concessions, and the loans continue to be recorded as performing.

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

March 31, 2016												
(In thousands)	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Other (1)	Total						
Troubled Debt Restructurings:												
Non- FHA/VA Residential Mortgage loans	\$ 29,605	\$ 6,272	\$ 296,531	\$ -	\$ 51,927	\$ 384,335						
Commercial Mortgage Loans	4,005	1,235	25,921	-	12,308	43,469						
Commercial and Industrial Loans	1,700	73,089	26,583	3,018	40,438	144,828						
Construction Loans:												
Land	-	228	2,159	-	368	2,755						
Construction-commercial	-	-	-	39,037	-	39,037						
Construction-residential	-	-	3,031	-	357	3,388						
Consumer Loans - Auto	-	2,173	13,765	-	7,542	23,480						
Finance Leases	-	541	1,928	-	-	2,469						
Consumer Loans - Other	82	1,555	11,145	258	2,303	15,343						
Total Troubled Debt Restructurings	\$ 35,392	\$ 85,093	\$ 381,063	\$ 42,313	\$ 115,243	\$ 659,104						
(1)	Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation, or a combination of the concessions listed in the table.											

December 31, 2015												
(In thousands)	Interest rate below	Maturity or term	Combination of reduction	Forgiveness of	Other (1)	Total						

	market	extension	in interest rate and extension of maturity	principal and/or interest										
Troubled Debt Restructurings:														
Non- FHA/VA Residential Mortgage loans	\$ 29,066	\$ 6,027	\$ 297,310	\$ -	\$ 50,269	\$ 382,672								
Commercial Mortgage Loans	4,379	1,244	26,109	-	12,766	44,498								
Commercial and Industrial Loans	2,163	75,104	27,214	3,027	42,746	150,254								
Construction Loans:														
Land	-	229	2,165	-	372	2,766								
Construction-commercial	-	-	-	39,466	-	39,466								
Construction-residential	-	-	3,046	-	436	3,482								
Consumer Loans - Auto	-	2,330	12,388	-	6,864	21,582								
Finance Leases	-	621	1,456	-	-	2,077								
Consumer Loans - Other	89	1,604	11,026	327	1,748	14,794								
Total Troubled Debt Restructurings	\$ 35,697	\$ 87,159	\$ 380,714	\$ 42,820	\$ 115,201	\$ 661,591								
(1)	Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation or a combination of the concessions listed in the table.													



The following table presents the Corporation's TDR loans activity				
(In thousands)	Quarter Ended			
	March 31, 2016		March 31, 2015	
Beginning Balance of TDRs	\$	661,591	\$	694,453
New TDRs		16,219		31,601
Increases to existing TDRs - additional disbursements		701		335
Charge-offs post modification		(5,822)		(3,781)
Foreclosures		(2,821)		(7,156)
Paid-off, partial payments		(10,764)		(10,329)
Ending balance of TDRs	\$	659,104	\$	705,123

TDR loans are classified as either accrual or nonaccrual loans. Loans in accrual status may remain in accrual status when their contractual terms have been modified in a TDR if the loans had demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Otherwise, loans on non-accrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure, generally for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of the restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a non-accrual loan. Loan modifications increase the Corporation's interest income by returning a non-performing loan to performing status, if applicable, increase cash flows by providing for payments to be made by the borrower, and limit increases in foreclosure and OREO costs. The Corporation continues to consider a modified loan as an impaired loan for purposes of estimating the allowance for loan and lease losses. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR, or an impaired loan in the calendar years subsequent to the restructuring, if it is in compliance with its modified terms. The Corporation did not remove any loans from the TDR classification during the first quarter of 2016 and 2015.

The following table provides a breakdown between the accrual and non-accrual status of TDR loans:										
(In thousands)								As of March 31, 2016		
		Accrual			Non-accrual (1)			Total TDRs		
Non-FHA/VA Residential Mortgage loans	\$	302,773		\$	81,562		\$	384,335		
Commercial Mortgage Loans		27,763			15,706			43,469		
Commercial and Industrial Loans		47,463			97,365			144,828		
Construction Loans:										
Land		917			1,838			2,755		
Construction-commercial		-			39,037			39,037		
Construction-residential		3,031			357			3,388		
Consumer Loans - Auto		15,943			7,537			23,480		
Finance Leases		2,329			140			2,469		
Consumer Loans - Other		13,214			2,129			15,343		
Total Troubled Debt Restructurings	\$	413,433		\$	245,671		\$	659,104		
(1)	Included in non-accrual loans are \$119.2 million in loans that are performing under the terms of a restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability.									

(In thousands)								December 31, 2015		
		Accrual			Non-accrual (1)			Total TDRs		
Non-FHA/VA Residential Mortgage loans	\$	303,885		\$	78,787		\$	382,672		
Commercial Mortgage Loans		29,121			15,377			44,498		
Commercial and Industrial Loans		48,392			101,862			150,254		
Construction Loans:										
Land		924			1,842			2,766		
Construction-commercial		-			39,466			39,466		
Construction-residential		3,046			436			3,482		
Consumer Loans - Auto		14,823			6,759			21,582		
Finance Leases		1,980			97			2,077		
Consumer Loans - Other		12,737			2,057			14,794		
Total Troubled Debt Restructurings	\$	414,908		\$	246,683		\$	661,591		

(1)	Included in non-accrual loans are \$118.2 million in loans that are performing under the terms of a restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability.								

TDR loans exclude restructured residential mortgage loans that are guaranteed by the U.S. federal government (i.e., FHA/VA loans) totaling \$74.2 million as of March 31, 2016 (December 31, 2015 - \$77.6 million). The Corporation excludes FHA/VA guaranteed loans from TDR loans statistics given that, in the event that the borrower defaults on the loan, the principal and interest (at the specified debenture rate) are guaranteed by the U.S. government; therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with U.S. federal government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

Loans modifications that are considered TDR loans and were completed during the first quarter of 2016 and 2015 were as follows:

(Dollars in thousands)							Quarter ended March 31, 2016						
							Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment		
Troubled Debt Restructurings:													
Non-FHA/VA Residential Mortgage loans							58		\$	9,012	\$	8,459	
Commercial Mortgage Loans							-			-		-	
Commercial and Industrial Loans							-			-		-	
Construction Loans:													
Land							-			-		-	
Construction-commercial							-			-		-	
Construction-residential							-			-		-	
Consumer Loans - Auto							258			4,981		4,981	
Finance Leases							36			940		940	
Consumer Loans - Other							336			1,821		1,839	
Total Troubled Debt Restructurings							688		\$	16,754	\$	16,219	

(Dollars in thousands)							Quarter ended March 31, 2015						
							Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment		
Troubled Debt Restructurings:													
Non-FHA/VA Residential Mortgage loans							81		\$	11,495	\$	11,265	
Commercial Mortgage Loans							8			12,821		12,931	
Commercial and Industrial Loans							1			1,681		1,681	
Construction Loans:													
Land							1			64		64	
Consumer Loans - Auto							146			2,173		2,130	
Finance Leases							8			233		184	
Consumer Loans - Other							377			3,391		3,346	
Total Troubled Debt Restructurings							622		\$	31,858	\$	31,601	

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan, results in the loan once again becoming a non-performing loan. Recidivism occurs at a notably higher rate than do defaults on new origination loans, so modified loans present a higher risk of loss than do new origination loans. The Corporation considers a loan

to have defaulted if the borrower has failed to make payments of either principal, interest, or both for a period of 90 days or more.

Loan modifications considered TDR loans that defaulted during the quarters ended March 31, 2016 and March 31, 2015 and had become TDR during the 12-month period preceding the default date, were as follows:								
Quarter ended March 31,								
(Dollars in thousands)	2016				2015			
	Number of contracts		Recorded Investment		Number of contracts		Recorded Investment	
Non-FHA/VA Residential Mortgage loans	11		\$ 1,978		12		\$ 1,773	
Commercial Mortgage Loans	-		-		-		-	
Commercial and Industrial Loans	-		-		4		5,745	
Construction Loans:	-		-		-		-	
Land	-		-		-		-	
Construction-commercial	-		-		-		-	
Construction-residential	-		-		-		-	
Consumer Loans - Auto	9		136		2		8	
Finance Leases	1		13		1		15	
Consumer Loans - Other	33		130		53		229	
Total	54		\$ 2,257		72		\$ 7,770	

For certain TDR loans, the Corporation splits the loans into two new notes, A and B notes. The A note is restructured to comply with the Corporation's lending standards at current market rates, and is tailored to suit the customer's ability to make timely interest and principal payments. The B note includes the granting of the concession to the borrower and varies by situation. The B note is charged off but the obligation is not forgiven to the borrower, and any payments collected are accounted for as recoveries. At the time of the restructuring, the A note is identified and classified as a TDR loan. If the loan performs for at least six months according to the modified terms, the A note may be returned to accrual status. The borrower's payment performance prior to the restructuring is included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of the restructuring. In the periods following the calendar year in which a loan was restructured, the A note may no longer be reported as a TDR loan if it is on accrual status, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the restructuring).

The recorded investment in loans held for investment restructured using the A/B note restructure workout strategy was approximately \$38.6 million as of March 31, 2016. The following table provides additional information about the volume of this type of loan restructuring and the effect on the allowance for loan and lease losses in the first quarter of 2016 and 2015:

	March 31, 2016		March 31, 2015	
(In thousands)				
Principal balance deemed collectible at end of period	\$	38,628	\$	42,907
Amount charged off	\$	-	\$	-
Charges (reductions) to the provision for loan losses	\$	1,978	\$	(24)
Allowance for loan losses at end of period	\$	2,480	\$	707

Of the loans comprising the \$38.6 million that have been deemed collectible, approximately \$38.5 million were placed in accrual status as the borrowers have exhibited a period of sustained performance. These loans continue to be individually evaluated for impairment purposes.

## NOTE 7 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The changes in the allowance for loan and lease losses were as follows:										
(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total				
Quarter ended March 31, 2016										
<b>Allowance for loan and lease losses:</b>										
Beginning balance	\$ 39,570	\$ 68,211	\$ 68,768	\$ 3,519	\$ 60,642	\$ 240,710				
Charge-offs	(7,306)	(575)	(3,759)	(91)	(14,804)	(26,535)				
Recoveries	346	46	280	17	2,208	2,897				
Provision (release)	5,938	1,062	5,809	(432)	8,676	21,053				
Ending balance	\$ 38,548	\$ 68,744	\$ 71,098	\$ 3,013	\$ 56,722	\$ 238,125				
Ending balance: specific reserve for										
impaired loans	\$ 16,150	\$ 36,007	\$ 18,749	\$ 1,202	\$ 9,387	\$ 81,495				
Ending balance: purchased credit-impaired loans (1)	\$ 4,423	\$ 145	\$ -	\$ -	\$ -	\$ 4,568				
Ending balance: general allowance	\$ 17,975	\$ 32,592	\$ 52,349	\$ 1,811	\$ 47,335	\$ 152,062				
<b>Loans held for investment:</b>										
Ending balance	\$ 3,330,945	\$ 1,524,491	\$ 2,343,416	\$ 146,129	\$ 1,786,361	\$ 9,131,342				
Ending balance: impaired loans	\$ 461,606	\$ 191,251	\$ 168,160	\$ 52,938	\$ 43,636	\$ 917,591				
Ending balance: purchased credit- impaired loans	\$ 169,190	\$ 3,142	\$ -	\$ -	\$ -	\$ 172,332				
Ending balance: loans with general allowance	\$ 2,700,149	\$ 1,330,098	\$ 2,175,256	\$ 93,191	\$ 1,742,725	\$ 8,041,419				

(1) Refer to Note 6 - Loans Held for Investment-PCI loans for a detail of changes in the allowance for loan losses related to PCI loans.

(In thousands)	Residential Mortgage Loans		Commercial Mortgage Loans		Commercial & Industrial Loans		Construction Loans		Consumer Loans		Total	
Quarter ended March 31, 2015												
<b>Allowance for loan and lease losses:</b>												
Beginning balance	\$	27,301	\$	50,894	\$	63,721	\$	12,822	\$	67,657	\$	222,395
Charge-offs		(5,192)		(4,006)		(4,453)		(605)		(17,757)		(32,013)
Recoveries		98		276		558		207		1,573		2,712
Provision (release)		6,475		(2,137)		10,353		1,215		17,064		32,970
Ending balance	\$	28,682	\$	45,027	\$	70,179	\$	13,639	\$	68,537	\$	226,064
Ending balance: specific reserve for												
impaired loans	\$	14,862	\$	13,238	\$	24,871	\$	3,381	\$	5,788	\$	62,140
Ending balance: purchased credit-impaired loans	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Ending balance: general allowance	\$	13,820	\$	31,789	\$	45,308	\$	10,258	\$	62,749	\$	163,924
<b>Loans held for investment:</b>												
Ending balance	\$	3,331,620	\$	1,649,263	\$	2,442,867	\$	124,440	\$	1,937,182	\$	9,485,372
Ending balance: impaired loans	\$	429,526	\$	224,365	\$	226,656	\$	37,593	\$	36,841	\$	954,981
Ending balance: purchased credit-impaired loans	\$	177,601	\$	3,279	\$	-	\$	-	\$	234	\$	181,114
Ending balance: loans with general allowance	\$	2,724,493	\$	1,421,619	\$	2,216,211	\$	86,847	\$	1,900,107	\$	8,349,277

As of March 31, 2016, the Corporation maintained a \$1.3 million reserve for unfunded loan commitments mainly related to outstanding commercial loan commitments and a floor plan revolving line of credit. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments to borrowers that are experiencing financial difficulties at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statement of financial condition.



**NOTE 8 – LOANS HELD FOR SALE**

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

		As of		As of	
		March 31, 2016		December 31, 2015	
(In thousands)					
Residential mortgage loans	\$	29,789		\$	27,734
Construction loans		8,079			8,135
Total	\$	37,868		\$	35,869

Non-performing loans held for sale totaled \$8.1 million as of March 31, 2016 and December 31, 2015.

**NOTE 9 – OTHER REAL ESTATE OWNED**

The following table presents OREO inventory as of the dates indicated:					
		March 31,		December 31,	
		2016		2015	
(Dollars in thousands)					
<b>OREO</b>					
OREO balances, carrying value:					
Residential (1)	\$	42,976		\$	43,563
Commercial		86,008			87,849
Construction		13,904			15,389
Total	\$	142,888		\$	146,801

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

(1)	Excludes \$10.9 million and \$8.9 million as of March 31, 2016 and December 31, 2015, respectively, of foreclosures that meet the conditions of ASC 310-40 and are presented as a receivable (other assets) in the statement of financial condition.

## NOTE 10 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

The Corporation designates a derivative as a fair value hedge, cash flow hedge or economic undesignated hedge when it enters into the derivative contract. As of March 31, 2016 and December 31, 2015, all derivatives held by the Corporation were considered economic undesignated hedges. These undesignated hedges are recorded at fair value with the resulting gain or loss recognized in current earnings.

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

Interest rate cap agreements - Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Corporation enters into interest rate cap agreements for protection from rising interest rates.

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

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

In addition, the Corporation enters into certain contracts with embedded derivatives that do not require separate accounting as these are clearly and closely related to the economic characteristics of the host contract. When the

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

embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated, carried at fair value, and designated as a trading or non-hedging derivative instrument.

The following table summarizes the notional amounts of all derivative instruments as of the indicated dates:				
<b>Notional Amounts (1)</b>				
		<b>As of</b>		
		<b>March 31,</b>		
		<b>2016</b>		
		<b>As of</b>		
		<b>December 31,</b>		
		<b>2015</b>		
<b>Undesignated economic hedges:</b>		<b>(In thousands)</b>		
Interest rate contracts:				
Written interest rate cap agreements		120,477	120,816	
Purchased interest rate cap agreements		120,477	120,816	
Forward Contracts:				
Sale of TBA GNMA MBS pools		37,000	30,000	
		\$ 277,954	\$ 271,632	

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

The following table summarizes the fair value of derivative instruments as of the indicated dates and the location in the statement of financial condition as of the indicated dates:									
<b>Asset Derivatives</b>					<b>Liability Derivatives</b>				
<b>Statement of</b>		<b>March 31,</b>		<b>December 31,</b>		<b>March 31,</b>		<b>December 31,</b>	
<b>Financial</b>		<b>2016</b>		<b>2015</b>		<b>2016</b>		<b>2015</b>	
<b>Condition Location</b>		<b>Fair Value</b>		<b>Fair Value</b>		<b>Statement of Financial Condition Location</b>		<b>Fair Value</b>	
<b>(In thousands)</b>									
<b>Undesignated economic hedges:</b>									
Interest rate contracts:									
Written interest rate cap agreements		\$ -		\$ -		Accounts payable and other liabilities		\$ 364	
Purchased interest rate cap agreements		368		806		Accounts payable and other liabilities		-	
Forward Contracts:									

Sales of TBA GNMA MBS pools	Other assets			-			-	Accounts payable and other liabilities			272			123
		\$	368		\$	806			\$	636		\$	921	

The following table summarizes the effect of derivative instruments on the statement of income :							
				<b>Gain (or Loss)</b>			
				<b>Quarter Ended</b>			
				<b>March 31,</b>			
				<b>Recognized in Income on</b>			
				<b>Derivatives</b>			
				<b>2016</b>			
				<b>2015</b>			
				<b>(In thousands)</b>			
<b>UNDESIGNATED ECONOMIC HEDGES:</b>							
Interest rate contracts:							
Written and purchased interest rate swap agreements		Interest income - Loans		\$	(4)	\$	-
Forward contracts:							
Sales of TBA GNMA MBS pools		Mortgage Banking Activities			(149)		(72)
Total loss on derivatives				\$	(153)	\$	(72)

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

**NOTE 11 – OFFSETTING OF ASSETS AND LIABILITIES**

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

Offsetting of Financial Assets and Derivative Assets												
In thousands												
As of March 31, 2016												
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position			Net Amount					
				Financial Instruments	Cash Collateral Received							
Derivatives	\$ 368	\$ -	\$ 368	\$ (368)	\$ -	\$ -						
Securities purchased under agreements to	200,000	(200,000)	-	-	-	-						









**NOTE 12 – GOODWILL AND OTHER INTANGIBLES**

Goodwill as of March 31, 2016 and December 31, 2015 amounted to \$28.1 million, recognized as part of “Other Assets” in the consolidated statement of financial condition. The Corporation conducted its annual evaluation of goodwill and other intangibles during the fourth quarter of 2015. The Corporation’s goodwill is related to the acquisition of FirstBank Florida in 2005.

There have been no events related to the Florida reporting unit that could indicate potential goodwill impairment since the date of the last evaluation; therefore, no goodwill impairment evaluation was performed during the first quarter of 2016. Goodwill and other indefinite life intangibles are reviewed at least annually for impairment.

In connection with the acquisition of the FirstBank-branded credit card loan portfolio, in the second quarter of 2012, the Corporation recognized a purchased credit card relationship intangible of \$24.5 million, which is being amortized over the remaining estimated life of 5.6 years on an accelerated basis based on the estimated attrition rate of the purchased credit card accounts, which reflects the pattern in which the economic benefits of the intangible asset are consumed. These benefits are consumed as the revenue stream generated by the cardholder relationship is realized.

The core deposit intangible acquired in the February 2015 Doral Bank transaction amounted to \$5.8 million (\$4.9 million as of March 31, 2016).

In the first quarter of 2016, FirstBank Insurance Agency acquired certain insurance customer accounts and related customer records and recognized an insurance customer relationship intangible of \$1.1 million, which is being amortized over the next 6.8 years on a straight-line basis. The list of accounts acquired has a direct relationship to the previous mortgage loan portfolio acquisitions from Doral Bank and Doral Financial in 2015 and 2014.

The following table shows the gross amount and accumulated amortization of the Corporation’s intangible assets recognized as part of Other Assets in the consolidated statement of financial condition:					
	As of		As of		
	March 31,		December 31,		
	2016		2015		
(Dollars in thousands)					
Core deposit intangible:					
Gross amount, beginning of period	\$	51,664	\$	45,844	
Addition as a result of acquisition		-		5,820	

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

Accumulated amortization		(42,990)			(42,498)
Net carrying amount	\$	8,674		\$	9,166
Remaining amortization period		8.8 years			9.0 years
Purchased credit card relationship intangible:					
Gross amount	\$	24,465		\$	24,465
Accumulated amortization		(11,843)			(11,146)
Net carrying amount	\$	12,622		\$	13,319
Remaining amortization period		5.6 years			5.8 years
Insurance customer relationship intangible:					
Gross amount	\$	1,067		\$	-
Accumulated amortization		(25)			-
Net carrying amount	\$	1,042		\$	-
Remaining amortization period		6.8 years			-

For the quarters ended March 31, 2016 and 2015, the amortization expense of core deposit intangibles amounted to \$0.5 million and \$0.3 million, respectively. For the quarters ended March 31, 2016 and 2015, the amortization expense of the purchased credit card relationship intangible amounted to \$0.7 million and \$0.8 million, respectively. For the quarter ended March 31, 2016, the amortization expense of the insurance customer relationship intangible amounted to \$25 thousand.

	The estimated aggregate amortization expense related to these intangible assets for future periods is as follows:		
			<b>Amount</b>
			(In thousands)
2016	\$		3,681
2017			4,495
2018			3,519
2019			3,067
2020			2,851
2021 and after			4,725

### NOTE 13 – NON-CONSOLIDATED VARIABLE INTEREST ENTITIES AND SERVICING ASSETS

The Corporation transfers residential mortgage loans in sale or securitization transactions in which it has continuing involvement, including servicing responsibilities and guarantee arrangements. All such transfers have been accounted for as sales as required by applicable accounting guidance.

When evaluating the need to consolidate counterparties to which the Corporation has transferred assets or with which the Corporation has entered into other transactions, the Corporation first determines if the counterparty is an entity for which a variable interest exists. If no scope exception is applicable and a variable interest exists, the Corporation then evaluates if it is the primary beneficiary of the VIE and whether the entity should be consolidated or not.

Below is a summary of transfers of financial assets to VIEs for which the Corporation has retained some level of continuing involvement:

#### GNMA

The Corporation typically transfers first lien residential mortgage loans in conjunction with GNMA securitization transactions in which the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements, the Corporation is required to service the loans in accordance with the issuers' servicing guidelines and standards. As of March 31, 2016, the Corporation serviced loans securitized through GNMA with a

principal balance of \$1.3 billion.

### Trust Preferred Securities

In 2004, FBP Statutory Trust I, a financing trust that is wholly owned by the Corporation, sold to institutional investors \$100 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of \$3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase \$103.1 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. Also in 2004, FBP Statutory Trust II, a financing trust that is wholly owned by the Corporation, sold to institutional investors \$125 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of \$3.9 million of FBP Statutory Trust II variable rate common securities, were used by FBP Statutory Trust II to purchase \$128.9 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. The debentures are presented in the Corporation's consolidated statement of financial condition as Other Borrowings, net of related issuance costs. The variable rate trust-preferred securities are fully and unconditionally guaranteed by the Corporation. The Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and in September 2004 mature on June 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Deferrable Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust-preferred securities). During the first quarter of 2016, the Corporation completed the repurchase of \$10 million in trust preferred securities of the FBP Statutory Trust II that were auctioned in a public sale at which the Corporation was invited to participate. The Corporation repurchased and cancelled the repurchased trust preferred securities, resulting in a commensurate reduction in the related Floating Rate Junior Subordinated Debenture. The Corporation's winning bid equated to 70% of the \$10 million par value. The 30% discount, plus accrued interest, resulted in a gain of approximately \$4.2 million, which is reflected in the statement of income as a "Gain on early extinguishment of debt". During the second quarter of 2015, the Corporation issued 852,831 shares of the Corporation's common stock in exchange for \$5.3 million of trust preferred securities (FBP Statutory Trust I), which enabled the Corporation to cancel \$5.5 million of the carrying value of the debentures underlying the purchased trust preferred securities. The Collins Amendment of the Dodd-Frank Wall Street Reform and Consumer Protection Act eliminates certain trust-preferred securities from Tier 1 Capital; however, these instruments may remain in Tier 2 capital until the instruments are redeemed or mature. Under the indentures, the Corporation has the right, from time to time, and without causing an event of default, to defer payments of interest on the Junior Subordinated Debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. Future interest payments are subject to the Federal Reserve approval. The Corporation has elected to defer the

interest payments that were due on quarterly periods since March 2012. The aggregate amount of payments deferred and accrued approximates \$29.4 million as of March 31, 2016.

### Grantor Trusts

During 2004 and 2005, a third party to the Corporation, referred to in this subsection as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates. The seller initially provided the servicing for a fee, which is senior to the obligations to pay trust certificate holders. The seller then entered into a sales agreement through which it sold and issued the trust certificates in favor of the Corporation's banking subsidiary. Currently, the Bank is the sole owner of the trust certificates; the servicing of the underlying residential mortgages that generate the principal and interest cash flows is performed by another third party, which receives a servicing fee. The securities are variable rate securities indexed to 90-day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer) who then remits interest to the Bank; interest income is shared to a certain extent with the FDIC, which has an interest only strip ("IO") tied to the cash flows of the underlying loans and is entitled to receive the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted-average coupon of the securities. The FDIC became the owner of the IO upon its intervention of the seller, a failed financial institution. No recourse agreement exists and the risks from losses on non-accruing loans and repossessed collateral are absorbed by the Bank as the sole holder of the certificates. As of March 31, 2016, the amortized cost and fair value of the Grantor Trusts amounted to \$33.0 million and \$24.5 million, respectively, with a weighted average yield of 2.34%.

### Investment in unconsolidated entity

On February 16, 2011, FirstBank sold an asset portfolio consisting of performing and non-performing construction, commercial mortgage and commercial and industrial loans with an aggregate book value of \$269.3 million to CPG/GS, an entity organized under the laws of the Commonwealth of Puerto Rico and majority owned by PRLP Ventures LLC ("PRLP"), a company created by Goldman, Sachs & Co. and Caribbean Property Group. In connection with the sale, the Corporation received \$88.5 million in cash and a 35% interest in CPG/GS, and made a loan in the amount of \$136.1 million representing seller financing provided by FirstBank. The loan has a seven-year maturity and bears variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity's assets as well as the PRLP's 65% ownership interest in CPG/GS. As of March 31, 2016, the carrying amount of the loan was \$8.9 million, which was included in the Corporation's Commercial and Industrial loans held for investment portfolio. FirstBank's equity interest in CPG/GS is accounted for under the equity method. When applying the equity method, the Bank follows the Hypothetical Liquidation Book Value ("HLBV") to determine its share of CPG/GS's earnings or loss. The loss recorded in 2014 reduced to zero the carrying amount of the Bank's investment in CPG/GS. No negative investment needs to be reported as the Bank has no legal obligation or commitment to provide further financial support to this entity; thus, no further losses have been or will be recorded on this investment. Any potential increase in the carrying value of the investment in CPG/GS, under the HLBV method, would depend upon how better off the Bank is at the end of the period than it was at the beginning of the period after the waterfall calculation performed to determine the amount of gain allocated to the investors.

FirstBank also provided an \$80 million advance facility to CPG/GS to fund unfunded commitments and costs to complete projects under construction, which was fully disbursed in 2011, and a \$20 million working capital line of credit to fund certain expenses of CPG/GS. The working capital line of credit was renewed and reduced to \$7 million for a period of two years expiring September 2016. During 2012, CPG/GS repaid the outstanding balance of the advance facility to fund unfunded commitments, and the funds became available for rewithdrawal under a one-time revolver agreement. These loans bear variable interest at 30-day LIBOR plus 300 basis points. As of March 31, 2016, the carrying value of the revolver agreement was \$15.1million, which was included in the Corporation's commercial and industrial loans held for investment portfolio. The carrying value of the working capital line was \$3.7 million as of March 31, 2016.

Cash proceeds received by CPG/GS are first used to cover operating expenses and debt service payments, including those related to the note receivable, the advance facility, and the working capital line, described above, which must be substantially repaid before proceeds can be used for other purposes, including the return of capital to both PRLP and FirstBank. FirstBank will not receive any return on its equity interest until PRLP receives an aggregate amount equivalent to its initial investment and a priority return of at least 12%, resulting in FirstBank's interest in CPG/GS being subordinate to PRLP's interest. CPG/GS will then begin to make payments pro rata to PRLP and FirstBank, 35% and 65%, respectively, until FirstBank has achieved a 12% return on its invested capital and the aggregate amount of distributions is equal to FirstBank's capital contributions to CPG/GS.

The Bank has determined that CPG/GS is a VIE in which the Bank is not the primary beneficiary. In determining the primary beneficiary of CPG/GS, the Bank considered applicable guidance that requires the Bank to qualitatively assess the determination of the primary beneficiary (or consolidator) of CPG/GS based on whether it has both the power to direct the activities of CPG/GS that most significantly impact the entity's economic performance and the obligation to absorb losses of CPG/GS that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.



The Bank determined that it does not have the power to direct the activities that most significantly impact the economic performance of CPG/GS as it does not have the right to manage the loan portfolio, impact foreclosure proceedings, or manage the construction and sale of the property; therefore, the Bank concluded that it is not the primary beneficiary of CPG/GS. As a creditor to CPG/GS, the Bank has certain rights related to CPG/GS; however, these are intended to be protective in nature and do not provide the Bank with the ability to manage the operations of CPG/GS. Since CPG/GS is not a consolidated subsidiary of the Bank and the transaction met the criteria for sale accounting under authoritative guidance, the Bank accounted for this transaction as a true sale, recognizing the cash received, the notes receivable, and the interest in CPG/GS, and derecognizing the loan portfolio sold.

### Servicing Assets

The Corporation sells residential mortgage loans to GNMA, which generally securitizes the transferred loans into mortgage-backed securities. Also, certain conventional conforming loans are sold to FNMA or FHLMC with servicing retained. The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased.

The changes in servicing assets are shown below:							
		<b>Quarter ended</b>					
		<b>March 31,</b>			<b>March 31,</b>		
		<b>2016</b>			<b>2015</b>		
		(In thousands)					
Balance at beginning of period		\$	24,282		\$	22,838	
Capitalization of servicing assets			1,161			1,073	
Amortization			(798)			(856)	
Adjustment to fair value			27			(38)	
Other (1)			20			(44)	
Balance at end of period		\$	24,692		\$	22,973	
(1)	Amount represents the adjustment to fair value related to the repurchase of loans serviced for others.						

Impairment charges are recognized through a valuation allowance for each individual stratum of servicing assets. The valuation allowance is adjusted to reflect the amount, if any, by which the cost basis of the servicing asset for a given stratum of loans being serviced exceeds its fair value. Any fair value in excess of the cost basis of the servicing asset for a given stratum is not recognized.

Changes in the impairment allowance were as follows:					
	Quarter ended				
	March 31,			March 31,	
	2016			2015	
	(In thousands)				
Balance at beginning of period	\$	136		\$	55
Temporary impairment charges		27			58
Recoveries		(54)			(20)
Balance at end of period	\$	109		\$	93

The components of net servicing income are shown below:					
Quarter ended					
March 31,					
2016					
March 31,					
2015					
(In thousands)					
Servicing fees	\$	1,862		\$	1,764
Late charges and prepayment penalties		142			190
Adjustment for loans repurchased		20			(44)
Other (1)		-			(89)
Servicing income, gross		2,024			1,821
Amortization and impairment of servicing assets		(771)			(894)
Servicing income, net	\$	1,253		\$	927
(1) Mainly consisted of compensatory fees imposed by GSEs.					

The Corporation's servicing assets are subject to prepayment and interest rate risks. The Corporation used constant prepayment rate assumptions for the Corporation's servicing assets for the government-guaranteed mortgage loans of 7.6% and 9.2% for the quarters ended March 31, 2016 and 2015, respectively. For conventional conforming mortgage loans, the Corporation used 8.0% and 9.0%, respectively, and, for the conventional non-conforming mortgage loans, the Corporation used 14.0% for each of the quarters ended March 31, 2016 and 2015. Discount rate assumptions used were 11.5% for government-guaranteed mortgage loans; 9.5% for conventional conforming mortgage loans; and 13.8% for conventional non-conforming mortgage loans for each of the quarters ended March 31, 2016 and 2015.

As of March 31, 2016, fair values of the Corporation's servicing assets were based on a valuation model that incorporates market driven assumptions regarding discount rates and mortgage prepayment rates, adjusted by the particular characteristics of the Corporation's servicing portfolio. The weighted averages of the key economic assumptions used by the Corporation in its valuation model and the sensitivity of the current fair value to immediate 10% and 20% adverse changes in those assumptions for mortgage loans as of March 31, 2016 were as follows:

	(Dollars in thousands)	
Carrying amount of servicing assets	\$	24,692
Fair value	\$	27,784
Weighted-average expected life (in years)		8.58
<b>Constant prepayment rate (weighted-average annual rate)</b>		10.06%
Decrease in fair value due to 10% adverse change	\$	890
Decrease in fair value due to 20% adverse change	\$	1,731
<b>Discount rate (weighted-average annual rate)</b>		10.66%

Decrease in fair value due to 10% adverse change	\$	1,201	
Decrease in fair value due to 20% adverse change	\$	2,309	

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship between the change in assumption and the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the servicing asset is calculated without changing any other assumption; in reality, 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 counteract the sensitivities.

**NOTE 14 – DEPOSITS**

The following table summarizes deposit balances:				
	<b>March 31,</b>			<b>December 31,</b>
	<b>2016</b>			<b>2015</b>
	<b>(In thousands)</b>			
Type of account:				
Non-interest bearing checking accounts	\$	1,422,346		\$ 1,336,559
Savings accounts		2,553,268		2,459,186
Interest-bearing checking accounts		1,077,505		1,088,651
Certificates of deposit		2,375,348		2,356,245
Brokered CDs		2,006,313		2,097,483
	\$	9,434,780		\$ 9,338,124

Brokered CDs mature as follows:				
	<b>March 31, 2016</b>			
	<b>(In thousands)</b>			
Three months or less			\$	254,484
Over three months to six months				379,095
Over six months to one year				612,755
One to three years				700,558
Three to five years				58,719
Over five years				702
Total			\$	2,006,313

The following are the components of interest expense on deposits:				
	<b>Quarter Ended</b>			
	<b>March 31,</b>			<b>March 31,</b>
	<b>2016</b>			<b>2015</b>
	<b>(In thousands)</b>			
Interest expense on deposits	\$	16,480		\$ 16,359
Accretion of premium from acquisition		(81)		-
Amortization of broker placement fees		858		1,335
Interest expense on deposits	\$	17,257		\$ 17,694



**NOTE 15 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Securities sold under agreements to repurchase (repurchase agreements) consist of the following:					
		<b>March 31</b>		<b>December 31,</b>	
		<b>2016</b>		<b>2015</b>	
(Dollars in thousands)					
Repurchase agreements, interest ranging from 1.96% to 3.70%					
(December 31, 2015: 1.96% to 3.41%) (1)(2)	\$	700,000		\$	700,000
(1) Reported net of securities purchased under agreements to repurchase (reverse repurchase agreements) by counterparty, when applicable, pursuant to ASC 210-20-45-11.					
(2) As of March 31, 2016, includes \$600 million with an average rate of 2.88% that lenders have the right to call before their contractual maturities at various dates beginning on July 19, 2016. Subsequent to March 31, 2016, no lender has exercised its call option on repurchase agreements. In addition, \$500 million is tied to variable rates.					

Repurchase agreements mature as follows:					
		<b>March 31, 2016</b>			
(In thousands)					
Over three months to one year		\$	400,000		
One year to three years			100,000		
Over five years			200,000		
Total		\$	700,000		

As of March 31, 2016 and December 31, 2015, the securities underlying such agreements were delivered to the dealers with which the repurchase agreements were transacted.

Repurchase agreements as of March 31, 2016, grouped by counterparty, were as follows:					

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

	(Dollars in thousands)				<b>Weighted-Average</b>
	<b>Counterparty</b>		<b>Amount</b>		<b>Maturity (In Months)</b>
	Credit Suisse First Boston	\$	100,000		4
	Citigroup Global Markets		300,000		7
	Dean Witter / Morgan Stanley		100,000		19
	JP Morgan Chase		200,000		70
		\$	700,000		





	2016		2015	
	(In thousands)			
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.75% over 3-month LIBOR (3.39% as of March 31, 2016 and 3.28% as of December 31, 2015)	\$	97,626	\$	97,626
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.50% over 3-month LIBOR (3.12% as of March 31, 2016 and 3.07% as of December 31, 2015) <sup>(1)</sup>	\$	118,557	\$	128,866
	\$	216,183	\$	226,492
(1) Refer to Note 13 - Non-Consolidated Variable Interest Entities and Servicing Assets-Trust Preferred securities for additional information about the Corporation's repurchase and cancellation of \$10 million of trust preferred securities associated with these junior subordinated debentures.				

## NOTE 18 – STOCKHOLDERS' EQUITY

### *Common Stock*

As of March 31, 2016 and December 31, 2015, the Corporation had 2,000,000,000 authorized shares of common stock with a par value of \$0.10 per share. As of March 31, 2016 and December 31, 2015, there were 218,089,106 and 216,051,128 shares issued, respectively, and 217,011,555 and 215,088,698 shares outstanding, respectively. On July 30, 2009, the Corporation announced the suspension of common and preferred stock dividends effective with the preferred dividend for the month of August 2009. Refer to Note 3 for information about transactions related to common stock under the Omnibus Plan.

### *Preferred Stock*

The Corporation has 50,000,000 authorized shares of preferred stock with a par value of \$1.00, redeemable at the Corporation's option subject to certain terms. This stock may be issued in series and the shares of each series will have such rights and preferences as are fixed by the Board of Directors when authorizing the issuance of that particular series. As of March 31, 2016, the Corporation has five outstanding series of non-convertible, non-cumulative preferred stock: 7.125% non-cumulative perpetual monthly income preferred stock, Series A; 8.35% non-cumulative perpetual monthly income preferred stock, Series B; 7.40% non-cumulative perpetual monthly income preferred stock, Series C; 7.25% non-cumulative perpetual monthly income preferred stock, Series D; and 7.00% non-cumulative perpetual monthly income preferred stock, Series E. The liquidation value per share is \$25.

Effective January 17, 2012, the Corporation delisted all of its outstanding series of non-convertible, non-cumulative preferred stock from the New York Stock Exchange. The Corporation has not arranged for listing and/or registration on another national securities exchange or for quotation of the Series A through E Preferred Stock in a quotation medium.

### *Treasury stock*

During the first quarter of 2016 and 2015, the Corporation withheld an aggregate of 115,121 shares and 50,708 shares, respectively, of the common stock paid to certain senior officers as additional compensation and vested restricted stock to cover employees' payroll and income tax withholding liabilities; these shares are held as treasury shares. As of March 31, 2016 and December 31, 2015, the Corporation had 1,077,551 and 962,430 shares held as treasury stock, respectively.

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

***FirstBank Statutory Reserve (Legal Surplus)***

The Banking Law of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to legal surplus until such surplus equals the total of paid-in-capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the stockholders without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that, when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts shall be charged against the undistributed profits of the bank, and the balance, if any, shall be charged against the reserve fund, as a reduction thereof. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount shall be charged against the capital account and the Bank cannot pay dividends until it can replenish the reserve fund to an amount of at least 20% of the original capital contributed. During the fourth quarter of 2015, \$2.8 million was transferred to the legal surplus reserve. FirstBank's legal surplus reserve, included as part of retained earnings in the Corporation's statement of financial condition, amounted to \$42.8 million as of March 31, 2016. There were no transfers to the legal surplus reserve during the quarter ended March 31, 2016.

**NOTE 19 - INCOME TAXES**

Income tax expense includes Puerto Rico and USVI income taxes as well as applicable United States ("U.S.") federal and state taxes. The Corporation is subject to Puerto Rico income tax on its income from all sources. As a Puerto Rico corporation, First Bancorp. is treated as a foreign corporation for U.S. and USVI income tax purposes and is generally subject to U.S. and USVI income tax only on its income from sources within the U.S. and USVI or income effectively connected with the conduct of a trade or business in those regions. Any such tax paid in the U.S and USVI is also creditable against the Corporation's Puerto Rico tax liability, subject to certain conditions and limitations.

Under the Puerto Rico Internal Revenue Code of 2011, as amended (the "2011 PR Code"), the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns and, thus, the Corporation is not able to utilize losses from one subsidiary to offset gains in another subsidiary. Accordingly, in order to obtain a tax benefit from a net operating loss ("NOL"), a particular subsidiary must be able to demonstrate sufficient taxable income within the applicable NOL carry forward period. The 2011 PR Code provides a dividend received deduction of 100% on dividends received from "controlled" subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

The Corporation has maintained an effective tax rate lower than the maximum statutory rate in Puerto Rico mainly by investing in government obligations and mortgage-backed securities exempt from U.S. and Puerto Rico income taxes and by doing business through an International Banking Entity (“IBE”) unit of the Bank, and through the Bank’s subsidiary, FirstBank Overseas Corporation, whose interest income and gain on sales is exempt from Puerto Rico income taxation. The IBE and FirstBank Overseas Corporation were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by IBEs operating in Puerto Rico on the specific activities identified in the IBE Act. An IBE that operates as a unit of a bank pays income taxes at the corporate standard rates to the extent that the IBE’s net income exceeds 20% of the bank’s total net taxable income.

As of March 31, 2016, the deferred tax assets, net of a valuation allowance of \$197.0 million, amounted to \$307.6 million and management concluded, based upon the assessment of all positive and negative evidence, that it is more likely than not that the Corporation will generate sufficient taxable income within the applicable NOL carry-forward periods to realize such amount.

The Corporation recorded an income tax expense of \$5.7 million in the first quarter of 2016 compared to \$8.0 million for the quarter ended March 31, 2015. For the quarter ended March 31, 2016, the Corporation calculated the provision for income taxes by applying the estimated annual effective tax rate for the full fiscal year to ordinary income or loss. In the computation of the consolidated worldwide annual estimated effective tax rate, ASC 740-270 requires the exclusion of legal entities with pre-tax losses from which a tax benefit cannot be recognized. The consolidated worldwide estimated effective tax rate, excluding entities with pre-tax losses from which a tax benefit cannot be recognized, is 21% for the quarter ended on March 31, 2016 compared to 22% for the quarter ended on March 31, 2015. The effective tax rate including all entities for the first quarter of 2016 is 20%.

As of March 31, 2016, the Corporation did not have Unrecognized Tax Benefits (“UTBs”) recorded on its books. Audit periods remain open for review until the statute of limitations has passed. The statute of limitations under the 2011 PR code is 4 years; the statute of limitations for each of Virgin Islands and U.S. income tax purposes is three years after a tax return is due or filed, whichever is later. The completion of an audit by the taxing authorities or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Corporation’s liability for income taxes. Any such adjustment could be material to the results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. For Virgin Islands and U.S. income tax purposes, all tax years subsequent to 2011 remain open to examination. The 2012 U.S. federal tax return is currently under examination by the IRS. For Puerto Rico tax purposes, all tax years subsequent to 2011 remain open to examination.

**NOTE 20 – FAIR VALUE***Fair Value Measurement*

The FASB authoritative guidance for fair value measurement 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 guidance also establishes a fair value hierarchy for classifying financial instruments. The hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Three levels of inputs may be used to measure fair value:

<b>Level 1</b>	Valuations of Level 1 assets and liabilities are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 assets and liabilities include equity securities that trade in an active exchange market, as well as certain U.S. Treasury and other U.S. government and agency securities and corporate debt securities that are traded by dealers or brokers in active markets.	
<b>Level 2</b>	Valuations of Level 2 assets and liabilities are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on the value of identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments, and (iii) derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.	
<b>Level 3</b>	Valuations of Level 3 assets and liabilities are based on unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models for which the determination of fair value required significant management judgments estimation.	

For the first quarter of 2016, there were no transfers into or out of Level 1, Level 2 or Level 3 of the fair value hierarchy.

*Financial Instruments Recorded at Fair Value on a Recurring Basis*

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

*Investment securities available for sale*

The fair value of investment securities was the market value based on quoted market prices (as is the case with equity securities, Treasury notes, and non-callable U.S. Agency debt securities), when available (Level 1), or, when available, market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters, including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data including market research operations (Level 2). Observable prices in the market already consider the risk of nonperformance. During the first quarter of 2016, the Corporation recorded OTTI charges of \$6.3 million on certain Puerto Rico Government debt securities, specifically bonds of GDB and the Puerto Rico Public Buildings Authority. The credit impairment loss was based on the probability of default and loss severity in the event of default in consideration of the latest information available about the Puerto Rico Government's financial condition. Refer to Note 4 – Investment Securities, for significant assumptions used to determine the credit impairment portion, including default rates and recovery rates, which are unobservable inputs. If listed prices or quotes are not available, fair value is based upon models that use unobservable inputs due to the limited market activity of the instrument, as is the case with certain private label mortgage-backed securities held by the Corporation (Level 3).

Private label MBS are collateralized by fixed-rate mortgages on single-family residential properties in the United States; the interest rate on the securities is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The market valuation represents the estimated net cash flows over the projected life of the pool of underlying assets applying a discount rate that reflects market observed floating spreads over LIBOR, with a widening spread based on a nonrated security. The market valuation is derived from a model that utilizes relevant assumptions such as the prepayment rate, default rate, and loss severity on a loan level basis. The Corporation modeled the cash flow from the fixed-rate mortgage collateral using a static cash flow analysis according to collateral attributes of the underlying mortgage pool (i.e., loan term, current balance, note rate, rate adjustment type, rate adjustment frequency, rate caps, and others) in combination with prepayment forecasts obtained from a commercially available prepayment model (ADCO). The variable cash flow of the security is modeled using the 3-month LIBOR forward curve. Loss assumptions were driven by the combination of default and loss severity estimates, taking into account loan credit characteristics (loan-to-value, state, origination date, property type, occupancy, loan purpose, documentation type, debt-to-income ratio, and other) to provide an estimate of default and loss severity.

Refer to the table below for further information regarding qualitative information for all assets and liabilities measured at fair value using significant unobservable inputs (Level 3).

### *Derivative instruments*

The fair value of most of the Corporation's derivative instruments is based on observable market parameters and takes into consideration the credit risk component of paying counterparties, when appropriate, except when collateral is pledged. On interest caps, only the seller's credit risk is considered. The caps were valued using a discounted cash flow approach using the related LIBOR and swap rate for each cash flow.

Although most of the derivative instruments are fully collateralized, a credit spread is considered for those that are not secured in full. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments for the quarters ended March 31, 2016 and 2015 was immaterial.

Assets and liabilities measured at fair value on a recurring basis are summarized below:									
As of March 31, 2016					As of December 31, 2015				
Fair Value Measurements Using					Fair Value Measurements Using				
(In thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value	
Assets:									
Securities available for sale :									
Equity securities	\$ 414	\$ -	\$ -	\$ 414	\$ -	\$ -	\$ -	\$ -	
U.S. Treasury Securities	7,518	-	-	7,518	7,497	-	-	7,497	
Noncallable U.S. agency debt	-	335,572	-	335,572	-	315,467	-	315,467	
	-	1,509,609	-	1,509,609	-	1,509,807	-	1,509,807	

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





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 ended March 31, 2016 and 2015.

		Quarter ended March 31,			
		2016		2015	
Level 3 Instruments Only		Securities		Securities	
(In thousands)		Available For Sale <sup>(1)</sup>		Available For Sale <sup>(1)</sup>	
Beginning balance		\$	27,297		36,212
Total gains (losses) (realized/unrealized):					
Included in earnings			(387)		(156)
Included in other comprehensive income			1,258		619
Purchases			-		100
Principal repayments and amortization			(1,505)		(2,461)
Ending balance		\$	26,663	\$	34,314
(1)		Amounts mostly related to private label mortgage-backed securities.			

The table below presents qualitative information for significant assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at March 31, 2016:							
March 31, 2016							
(In thousands)	Fair Value		Valuation Technique		Unobservable Input		Range
<b>Investment securities available-for-sale:</b>							
Private label MBS	\$ 24,505		Discounted cash flow		Discount rate		14.5%
					Prepayment rate		21.45% -100% (Weighted Average 30%)
					Projected Cumulative Loss Rate		0.50% -80% (Weighted Average 7%)
Puerto Rico Government Obligations	1,969		Discounted cash flow		Prepayment rate		3.00%

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

--	--	--	--	--	--	--	--	--

**Information about Sensitivity to Changes in Significant Unobservable Inputs**

**Private label MBS:** The significant unobservable inputs in the valuation include probability of default, the loss severity assumption, and prepayment rates. Shifts in those inputs would result in different fair value measurements. Increases in the probability of default, loss severity assumptions, and prepayment rates in isolation would generally result in an adverse effect on the fair value of the instruments. Meaningful and possible shifts of each input were modeled to assess the effect on the fair value estimation.

**Puerto Rico Government Obligations:** The significant unobservable input used in the fair value measurement is the assumed prepayment rate of the underlying residential mortgage loans collateral on these obligations guaranteed by the Puerto Rico Housing Finance Authority (“PRHFA”). A significant increase (decrease) in the assumed rate would lead to a higher (lower) fair value estimate. Loss severity and probability of default are not included as significant unobservable variables due to the guarantee of the PRHFA. The PRHFA credit risk is modeled by discounting the cash flows using a curve appropriate to the PRHFA credit rating.

The table below summarizes changes in unrealized gains and losses recorded in earnings for the quarters ended March 31, 2016 and 2015 for Level 3 assets and liabilities that are still held at the end of each period:						
			Changes in Unrealized Losses			Changes in Unrealized Losses
			(Quarter ended March 31, 2016)			(Quarter Ended March 31, 2015)
<b>Level 3 Instruments Only</b>		<b>Securities</b>		<b>Securities</b>		
(In thousands)		<b>Available For Sale</b>		<b>Available For Sale</b>		
<b>Changes in unrealized losses relating to assets still held at reporting date:</b>						
Net impairment losses on investment securities (credit component)			\$ (387)			\$ (156)

Additionally, fair value is used on a nonrecurring basis to evaluate certain assets in accordance with GAAP. Adjustments to fair value usually result from the application of lower-of-cost or market accounting (e.g., loans held for sale carried at the lower-of-cost or fair value and repossessed assets) or write downs of individual assets (e.g., goodwill, loans).

As of March 31, 2016, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:										
Carrying value as of March 31, 2016										(Losses) Gain recorded for the Quarter Ended March 31, 2016
Level 1			Level 2			Level 3				
(In thousands)										
Loans receivable (1)	\$	-	\$	-	\$	304,498		\$	675	
Other Real Estate Owned (2)		-		-		142,888			(2,910)	
Mortgage servicing rights (3)		-		-		24,692			27	
(1)	Consist mainly of impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g., absorption rates), which are not market observable.									
(2)	The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g., absorption rates and net operating income of income producing properties), which are not market observable. Losses were related to market valuation adjustments after the transfer of the loan to the OREO portfolio.									
(3)	Fair value adjustments to mortgage servicing rights were mainly due to assumptions associated with mortgage prepayment rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights included: Prepayment rate-10.06%, Discount Rate-10.66%.									

As of March 31, 2015, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

As of March 31, 2015, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:										
Carrying value as of March 31, 2015										Losses recorded for the Quarter Ended March 31, 2015
Level 1			Level 2			Level 3				
(In thousands)										
Loans receivable (1)	\$	-	\$	-	\$	436,944	\$	(13,725)		
Other Real Estate Owned (2)		-		-		122,628		(2,711)		
Mortgage servicing rights (3)		-		-		22,973		(38)		
Loans Held For Sale (4)		-		-		54,588		-		
(1)	Consist mainly of impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.									
(2)	The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g., absorption rates and net operating income of income producing properties), which are not market observable. Losses were related to market valuation adjustments after the transfer of the loan to the OREO portfolio.									
(3)	Fair value adjustments to the mortgage servicing rights were mainly due to assumptions associated with mortgage prepayments rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights included: Prepayment Rate-10.25%, Discount Rate-10.62%.									
(4)	The value of these loans was derived from external appraisals, adjusted for specific characteristics of the loans.									

Qualitative information regarding the fair value measurements for Level 3 financial instruments is as follows:			
March 31, 2016			
	Method		Inputs
Loans	Income, Market, Comparable Sales, Discounted Cash Flows		External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
OREO	Income, Market, Comparable Sales, Discounted Cash Flows		External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors

Mortgage servicing rights	Discounted Cash Flow		Weighted average prepayment rate of 10.06%; weighted average discount rate of 10.66%
---------------------------	----------------------	--	-----------------------------------------------------------------------------------------

The following is a description of the valuation methodologies used for instruments that are not measured or reported at fair value on a recurring basis or that are reported at fair value on a non-recurring basis. The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument.

*Cash and due from banks and money market investments*

The carrying amounts of cash and due from banks and money market investments are reasonable estimates of their fair value. Money market investments include held-to-maturity securities, which have a contractual maturity of three months or less. The fair value of these securities is based on quoted market prices in active markets that incorporate the risk of nonperformance.

*Other equity securities*

Equity or other securities that do not have a readily available fair value are stated at their net realizable value, which management believes is a reasonable proxy for their fair value. This category is principally composed of stock that is owned by the Corporation to comply with FHLB regulatory requirements. The realizable value of the FHLB stock equals its cost as this stock can be freely redeemed at par.

*Loans receivable, including loans held for sale*

The fair value of loans held for investment and of mortgage loans held for sale was estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms and credit quality and with adjustments that the Corporation's management believes a market participant would consider in determining fair value. Loans were classified by type, such

as commercial, residential mortgage, and automobile. These asset categories were further segmented into fixed- and adjustable-rate categories. Valuations are carried out based on categories and not on a loan-by-loan basis. The fair values of performing fixed-rate and adjustable-rate loans were calculated by discounting expected cash flows through the estimated maturity date. 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 credit card loans was estimated using a discounted cash flow method and excludes any value related to a customer account relationship. Other loans with no stated maturity, like credit lines, were valued at book value. Prepayment assumptions were considered for non-residential loans. For residential mortgage loans, prepayment estimates were based on a prepayment model that combined both a historical calibration and current market prepayment expectations. Discount rates were based on the U.S. Treasury and LIBOR/Swap Yield Curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity. For impaired collateral dependent loans, the impairment was primarily measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations.

### *Deposits*

The estimated fair value of demand deposits and savings accounts, which are deposits with no defined maturities, equals the amount payable on demand at the reporting date. The fair values of retail fixed-rate time deposits, with stated maturities, are based on the present value of the future cash flows expected to be paid on the deposits. The cash flows were based on contractual maturities; no early repayments were assumed. Discount rates were based on the LIBOR yield curve.

The estimated fair value of total deposits excludes the fair value of core deposit intangibles, which represent the value of the customer relationship, which is measured by the value of demand deposits and savings deposits that bear a low or zero rate of interest and do not fluctuate in response to changes in interest rates.

The fair value of brokered CDs, which are included within deposits, is determined using discounted cash flow analyses over the full term of the CDs. The fair value of the CDs is computed using the outstanding principal amount. The discount rates used were based on brokered CD market rates as of March 31, 2016. The fair value does not incorporate the risk of nonperformance, since interests in brokered CDs are generally sold by brokers in amounts of less than \$250,000 and, therefore, are insured by the FDIC.

### *Securities sold under agreements to repurchase*

Some repurchase agreements reprice at least quarterly, and their outstanding balances are estimated to be their fair value. Where longer commitments are involved, fair value is estimated using exit price indications of the cost of

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



unwinding the transactions as of the end of the reporting period. The brokers who are the counterparties provide these indications. Securities sold under agreements to repurchase are fully collateralized by investment securities.

*Advances from FHLB*

The fair value of advances from FHLB with fixed maturities is determined using discounted cash flow analyses over the full term of the borrowings, using indications of the fair value of similar transactions. The cash flows assume no early repayment of the borrowings. Discount rates are based on the LIBOR yield curve. Advances from FHLB are fully collateralized by mortgage loans and, to a lesser extent, investment securities.

*Other borrowings*

Other borrowings consist of junior subordinated debentures. Projected cash flows from the debentures were discounted using the Bloomberg BB Finance curve plus a credit spread. This credit spread was estimated using the difference in yield curves between swap rates and a yield curve that considers the industry and credit rating of the Corporation as issuer of the note at a tenor comparable to the time to maturity of the debentures.

The following table presents the estimated fair value and carrying value of financial instruments as of March 31, 2016 and December 31, 2015												
	<b>Total Carrying Amount in Statement of Financial Condition March 31, 2016</b>		<b>Fair Value Estimate March 31, 2016</b>		<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>			
(In thousands)												
<b>Assets:</b>												
Cash and due from banks and money												
market investments	\$ 1,026,825		\$ 1,026,825		\$ 1,026,825		\$ -		\$ -			
Investment securities available												
for sale	1,904,255		1,904,255		7,932		1,869,660		26,663			
Other equity securities	32,310		32,310		-		32,310		-			
Loans held for sale	37,868		41,138		-		30,718		10,420			
Loans held for investment	9,131,342											
Less: allowance for loan and lease losses	(238,125)											
Loans held for investment, net of allowance	\$ 8,893,217		8,855,624		-		-		8,855,624			
Derivatives, included in assets	368		368		-		368		-			
<b>Liabilities:</b>												
Deposits	9,434,780		9,451,510		-		9,451,510		-			
Securities sold under agreements to repurchase	700,000		721,312		-		721,312		-			
Advances from FHLB	455,000		456,895		-		456,895		-			
Other borrowings	216,183		159,598		-		-		159,598			

Derivatives, included in liabilities		636		636		-		636		-

		<b>Total Carrying Amount in Statement of Financial Condition December 31, 2015</b>		<b>Fair Value Estimate December 31, 2015</b>		<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>
<b>(In thousands)</b>										
<b>Assets:</b>										
Cash and due from banks and money										
market investments	\$	752,458	\$	752,458	\$	752,458	\$	-	\$	-
Investment securities available for sale		1,886,395		1,886,395		7,497		1,851,601		27,297
Other equity securities		32,169		32,169		-		32,169		-
Loans held for sale		35,869		36,844		-		28,709		8,135
Loans held for investment		9,273,865								
Less: allowance for loan and lease losses		(240,710)								
Loans held for investment, net of allowance	\$	9,033,155		8,899,696		-		-		8,899,696
Derivatives, included in assets		806		806		-		806		-
<b>Liabilities:</b>										
Deposits		9,338,124		9,334,073		-		9,334,073		-
Securities sold under agreements to repurchase		700,000		752,048		-		752,048		-
Advances from FHLB		455,000		453,182		-		453,182		-
Other borrowings		226,492		142,846		-		-		142,846
Derivatives, included in		921		921		-		921		-

liabilities

---

## NOTE 21 – SUPPLEMENTAL CASH FLOW INFORMATION

**Supplemental cash flow information is as follows:**

	Quarter Ended March 31,			
	2016		2015	
	(In thousands)			
Cash paid for:				
Interest on borrowings	\$	23,148	\$	24,502
Income tax		-		82
Non-cash investing and financing activities:				
Additions to other real estate owned		9,145		12,702
Additions to auto and other repossessed assets		14,873		20,464
Capitalization of servicing assets		1,161		1,073
Loan securitizations		67,728		46,914
Fair value of assets acquired (liabilities assumed) in the Doral Bank transaction:				
Loans		-		311,410
Premises and equipment, net		-		5,450
Core deposit intangible		-		5,820
Deposits		-		(523,517)

## NOTE 22 – SEGMENT INFORMATION

Based upon the Corporation's organizational structure and the information provided to the Chief Executive Officer of the Corporation and, to a lesser extent, the Board of Directors, the operating segments are driven primarily by the Corporation's lines of business for its operations in Puerto Rico, the Corporation's principal market, and by geographic areas for its operations outside of Puerto Rico. As of March 31, 2016, the Corporation had six reportable segments: Commercial and Corporate Banking; Mortgage Banking; Consumer (Retail) Banking; Treasury and Investments;

Supplemental cash flow information is as follows:

United States Operations; and Virgin Islands Operations. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Corporation's organizational chart, nature of the products, distribution channels, and the economic characteristics of the product were also considered in the determination of the reportable segments.

The Commercial and Corporate Banking segment consists of the Corporation's lending and other services for large customers represented by specialized and middle-market clients and the public sector. The Commercial and Corporate Banking segment offers commercial loans, including commercial real estate and construction loans, and floor plan financings, as well as other products, such as cash management and business management services. The Mortgage Banking segment consists of the origination, sale, and servicing of a variety of residential mortgage loans. The Mortgage Banking segment also acquires and sells mortgages in the secondary markets. In addition, the Mortgage Banking segment includes mortgage loans purchased from other local banks and mortgage bankers. The Consumer (Retail) Banking segment consists of the Corporation's consumer lending and deposit-taking activities conducted mainly through its branch network and loan centers. The Treasury and Investments segment is responsible for the Corporation's investment portfolio and treasury functions executed to manage and enhance liquidity. This segment lends funds to the Commercial and Corporate Banking, Mortgage Banking and Consumer (Retail) Banking segments to finance their lending activities and borrows from those segments and from the United States Operations segment. The Consumer (Retail) Banking and the United States Operations segments also lend funds to other segments. The interest rates charged or credited by Treasury and Investments, the Consumer (Retail) Banking and the United States Operations segments are allocated based on market rates. The difference between the allocated interest income or expense and the Corporation's actual net interest income from centralized management of funding costs is reported in the Treasury and Investments segment. The United States Operations segment consists of all banking activities conducted by FirstBank in the United States mainland, including commercial and retail banking services. The Virgin Islands Operations segment consists of all banking activities conducted by the Corporation in the USVI and BVI, including commercial and retail banking services.

The accounting policies of the segments are the same as those referred to in Note 1, "Basis of Presentation and Significant Accounting Policies," in the audited consolidated financial statements of the Corporation for the year ended December 31, 2015, which are included in the Corporation's 2015 Annual Report on Form 10-K.

The Corporation evaluates the performance of the segments based on net interest income, the provision for loan and lease losses, non-interest income, and direct non-interest expenses. The segments are also evaluated based on the average volume of their interest-earning assets less the allowance for loan and lease losses.

The following table presents information about the reportable segments:							
(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
<b>For the quarter ended March 31, 2016:</b>							
Interest income	\$ 35,219	\$ 46,066	\$ 33,548	\$ 13,760	\$ 12,724	\$ 9,514	\$ 150,831
Net (charge) credit for transfer of funds	(12,924)	3,882	(6,096)	14,526	612	-	-
Interest expense	-	(6,162)	-	(15,469)	(3,689)	(863)	(26,183)
Net interest income	22,295	43,786	27,452	12,817	9,647	8,651	124,648
(Provision) release for loan and lease losses	(6,140)	(8,537)	(7,548)	-	(210)	1,382	(21,053)
Non-interest income (loss)	4,487	12,736	561	(2,401)	1,183	1,903	18,469
Direct non-interest expenses	(10,833)	(32,089)	(9,664)	(1,050)	(7,261)	(6,989)	(67,886)
Segment income	\$ 9,809	\$ 15,896	\$ 10,801	\$ 9,366	\$ 3,359	\$ 4,947	\$ 54,178
Average earnings assets	\$ 2,602,209	\$ 2,030,598	\$ 2,552,200	\$ 2,777,748	\$ 1,140,630	\$ 629,037	\$ 11,732,422
(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
<b>For the quarter ended March 31, 2015:</b>							

Supplemental cash flow information is as follows:

## Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Interest income	\$ 33,876	\$ 49,836	\$ 34,803	\$ 13,067	\$ 11,231	\$ 9,672	\$ 152,485
Net (charge) credit for transfer of funds	(11,236)	3,684	(3,795)	7,754	3,593	-	-
Interest expense	-	(5,657)	-	(16,007)	(4,339)	(835)	(26,838)
Net interest income	22,640	47,863	31,008	4,814	10,485	8,837	125,647
(Provision) release for loan and lease losses	(6,963)	(16,685)	(9,093)	-	2,133	(2,362)	(32,970)
Non-interest income (loss)	3,399	12,417	524	(100)	524	2,522	19,286
Direct non-interest expenses	(8,065)	(31,559)	(7,979)	(1,339)	(7,183)	(8,580)	(64,705)
Segment income	\$ 11,011	\$ 12,036	\$ 14,460	\$ 3,375	\$ 5,959	\$ 417	\$ 47,258
Average earnings assets	\$ 2,492,247	\$ 2,045,277	\$ 3,028,358	\$ 2,764,058	\$ 971,887	\$ 639,162	\$ 11,940,989

The following table presents a reconciliation of the reportable segment financial information to the consolidated totals:

	Quarter Ended	
	March 31,	
	2016	2015
<b>Net income:</b>		
Total income for segments and other	\$ 54,178	\$ 47,258
Other non-interest gain (loss) (1)	-	13,443
Other operating expenses (2)	(25,111)	(27,023)
Income before income taxes	29,067	33,678
Income tax expense	(5,723)	(8,032)
Total consolidated net income	\$ 23,344	\$ 25,646
<b>Average assets:</b>		

Supplemental cash flow information is as follows:



Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Total average earning assets for segments	\$	11,732,422		\$		11,940,989
Average non-earning assets		922,010				934,999
Total consolidated average assets	\$	12,654,432		\$		12,875,988
(1)	The bargain purchase gain on the acquisition of assets and assumption of deposits from Doral Bank in 2015 is presented as an Other non-interest gain (loss) in the table above.					
(2)	Expenses pertaining to corporate administrative functions that support the operating segment but are not specifically attributable to or managed by any segment are not included in the reported financial results of the operating segments. The unallocated corporate expenses include certain general and administrative expenses and related depreciation and amortization expenses.					

64

## NOTE 23 – REGULATORY MATTERS, COMMITMENTS AND CONTINGENCIES

The Corporation is subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets and liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments and adjustment by the regulators with respect to minimum capital requirements, components, risk weightings, and other factors.

First BanCorp. is subject to a Written Agreement that the Corporation entered into with the New York FED on June 3, 2010. The Written Agreement provides, among other things, that the holding company must serve as a source of strength to FirstBank, and that, except with the consent generally of the New York FED and Federal Reserve Board, (1) the holding company may not pay dividends to stockholders or receive dividends from FirstBank, (2) the holding company and its nonbank subsidiaries may not make payments on trust-preferred securities or subordinated debt, and (3) the holding company cannot incur, increase, or guarantee debt or repurchase any capital securities. The Written Agreement also required that the holding company submit a capital plan acceptable to the New York FED that reflected sufficient capital at First BanCorp. on a consolidated basis and follow certain guidelines with respect to the appointment or change in responsibilities of senior officers. The foregoing summary is not complete and is qualified in all respects by reference to the actual language of the Written Agreement.

The Corporation submitted its Capital Plan setting forth its plans for how to improve its capital positions to comply with the Written Agreement over time. In addition to the Capital Plan, the Corporation submitted to its regulators a liquidity and brokered CD plan, including a contingency funding plan, a non-performing asset reduction plan, a budget and profit plan, a strategic plan, and a plan for the reduction of classified and special mention assets. As of March 31, 2016, the Corporation had completed all of the items included in the Capital Plan and is continuing to work on reducing non-performing loans. The Written Agreement also requires the submission to the regulators of quarterly progress reports.

Although the Corporation and FirstBank became subject to the U.S. Basel III capital rules ("Basel III rules") beginning on January 1, 2015, certain requirements of the U.S. Basel III rules will be phased in over several years. The phase-in period for certain deductions and adjustments to regulatory capital (such as certain intangible assets and deferred tax assets that arise from net operating losses and tax credit carryforwards) will be completed on January 1, 2018. The Corporation and FirstBank compute risk-weighted assets using the Standardized Approach required by the Basel III rules.

The Basel III rules require the Corporation to maintain an additional capital conservation buffer of 2.5% to avoid limitations on both (i) capital distributions (e.g. repurchases of capital instruments or dividend or interest payments on capital instruments), and (ii) discretionary bonus payments to executive officers and heads of major business lines. The phase-in of the capital conservation buffer began on January 1, 2016 with a first year requirement of 0.625% of additional Common Equity Tier 1 Capital (“CET1”), which will be progressively increased over a four-year period, increasing by that same percentage amount on each subsequent January 1 until it reaches the fully phased-in 2.5% CET1 requirement on January 1, 2019.

Under the fully phased-in Basel III rules, the Corporation will be required to maintain: (i) a minimum CET1 capital to risk-weighted assets ratio of at least 4.5%, plus the 2.5% “capital conservation buffer,” resulting in a required minimum CET1 ratio of at least 7%, (ii) a minimum ratio of total Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum Tier 1 capital ratio of 8.5%, (iii) a minimum ratio of total Tier 1 plus Tier 2 capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum total capital ratio of 10.5%, and (iv) a required minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average on-balance sheet (non-risk adjusted) assets.

In addition, as required under the Basel III rules, the Corporation’s trust preferred securities (“TRuPs”) were fully phased out from Tier 1 capital on January 1, 2016. However, the Corporation’s TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature.

In March 2016, the FDIC adopted a final rule that will impose on banks with at least \$10 billion in assets a deposit insurance assessment surcharge of 4.5 cents per \$100 of their assessment base, after making certain adjustments. The final rule which becomes effective on July 1, 2016, will apply to FirstBank.

Please refer to the discussion in “Part I – Item 7 – Business – Supervision and Regulation” in the Corporation’s 2015 Form 10-K for a more complete discussion of supervision and regulatory matters and activities that affect the Corporation and its subsidiaries. .

The Corporation's and its banking subsidiary's regulatory capital positions as of March 31, 2016 and December 31, 2015 were as follows:									
<b>Regulatory Requirements</b>									
<b>Actual</b>					<b>For Capital Adequacy Purposes</b>		<b>To be Well-Capitalized-Regular Thresholds</b>		
<b>Amount</b>		<b>Ratio</b>		<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>		<b>Ratio</b>	
(Dollars in thousands)									
<b>As of March 31, 2016</b>									
Total Capital (to Risk-Weighted Assets)									
First BanCorp.		\$ 1,842,251	20.17%	\$ 730,576	8.0%	N/A		N/A	
FirstBank		\$ 1,823,238	19.97%	\$ 730,277	8.0%	\$ 912,846	10.0%		
Common Equity Tier 1 Capital									
(to Risk-Weighted Assets)									
First BanCorp.		\$ 1,516,041	16.60%	\$ 410,949	4.5%	N/A		N/A	
FirstBank		\$ 1,474,364	16.15%	\$ 410,781	4.5%	\$ 593,350	6.5%		
Tier I Capital (to Risk-Weighted Assets)									
First BanCorp.		\$ 1,516,041	16.60%	\$ 547,932	6.0%	N/A		N/A	
FirstBank		\$ 1,706,771	18.70%	\$ 547,708	6.0%	\$ 730,277	8.0%		
Leverage ratio									
First BanCorp.		\$ 1,516,041	12.20%	\$ 497,157	4.0%	N/A		N/A	
FirstBank		\$ 1,706,771	13.75%	\$ 496,530	4.0%	\$ 620,662	5.0%		
<b>As of December 31, 2015</b>									
Total Capital (to Risk-Weighted Assets)									
First BanCorp.		\$ 1,828,559	20.01%	\$ 731,164	8.0%	N/A		N/A	
FirstBank		\$ 1,802,711	19.73%	\$ 730,824	8.0%	\$ 913,530	10.0%		
Common Equity Tier 1 Capital									
(to Risk-Weighted Assets)									
First BanCorp.		\$ 1,546,678	16.92%	\$ 411,280	4.5%	N/A		N/A	
FirstBank		\$ 1,493,478	16.35%	\$ 411,088	4.5%	\$ 593,794	6.5%		
Tier I Capital (to Risk-Weighted Assets)									

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

First BanCorp.	\$	1,546,678		16.92%		\$	548,373		6.0%			N/A		N/A
FirstBank	\$	1,685,656		18.45%		\$	548,118		6.0%		\$	730,824		8.0%
Leverage ratio														
First BanCorp.	\$	1,546,678		12.22%		\$	506,322		4.0%			N/A		N/A
FirstBank	\$	1,685,656		13.33%		\$	505,648		4.0%		\$	632,060		5.0%

The Corporation enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments may include commitments to extend credit and commitments to sell mortgage loans at fair value. As of March 31, 2016, commitments to extend credit amounted to approximately \$1.2 billion, of which \$644.2 million relates to credit card loans. Commercial and Financial standby letters of credit amounted to approximately \$37.6 million. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. In the case of credit cards and personal lines of credit, the Corporation can cancel the unused credit facility at any time and without cause. Generally, the does not enter into interest rate lock agreements with prospective borrowers in connection with its mortgage banking activities.

As of March 31, 2016, First BanCorp. and its subsidiaries were defendants in various legal proceedings arising in the ordinary course of business. Management believes that the final disposition of these matters, to the extent not previously provided for, will not have a material adverse effect, individually or in the aggregate, on the Corporation's financial position, results of operations or cash flows.

**NOTE 24 – FIRST BANCORP. (HOLDING COMPANY ONLY) FINANCIAL INFORMATION**

The following condensed financial information presents the financial position of the Holding Company only as of March 31, 2016 and December 31, 2015 and the results of its operations for the quarters ended March 31, 2016 and 2015.

<b>Statements of Financial Condition</b>					
	<b>As of March 31,</b>			<b>As of</b>	
	<b>2016</b>			<b>December 31,</b>	
	<b>2015</b>				
	(In thousands)				
<b>Assets</b>					
Cash and due from banks	\$	28,470		\$	29,103
Money market investments		6,111			6,111
Other investment securities		285			285
Loans held for investment, net		256			266
Investment in First Bank Puerto Rico, at equity		1,939,272			1,888,036
Investment in First Bank Insurance Agency, at equity		9,017			14,382
Investment in FBP Statutory Trust I		2,929			2,929
Investment in FBP Statutory Trust II		3,557			3,866
Other assets		5,370			4,632
Total assets	\$	1,995,267		\$	1,949,610
<b>Liabilities and Stockholders' Equity</b>					
<b>Liabilities:</b>					
Other borrowings	\$	216,183		\$	226,492
Accounts payable and other liabilities		29,917			28,984
Total liabilities		246,100			255,476
Stockholders' equity		1,749,167			1,694,134
Total liabilities and stockholders' equity	\$	1,995,267		\$	1,949,610

<b>Statements of Income</b>					
<b>Quarter Ended</b>					
		<b>March 31,</b>		<b>March 31,</b>	
		<b>2016</b>		<b>2015</b>	
(In thousands)					
<b>Income:</b>					
Interest income on money market investments	\$	5	\$	5	
Other income		60		56	
		65		61	
<b>Expense:</b>					
Notes payable and other borrowings		1,978		1,817	
Other operating expenses		650		604	
		2,628		2,421	
Gain on early extinguishment of debt		4,217		-	
<b>Income (loss) before income taxes and equity in undistributed earnings of subsidiaries</b>					
		1,654		(2,360)	
<b>Equity in undistributed earnings of subsidiaries</b>					
		21,690		28,006	
<b>Net income</b>					
	\$	23,344	\$	25,646	
Other comprehensive income, net of tax		30,391		7,140	
<b>Comprehensive income</b>					
	\$	53,735	\$	32,786	

**NOTE 25 – SUBSEQUENT EVENTS**

The Corporation has performed an evaluation of events occurring subsequent to March 31, 2016; management has determined that there are no events occurring in this period that require disclosure in or adjustment to the accompanying financial statements.

Supplemental cash flow information is as follows:





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

**OPERATIONS (MD&A)**

<b>SELECTED FINANCIAL DATA</b>					
		<b>Quarter ended</b>			
<b>(In thousands, except for per share and financial ratios)</b>		<b>March 31,</b>			
		<b>2016</b>		<b>2015</b>	
<b>Condensed Income Statements:</b>					
	Total interest income	\$	150,831	\$	152,485
	Total interest expense		26,183		26,838
	Net interest income		124,648		125,647
	Provision for loan and lease losses		21,053		32,970
	Non-interest income		18,469		32,729
	Non-interest expenses		92,997		91,728
	Income before income taxes		29,067		33,678
	Income tax expense		5,723		8,032
	Net income		23,344		25,646
	Net income attributable to common stockholders		23,344		25,646
<b>Per Common Share Results:</b>					
	Net earnings per common share-basic	\$	0.11	\$	0.12
	Net earnings per common share-diluted	\$	0.11	\$	0.12
	Cash dividends declared	\$	-	\$	-
	Average shares outstanding		212,348		210,686
	Average shares outstanding diluted		213,274		212,746
	Book value per common share	\$	7.89	\$	7.81
	Tangible book value per common share (1)	\$	7.66	\$	7.55
<b>Selected Financial Ratios (In Percent):</b>					
<b>Profitability:</b>					
	Return on Average Assets		0.74		0.81
	Interest Rate Spread (2)		4.11		4.13
	Net Interest Margin (2)		4.35		4.31
	Return on Average Total Equity		5.46		6.15
	Return on Average Common Equity		5.57		6.29
	Average Total Equity to Average Total Assets		13.60		13.13
	Tangible common equity ratio (1)		13.13		12.33

Supplemental cash flow information is as follows:

## Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

	Dividend payout ratio		-		-
	Efficiency ratio (3)		64.98		57.92
<b>Asset Quality:</b>					
	Allowance for loan and lease losses to total loans held for investment		2.61		2.38
	Net charge-offs (annualized) to average loans (4)		1.03		1.25
	Provision for loan and lease losses to net charge-offs		89.06		112.52
	Non-performing assets to total assets (4)		5.80		5.74
	Non-performing loans held for investment to total loans held for investment (4)		6.30		5.94
	Allowance to total non-performing loans held for investment (4)		41.42		40.11
	Allowance to total non-performing loans held for investment, excluding residential real estate loans (4)		59.23		57.82
<b>Other Information:</b>					
	Common Stock Price: End of period	\$	2.92	\$	6.20
			<b>As of March 31, 2016</b>		<b>As of December 31, 2015</b>
<b>Balance Sheet Data:</b>					
	Loans, including loans held for sale	\$	9,169,210	\$	9,309,734
	Allowance for loan and lease losses		238,125		240,710
	Money market and investment securities		2,149,658		2,138,037
	Intangible assets		50,436		50,583
	Deferred tax asset, net		307,599		311,263
	Total assets		12,714,370		12,573,019
	Deposits		9,434,780		9,338,124
	Borrowings		1,371,183		1,381,492
	Total preferred equity		36,104		36,104
	Total common equity		1,710,421		1,685,779
	Accumulated other comprehensive income (loss), net of tax		2,642		(27,749)
	Total equity		1,749,167		1,694,134
(1)	Non-GAAP financial measures. Refer to "Capital" below for additional information about the components and a reconciliation of these measures.				
(2)	On a tax-equivalent basis and excluding the changes in fair value of derivative instruments (see "Net Interest Income" below for a reconciliation of these non-GAAP financial measures).				
(3)	Non-interest expenses to the sum of net interest income and non-interest income. The denominator includes non-recurring income and changes in the fair value of derivative				

Supplemental cash flow information is as follows:

	instruments.						
(4)	Loans used in the denominator in calculating net charge-offs, non-performing loan and non-performing asset rates include purchased credit-impaired ("PCI") loans. However, the Corporation separately tracks and reports PCI loans and excludes these from non-performing loan and non-performing asset statistics.						

The following Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the accompanying unaudited consolidated financial statements of First BanCorp. (the "Corporation" or "First BanCorp.") and should be read in conjunction with such financial statements and the notes thereto. This section also presents certain non-GAAP financial measures. Refer to "Basis of Presentation" below for additional information about why the non-GAAP financial measures are being presented.

## **EXECUTIVE SUMMARY**

First BanCorp. is a diversified financial holding company headquartered in San Juan, Puerto Rico offering a full range of financial products to consumers and commercial customers through various subsidiaries. First BanCorp. is the holding company of FirstBank Puerto Rico ("FirstBank" or the "Bank") and FirstBank Insurance Agency. Through its wholly owned subsidiaries, the Corporation operates offices in Puerto Rico, the United States Virgin Islands and British Virgin Islands, and the State of Florida (USA), concentrating on commercial banking, residential mortgage loan originations, finance leases, credit cards, personal loans, small loans, auto loans, and insurance agency and broker-dealer activities.

### Recent Significant Events:

#### *Other-Than-Temporary Impairment on Puerto Rico Government Obligations*

During the first quarter of 2016, the Corporation recorded a \$6.3 million other-than-temporary impairment ("OTTI") charge on three Puerto Rico Government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the Government Development Bank for Puerto Rico (the "GDB") and the Puerto Rico Public Buildings Authority. This is the third OTTI charge on these securities recorded since June 30, 2015, as OTTI charges of \$12.9 million and \$3.0 million were booked in the second and fourth quarters of 2015, respectively. The credit-related impairment loss estimate was based on the probability of default and estimated loss severity in the event of default in consideration of the latest available information about the Puerto Rico Government's financial condition, including the enactment of a debt moratorium law and the declaration of a state of emergency at the GDB by the Puerto Rico government. As of March 31, 2016, the Corporation owns Puerto Rico Government debt securities with an aggregate amortized cost of \$43.4 million (net of the \$22.2 million OTTI aggregate charges taken on these securities), recorded on its books at a fair value of \$26.4 million. The GDB bonds held by the Corporation are scheduled to mature on February 1, 2019. Pursuant to the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act enacted on April 6, 2016, the Puerto Rico governor issued an executive order imposing a moratorium on the debt service payment required to be paid by the GDB on May 1, 2016. The GDB paid the scheduled interest payment of \$22 million but defaulted on the principal payment of \$367 million of its notes due to other creditors on May 1, 2016. In addition, on April 30, 2016, the Puerto Rico Government announced that GDB entered into an agreement with credit unions in Puerto Rico to exchange \$33 million of notes maturing on May 1, 2016 for newly issued notes with substantially the same terms, but maturing on May 1, 2017. On April 6, 2016, the Puerto Rico Government released the revised restructuring proposal presented to its creditors as it has payments totaling approximately \$1.9 billion coming due on July 1, 2016, including about \$780 million in general obligation bonds.

*Commercial Loans Guaranteed by the Puerto Rico Tourism Development Fund*

During the first quarter of 2016, the Corporation placed in non-accrual status its \$128.6 million exposure to commercial mortgage loans guaranteed by the Puerto Rico Tourism Development Fund (“TDF”). The TDF is a subsidiary of the GDB that facilitates private sector financings to the Puerto Rico’s hotel industry. The borrower and the operations of the underlying collateral are the primary sources of repayment and the TDF provides a secondary guarantee for payment performance. Recent developments related to the Puerto Rico government fiscal situation introduced additional uncertainty regarding TDF’s ability to honor its guarantee, including the enactment on April 6, 2016 of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act. This Act gives Puerto Rico’s governor emergency powers to deal with the challenging fiscal situation, including the ability to declare a moratorium on all bond and other payments. Puerto Rico’s governor also issued an executive order intended to protect the GDB’s liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services. The Corporation’s TDF guaranteed loans were current on contractual payments as of March 31, 2016. Prospectively, principal and interest payment collections will be applied against the outstanding balance of the loans. The Corporation has been receiving combined payments from the borrowers and TDF as guarantor sufficient to cover contractual payments on these loans, including collections of principal and interest from TDF of \$0.6 million in the first quarter of 2016 and \$5.3 million in the entire year 2015. These loans have been adversely classified since the third quarter of 2015 and the general reserve for commercial loans was increased in the fourth quarter of 2015 due to qualitative factors that stressed the historical loss rates applied to the Puerto Rico Government-related exposure, including this particular portfolio. The migration of the loans guaranteed by the TDF to non-accrual status in the first quarter of 2016 did not result in significant increases to the allowance for loan losses.

### *Repurchase and Cancellation of Trust Preferred Securities*

During the first quarter of 2016, the Corporation completed the repurchase of \$10 million in trust preferred securities of the FBP Statutory Trust II that were auctioned in a public sale at which the Corporation was invited to participate. The Corporation repurchased and cancelled the repurchased trust preferred securities, resulting in a commensurate reduction in the related Floating Rate Junior Subordinated Debentures. The Corporation's winning bid equated to 70% of the \$10 million par value. The 30% discount, plus accrued interest, resulted in a gain of \$4.2 million, which is reflected in the statement of income as a "Gain on early extinguishment of debt." As of March 31, 2016, the Corporation still has Floating Rate Junior Subordinated Debentures ("subordinated debt") outstanding in the aggregate amount of \$216.2 million.

## **OVERVIEW OF RESULTS OF OPERATIONS**

First BanCorp.'s results of operations depend primarily on its net interest income, which is the difference between the interest income earned on its interest-earning assets, including investment securities and loans, and the interest expense incurred on its interest-bearing liabilities, including deposits and borrowings. Net interest income is affected by various factors, including: the interest rate scenario; the volumes, mix and composition of interest-earning assets and interest-bearing liabilities; and the re-pricing characteristics of these assets and liabilities. The Corporation's results of operations also depend on the provision for loan and lease losses, non-interest expenses (such as personnel, occupancy, deposit insurance premiums and other costs), non-interest income (mainly service charges and fees on deposits, insurance income and revenues from broker-dealer operations), gains (losses) on sales of investments, gains (losses) on mortgage banking activities, and income taxes.

The Corporation had net income of \$23.3 million, or \$0.11 per diluted common share, for the quarter ended March 31, 2016, compared to \$25.6 million, or \$0.12 per diluted common share, for the same period in 2015. The Corporation's financial results for the first quarter of 2016 included the following unusual and/or non-recurring items: (i) a \$6.7 million OTTI charge on debt securities, including the \$6.3 million OTTI charge on Puerto Rico Government debt securities and a \$0.4 million OTTI charge on private label MBS (no tax benefit was recognized for the OTTI charges due to the capital treatment of these items and the fact that the Corporation still has a partial deferred tax asset valuation allowance) and (ii) a \$4.2 million gain on the repurchase and cancellation of \$10 million in trust preferred securities realized at the holding company (no effect on the income tax expense based on available operating expenses and net operating losses at the holding company level).

The results for the first quarter of 2015 included a \$13.4 million (\$8.2 million after-tax) bargain purchase gain on assets acquired and liabilities assumed from Doral Bank and \$2.1 million (\$1.3 million after-tax) of related acquisition and conversion costs. In addition, an OTTI charge of \$0.2 million on private label MBS was recorded in the first

Supplemental cash flow information is as follows:

quarter of 2015.

The following table reconciles for the first quarters of 2016 and 2015, net income to adjusted net income, a non-GAAP financial measure that excludes certain unusual and/or non-recurring items affecting comparability:						
	<b>Quarter ended March 31,</b>					
	<b>2016</b>			<b>2015</b>		
(In thousands)						
Net income, as reported	\$	23,344		\$	25,646	
Exclude significant items (net of tax):						
Gain on early extinguishment of debt		(4,217)			-	
Other-than-temporary impairment on debt securities		6,687			156	
Bargain purchase gain on assets acquired and liabilities assumed						
from Doral Bank		-			(8,201)	
Acquisition and conversion costs of loans and deposits assumed						
from Doral Bank		-			1,272	
Adjusted net income, excluding items affecting comparability	\$	25,814		\$	18,873	

The key drivers of the Corporation's financial results include the following:

- Net interest income decreased \$1.0 million to \$124.6 million for the quarter ended March 31, 2016 compared to the same period in 2015. The decrease in net interest income was primarily driven by: (i) a \$3.7 million decrease in interest income on consumer loans mainly attributable to the \$152.8 million reduction in the average balance of this portfolio, primarily auto loans, and (ii) a \$0.6 million decrease in interest income on commercial and construction loans primarily reflecting a decrease of approximately \$1.1 million related to the \$257.1 million decline in the average balance in this portfolio and the adverse impact of approximately \$1.4 million in interest payments received in the first quarter of 2016 from the PREPA credit facility applied against the outstanding balance rather than as interest income, partially offset by an increase of approximately \$1.0 million related to fees earned on certain large loans paid off during the first quarter of 2016, an increase of approximately \$0.3 million related to the benefit of higher short-term interest rates on loan repricings and an increase of approximately \$0.5 million related to the effect of one additional day in the first quarter of 2016 compared to the same period in 2015.

The aforementioned variances in interest income on consumer and commercial loans were partially offset by: (i) a \$2.0 million increase in the interest income on residential mortgage loans primarily reflecting the full quarter impact of the loans acquired from Doral Bank in late February 2015, (ii) a \$0.5 million increase in interest income on interest-bearing cash balances, primarily related to deposits maintained in the Federal Reserve Bank, due to the increase in the fed funds rate in December 2015, and (iii) a \$0.6 million decrease in interest expense primarily related to the reduced reliance on brokered CDs and the interest income earned on reverse repurchase agreements that qualifies for offsetting accounting entered into after March 31, 2015. The reduced reliance in brokered CDs and the income from the reverse repurchase agreements more than offset the effect of a higher balance of FHLB advances as well as higher costs on brokered CDs due to both higher market interest rates and, to a lesser extent, longer-terms on new issuances compared to the average life of maturing brokered CDs. The net interest margin remained flat at 4.18% for the first quarter of 2016 compared to the same period in 2015.

- The provision for loan and lease losses decreased \$11.9 million to \$21.1 million for the first quarter of 2016 compared to \$33.0 million for the same period in 2015. The decrease was driven by: (i) an \$8.4 million decrease in the provision for consumer loans primarily reflecting lower levels of charge-offs, declining loss severity rates on auto loans and the overall decline in the size of this portfolio; (ii) a \$3.0 million decrease in the provision for commercial and construction loans primarily due to lower levels of charge-offs, lower charges to the general reserve computed for these loans that reflect both improvements in delinquency trends and the overall decrease in the size of this portfolio; and (iii) a \$0.5 million decrease in the provision for residential mortgage loans driven by the observed trend of lower loss severity on foreclosure and liquidation of residential mortgage loans.

Net charge-offs totaled \$23.6 million for the first quarter of 2016, or 1.03% of average loans on an annualized basis, compared to \$29.3 million, or 1.25% of average loans for the same period in 2015. The decrease was primarily reflected in the consumer and commercial mortgage loan portfolios. Refer to the discussions under "Provision for loan

Supplemental cash flow information is as follows:



and lease losses” and “Risk Management” below for an analysis of the allowance for loan and lease losses and non-performing assets and related ratios.

- The Corporation recorded non-interest income of \$18.5 million for the first quarter of 2016, compared to \$32.7 million for the same period in 2015. Non-interest income for both periods included unusual and/or non-recurring items such as: (i) the OTTI charge on debt securities of \$6.7 million recorded in the first quarter of 2016, primarily on Puerto Rico Government debt securities, (ii) the \$4.2 million gain on the repurchase and cancellation of \$10 million in trust preferred securities, and (iii) the \$13.4 million bargain purchase gain on assets acquired and liabilities assumed from Doral Bank in the first quarter of 2015. Excluding the aforementioned unusual and/or non-recurring items, adjusted non-interest income increased by \$1.5 million primarily related to a \$1.2 million increase in service charges on deposits associated with the deposits assumed from Doral Bank in late February 2015 as well as the implementation of new service and transactional fees on certain products implemented in November 2015 and a \$1.1 million increase in revenues from the mortgage banking business primarily related to higher volume and gain margins on residential mortgage loan sales in the secondary market to U.S. government sponsored entities.

- Non-interest expenses increased by \$1.3 million to \$93.0 million for the first quarter of 2016 compared to the same period in 2015. Excluding the non-recurring acquisition and conversion costs of \$2.1 million related to the acquisition of assets and assumption of liabilities from Doral Bank, adjusted non-interest expenses increased by \$3.4 million. The increase in adjusted non-interest expenses was mainly due to: (i) a \$2.8 million increase in employees’ compensation, reflecting salary merit increases that became effective after March 31, 2015 and the full quarter impact of personnel costs associated with the branches acquired from Doral Bank in February 2015, (ii) a \$1.1 million increase in business promotion expenses, primarily due to the timing of marketing campaigns and charitable contributions, (iii) a \$0.6 million increase in losses on OREO operations primarily reflecting the impact of a \$1.2 million gain realized at the time of disposition of certain commercial OREO properties in the first quarter of 2015, partially offset by a \$0.7 million increase in rental income associated with both a higher inventory of income-producing properties and increased activity, and (iv) a \$0.6 million increase in the provision for unfunded loan commitments primarily related to a floor plan revolving line of credit. These increases were partially offset by

a \$1.1 million decrease in collections, appraisals and other credit related professional service fees associated with troubled loans resolution efforts. Refer to the “Non Interest Expenses” discussion below for additional information.

- For the first quarter of 2016, the Corporation recorded income tax expense of \$5.7 million, compared to \$8.0 million for the same period in 2015. The Corporation’s effective tax rate for the first quarter of 2016 (excluding entities from which a tax benefit cannot be recognized) was 21%, which approximates the expected effective tax rate for the year, compared to 22% for the first quarter of 2015. As of March 31, 2016, the Corporation had a net deferred tax asset of \$307.6 million (net of a valuation allowance of \$197.0 million). Refer to “Income Taxes” below for additional information.

- As of March 31, 2016, total assets were \$12.7 billion, an increase of \$141.4 million from December 31, 2015. The increase was mainly due to a \$274.4 million increase in cash and cash equivalents primarily tied to an increase in demand deposits and proceeds from the repayment of certain large commercial loans during the first quarter of 2016, partially offset by a \$140.5 million decrease in total loans primarily reflecting an \$88.0 million decrease in commercial and construction loans and a \$40.8 million decrease in consumer loans. The decrease in commercial loans was driven by the repayment of two large commercial loans totaling approximately \$94.3 million during the first quarter, and a \$17 million decrease in the floor plan lending portfolio, partially offset by a \$49.6 million increase in the commercial and construction loan portfolio in the Florida region. Refer to “Financial Condition and Operating Data” below for additional information.

- As of March 31, 2016, total liabilities were \$11.0 billion, an increase of \$86.3 million, from December 31, 2015. The increase was mainly due to a \$137.1 million increase in deposits, excluding government deposits and brokered CDs, primarily demand deposits and savings in both Puerto Rico and the Virgin Islands regions, and a \$50.7 million increase in government deposits. These increases were partially offset by a \$91.2 million decrease in brokered CDs and the \$10.0 million decrease in junior subordinated debentures associated with the repurchase and cancellation of trust preferred securities. Refer to “Risk Management – Liquidity and Capital Adequacy” below for additional information about the Corporation’s funding sources.

- As of March 31, 2016, the Corporation’s stockholders’ equity was \$1.7 billion, an increase of \$55.0 million from December 31, 2015. The increase was mainly driven by the net income of \$23.3 million for the first quarter of 2016 and a \$24.6 million increase in the fair value of available-for-sale U.S. agency MBS and debt securities recorded as part of other comprehensive income.

- The Corporation’s Total Capital, Common equity Tier 1 Capital, Tier 1 Capital and Leverage ratios calculated under the Basel III rules as currently in effect were 20.17%, 16.60%, 16.60%, and 12.20%, respectively, as of March 31, 2016, compared to Total Capital, Common Equity Tier 1 Capital, Tier 1 Capital and Leverage ratios of 20.01%, 16.92%, 16.92%, and 12.22%, respectively, as of December 31, 2015. The decrease in Common Equity Tier 1 Capital, Tier 1 Capital and Leverage ratios primarily reflects the transitional effects of the Basel III rules applicable in 2016 for deferred tax assets arising from net operating losses and tax credit carryforwards and the phase out of trust preferred securities from Tier 1 Capital. The Corporation’s tangible common equity ratio increased to 13.13% as of March 31, 2016, from 12.84% as of December 31, 2015. Refer to “Risk Management – Capital” below for additional information.

Supplemental cash flow information is as follows:

- Total loan production, including purchases, refinancings, renewals and draws from existing revolving and non-revolving commitments, was \$645.4 million for the quarter ended March 31, 2016, excluding the utilization activity on outstanding credit cards, compared to \$688.9 million for the same period in 2015. The decrease was reflected in most of the principal loan categories in Puerto Rico, which showed an aggregate decrease of \$71.6 million, partially offset by a \$39.2 million increase in loan originations in the Florida region.
- Total non-performing assets were \$737.2 million as of March 31, 2016, an increase of \$127.3 million from December 31, 2015. The increase was primarily attributable to the inflow of the \$128.6 million exposure to commercial mortgage loans guaranteed by the TDF. Excluding the \$128.6 million exposure to loans guaranteed by the TDF, non-performing assets would have decreased by \$1.2 million. Refer to “Risk Management - Non-accruing and Non-performing Assets” below for additional information.
- Adversely classified commercial and construction loans held for investment increased by \$47.0 million to \$569.1 million as of March 31, 2016 from \$522.1 million as of December 31, 2015, driven by the inflow to adverse classification categories of three commercial loans totaling \$48.3 million.

## **Critical Accounting Policies and Practices**

The accounting principles of the Corporation and the methods of applying these principles conform to GAAP. The Corporation's critical accounting policies relate to: 1) the allowance for loan and lease losses; 2) other-than-temporary impairments; 3) income taxes; 4) the classification and values of financial instruments; 5) income recognition on loans; 6) loans acquired; and 7) loans held for sale. These critical accounting policies involve judgments, estimates and assumptions made by management that affect the amounts recorded for assets, liabilities and contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates, if different assumptions or conditions prevail. Certain determinations inherently require greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than those originally reported.

The Corporation's critical accounting policies are described in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in First BanCorp.'s 2015 Annual Report on Form 10-K. There have not been any material changes in the Corporation's critical accounting policies since December 31, 2015.

## **RESULTS OF OPERATIONS**

### **Net Interest Income**

Net interest income is the excess of interest earned by First BanCorp. on its interest-earning assets over the interest incurred on its interest-bearing liabilities. First BanCorp.'s net interest income is subject to interest rate risk due to the repricing and maturity mismatch of the Corporation's assets and liabilities. Net interest income for the quarter ended March 31, 2016 was \$124.6 million compared to \$125.6 million for the comparable period in 2015. On a tax-equivalent basis and excluding the changes in the fair value of derivative instruments, net interest income for the quarter ended March 31, 2015 was \$129.5 million compared to \$129.7 million for the comparable period in 2015.

The following tables include a detailed analysis of net interest income. Part I presents average volumes and rates on an adjusted tax-equivalent basis and Part II presents, also on an adjusted tax-equivalent basis, the extent to which changes in interest rates and changes in the volume of interest-related assets and liabilities have affected the Corporation's net interest income. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in volume multiplied by prior period rates), and (ii) changes in rate (changes in rate multiplied by prior period volumes). Rate-volume variances (changes in rate multiplied by changes in volume) have been allocated to the changes in volume and rate based upon their respective percentage of

Supplemental cash flow information is as follows:

the combined totals.

The net interest income is computed on an adjusted tax-equivalent basis and excluding the change in the fair value of derivative instruments. For a definition and reconciliation of this non-GAAP financial measure, refer to the discussions below.

<b>Part I</b>												
	<b>Average Volume</b>				<b>Interest income <sup>(1)</sup> / expense</b>				<b>Average Rate <sup>(1)</sup></b>			
<b>Quarter ended March 31,</b>	<b>2016</b>		<b>2015</b>		<b>2016</b>		<b>2015</b>		<b>2016</b>		<b>2015</b>	
(Dollars in thousands)												
Interest-earning assets:												
Money market & other short-term investments	\$ 850,782		\$ 808,754		\$ 1,073		\$ 537		0.51 %		0.27 %	
Government obligations (2)	538,395		421,948		2,720		2,338		2.03 %		2.25 %	
Mortgage-backed securities	1,389,806		1,551,804		12,277		12,501		3.55 %		3.27 %	
FHLB stock	31,284		25,467		348		295		4.47 %		4.70 %	
Other investments	1,470		357		1		-		0.27 %		0.00 %	
Total investments (3)	2,811,737		2,808,330		16,419		15,671		2.35 %		2.26 %	
Residential mortgage loans	3,321,582		3,120,648		45,388		43,482		5.50 %		5.65 %	
Construction loans	160,283		172,055		1,615		1,532		4.05 %		3.61 %	
C&I and commercial mortgage loans	3,881,980		4,127,305		43,795		43,671		4.54 %		4.29 %	
Finance leases	230,224		230,299		4,436		4,611		7.75 %		8.12 %	
Consumer loans	1,576,696		1,729,448		44,032		47,523		11.23 %		11.14 %	
Total loans (4) (5)	9,170,765		9,379,755		139,266		140,819		6.11 %		6.09 %	
Total interest-earning assets	\$ 11,982,502		\$ 12,188,085		\$ 155,685		\$ 156,490		5.23 %		5.21 %	
Interest-bearing liabilities:												
Brokered CDs	\$ 2,076,816		\$ 2,736,653		\$ 6,017		\$ 6,610		1.17 %		0.98 %	
Other interest-bearing deposits	5,945,426		5,848,597		11,240		11,084		0.76 %		0.77 %	
Other borrowed funds	919,015		1,131,959		7,455		8,210		3.26 %		2.94 %	
FHLB advances	455,000		325,000		1,471		934		1.30 %		1.17 %	

Supplemental cash flow information is as follows:

Total interest-bearing liabilities	\$	9,396,257	\$	10,042,209	\$	26,183	\$	26,838	1.12	%	1.08	%
Net interest income					\$	129,502	\$	129,652				
Interest rate spread									4.11	%	4.13	%
Net interest margin									4.35	%	4.31	%

- (1) On an adjusted tax-equivalent basis. The adjusted tax-equivalent yield was estimated by dividing the interest rate spread on exempt assets by 1 less the Puerto Rico statutory tax rate of 39.0% and adding to it the cost of interest-bearing liabilities. The tax-equivalent adjustment recognizes the income tax savings when comparing taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully tax-equivalent basis. Therefore, management believes these measures provide useful information to investors by allowing them to make peer comparisons. Changes in the fair value of derivatives are excluded from interest income and interest expense because the changes in valuation do not affect interest paid or received.
- (2) Government obligations include debt issued by government-sponsored agencies.
- (3) Unrealized gains and losses on available-for-sale securities are excluded from the average volumes.
- (4) Average loan balances include the average of non-performing loans.
- (5) Interest income on loans includes \$2.8 million and \$2.7 million for the first quarter of 2016 and 2015, respectively, of income from prepayment penalties and late fees related to the Corporation's loan portfolio.

<b>Part II</b>								
		<b>Quarter ended March 31,</b>						
		<b>2016 compared to 2015</b>						
		<b>Increase (decrease)</b>						
		<b>Due to:</b>						
	(In thousands)	<b>Volume</b>		<b>Rate</b>		<b>Total</b>		
	Interest income on interest-earning assets:							
	Money market & other short-term investments	\$ 30		\$ 506		\$ 536		
	Government obligations	632		(250)		382		
	Mortgage-backed securities	(1,328)		1,104		(224)		
	FHLB stock	68		(15)		53		
	Other investments	-		1		1		
	Total investments	(598)		1,346		748		
	Residential mortgage loans	2,977		(1,071)		1,906		
	Construction loans	(107)		190		83		
	C&I and commercial mortgage loans	(2,524)		2,648		124		
	Finance leases	(1)		(174)		(175)		
	Consumer loans	(4,063)		572		(3,491)		
	Total loans	(3,718)		2,165		(1,553)		
	Total interest income	(4,316)		3,511		(805)		
	Interest expense on interest-bearing liabilities:							
	Brokered CDs	(1,740)		1,147		(593)		
	Other interest-bearing deposits	231		(75)		156		
	Other borrowed funds	(1,615)		860		(755)		
	FHLB advances	417		120		537		
	Total interest expense	(2,707)		2,052		(655)		
	Change in net interest income	\$ (1,609)		\$ 1,459		\$ (150)		

Portions of the Corporation's interest-earning assets, mostly investments in obligations of some U.S. government agencies and sponsored entities, generate interest that is exempt from income tax, principally in Puerto Rico. Also, interest and gains on sales of investments held by the Corporation's international banking entities ("IBEs") are tax-exempt under Puerto Rico tax law (refer to "Income Taxes" below for additional information). To facilitate the comparison of all interest data related to these assets, the interest income has been converted to an adjusted taxable equivalent basis. The tax equivalent yield was estimated by dividing the interest rate spread on exempt assets by 1 less

Supplemental cash flow information is as follows:



the Puerto Rico statutory tax rate as adjusted for changes to enacted tax rates (39.0%) and adding to it the average cost of interest-bearing liabilities. The computation considers the interest expense disallowance required by Puerto Rico tax law.

The presentation of net interest income excluding the effects of the changes in the fair value of the derivative instruments (“valuations”) provides additional information about the Corporation’s net interest income and facilitates comparability and analysis. The changes in the fair value of the derivative instruments have no effect on interest due or interest earned on interest-bearing liabilities or interest-earning assets, respectively, or on interest payments exchanged with interest rate swap counterparties.

The following table reconciles net interest income in accordance with GAAP to net interest income, excluding valuations, and net interest income on an adjusted tax-equivalent basis. The table also reconciles net interest spread and net interest margin on a GAAP basis to these items excluding valuations and on an adjusted tax-equivalent basis:							
<b>Quarter Ended March 31,</b>							
(Dollars in thousands)	<b>2016</b>			<b>2015</b>			
Interest Income - GAAP	\$	150,831			\$	152,485	
Unrealized loss on derivative instruments		4				-	
Interest income excluding valuations		150,835				152,485	
Tax-equivalent adjustment		4,850				4,005	
Interest income on a tax-equivalent basis excluding valuations		155,685				156,490	
Interest Expense - GAAP		26,183				26,838	
Net interest income - GAAP	\$	124,648			\$	125,647	
Net interest income excluding valuations	\$	124,652			\$	125,647	
Net interest income on a tax-equivalent basis excluding valuations	\$	129,502			\$	129,652	
<b>Average Balances</b>							
Loans and leases	\$	9,170,765			\$	9,379,755	
Total securities, other short-term investments and interest-bearing cash balances		2,811,737				2,808,330	
Average Interest-Earning Assets	\$	11,982,502			\$	12,188,085	
Average Interest-Bearing Liabilities	\$	9,396,257			\$	10,042,209	
<b>Average Yield/Rate</b>							
Average yield on interest-earning assets - GAAP		5.06	%			5.07	%
Average rate on interest-bearing liabilities - GAAP		1.12	%			1.08	%
Net interest spread - GAAP		3.94	%			3.99	%
Net interest margin - GAAP		4.18	%			4.18	%
Average yield on interest-earning assets excluding valuations		5.06	%			5.07	%
Average rate on interest-bearing liabilities excluding valuations		1.12	%			1.08	%

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Net interest spread excluding valuations		3.94	%			3.99	%	
Net interest margin excluding valuations		4.18	%			4.18	%	
Average yield on interest-earning assets on a tax-equivalent basis								
and excluding valuations		5.23	%			5.21	%	
Average rate on interest-bearing liabilities excluding valuations		1.12	%			1.08	%	
Net interest spread on a tax-equivalent basis and excluding valuations		4.11	%			4.13	%	
Net interest margin on a tax-equivalent basis and excluding valuations		4.35	%			4.31	%	

Interest income on interest-earning assets primarily represents interest earned on loans held for investment and investment securities.

Interest expense on interest-bearing liabilities primarily represents interest paid on brokered CDs, branch-based deposits, repurchase agreements, advances from the FHLB and junior subordinated debentures.

Unrealized gains or losses on derivatives represent changes in the fair value of derivatives, primarily interest rate caps used for protection against rising interest rates.

For the quarter ended March 31, 2016, net interest income decreased \$1.0 million to \$124.6 million compared to \$125.6 million for the same period in 2015. The net interest margin remained flat at 4.18%. The \$1.0 million decrease in net interest income was primarily due to:

- A \$3.7 million decrease in interest income on consumer loans and finance leases mainly attributable to the \$152.8 million reduction in the average balance of this portfolio, primarily auto loans.
- A \$0.6 million decrease in interest income on commercial and construction loans primarily reflecting a decrease of approximately \$1.1 million in interest income related to the \$257.1 million decline in the average balance in this portfolio and the adverse impact of approximately \$1.4 million in interest payments received in the first quarter of 2016 applied against the outstanding balance of the PREPA credit facility rather than as interest income. This facility was placed in non-accrual status in the first quarter of 2015 and interest payments received have been accounted for on a cost-recovery basis since May 2015. Partially offsetting these variances were fees of approximately \$1.0 million recorded in the first quarter of 2016 related to the repayment of certain large loans, an increase of approximately \$0.3 million in interest income related to



the benefit of higher short-term interest rates on loan repricings and an increase of approximately \$0.5 million related to the effect of one additional day in the first quarter of 2016 compared to the same period in 2015.

The aforementioned decrease in interest income on consumer and commercial loans was partially offset by:

- A \$2.0 million increase in the interest income on residential mortgage loans primarily reflecting the full quarter impact of the loans acquired from Doral Bank in late February 2015.
- A \$0.5 million increase in interest income on interest-bearing cash balances, primarily related to deposits maintained in the Federal Reserve Bank, due to the increase in the fed funds rate in December 2015.
- A \$0.6 million decrease in interest expense primarily related to the reduced reliance on brokered CDs and the impact of the ability to offset interest expense against interest income earned on reverse repurchase agreements that qualifies for offsetting accounting entered into after March 31, 2015. Interest expense on brokered CDs decreased by \$0.6 million mainly related to the effect of the \$659.8 million decrease in the average balance, which more than offset higher costs due to both higher market interest rates and, to a lesser extent, longer-terms on new issuances compared to maturing CDs. Over the last 12 months the Corporation repaid approximately \$1.8 billion of maturing brokered CDs with an all-in cost of 0.86% and new issuances amounted to approximately \$1.2 billion with an all-in cost of 1.14%. The original average life of the brokered CDs outstanding as of March 31, 2016 was 2.3 years compared to an average life of 2.2 years a year ago. Interest expense on repurchase agreements decreased by \$0.9 million mainly related to the netting effect of the \$1.1 million interest income earned in the first quarter of 2015 on \$200 million reverse repurchase agreements entered into after March 31, 2015 that qualifies for offsetting accounting pursuant to ASC 210-20-45-11. These variances were partially offset by a \$0.5 million increase in the interest expense on FHLB advances related to the \$130.0 million of advances obtained during the fourth quarter of 2015 with maturities of four years (average cost of 1.64%).

On an adjusted tax-equivalent basis, net interest income for the first quarter of 2016 decreased by \$0.2 million to \$129.5 million when compared to the same period in 2015 as the effect of the facts discussed above was partially offset by an increase of \$0.8 million in the tax-equivalent adjustment attributable to higher yields on MBS held by the Corporation's IBE subsidiary, FirstBank Overseas Corporation.

#### **Provision for Loan and Lease Losses**

Supplemental cash flow information is as follows:

The provision for loan and lease losses is charged to earnings to maintain the allowance for loan and lease losses at a level that the Corporation considers adequate to absorb probable losses inherent in the portfolio. The adequacy of the allowance for loan and lease losses is also based upon a number of additional factors, including trends in charge-offs and delinquencies, current economic conditions, the fair value of the underlying collateral and the financial condition of the borrowers, and, as such, includes amounts based on judgments and estimates made by the Corporation. Although the Corporation believes that the allowance for loan and lease losses is adequate, factors beyond the Corporation's control, including factors affecting the economies of Puerto Rico, the United States, the U.S. Virgin Islands and the British Virgin Islands, may contribute to delinquencies and defaults, thus necessitating additional reserves.

For the quarter ended March 31, 2016, the Corporation recorded a provision for loan and lease losses of \$21.1 million, compared to \$33.0 million for the comparable period in 2015. The decrease was mainly driven by:

- An \$8.4 million decrease in the provision for consumer loans, primarily reflecting lower levels of charge-offs, declining loss severity rates on auto loans and the overall decline in the size of this portfolio. Consumer loans net charge-offs decreased by \$3.6 million for the first quarter of 2016 compared to the same period in 2015.
- A \$3.0 million decrease in the provision for commercial and construction loans primarily due to lower levels of charge-offs and lower charges to the general reserve computed for these loans that reflect both improvements in delinquency trends and the overall decrease in the size of this portfolio. Construction and commercial loans net charge-offs decreased by \$3.9 million for the first quarter of 2016 compared to the same period in 2015.
- A \$0.5 million decrease in the provision for residential mortgage loans driven by the experience observed over a 12-month look-back period that showed lower than projected liquidations, loss severity rates and delinquency levels.

Refer to "Credit Risk Management" below for an analysis of the allowance for loan and lease losses, non-performing assets, impaired loans and related information, and refer to "Financial Condition and Operating Data Analysis – Loan Portfolio" and "Risk Management — Credit Risk Management" below for additional information concerning the Corporation's loan portfolio exposure in the geographic areas where the Corporation does business.

<b>Non-Interest Income</b>						
<b>Quarter Ended March 31,</b>						
<b>2016</b>						
<b>2015</b>						
(In thousands)						
	Service charges on deposit accounts	\$	5,800		\$	4,555

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

	Mortgage banking activities		4,753			3,618	
	Insurance income		3,269			3,022	
	Other operating income		7,109			8,247	
	Non-interest income before net gain (loss) on investments, gain on						
	early extinguishment of debt, and bargain purchase gain		20,931			19,442	
	Net gain (loss) on sale of investments		8			-	
	OTTI on debt securities		(6,687)			(156)	
	Net loss on investments		(6,679)			(156)	
	Bargain purchase gain		-			13,443	
	Gain on early extinguishment of debt		4,217			-	
	Total	\$	18,469		\$	32,729	

78

Non-interest income primarily consists of service charges on deposit accounts; commissions derived from various banking, securities and insurance activities; gains and losses on mortgage banking activities; interchange and other fees related to debit and credit cards; and net gains and losses on investments and impairments.

Service charges on deposit accounts include monthly fees, overdraft fees and other fees on deposit accounts.

Income from mortgage banking activities includes gains on sales and securitization of loans, revenues earned for administering residential mortgage loans originated by the Corporation and subsequently sold with servicing retained, and unrealized gains and losses on forward contracts used to hedge the Corporation's securitization pipeline. In addition, lower-of-cost-or-market valuation adjustments to the Corporation's residential mortgage loans held for sale portfolio and servicing rights portfolio, if any, are recorded as part of mortgage banking activities.

Insurance income consists mainly of insurance commissions earned by the Corporation's subsidiary, FirstBank Insurance Agency, Inc.

The other operating income category is composed of miscellaneous fees such as debit, credit card and point of sale (POS) interchange fees.

The net gain (loss) on investment securities reflects gains or losses as a result of sales that are consistent with the Corporation's investment policies as well as OTTI charges on the Corporation's investment portfolio.

The gain on early extinguishment of debt is related to the repurchase and cancellation of \$10 million trust preferred securities in the first quarter of 2016. Refer to "Executive Summary – Recent Significant Events – Repurchase and Cancellation of Trust Preferred Securities" above for additional information.

The bargain purchase gain is related to assets acquired and deposits assumed from Doral Bank in the first quarter of 2015. On February 27, 2015, FirstBank acquired 10 Puerto Rico branches of Doral Bank, assumed \$522.7 million in deposits related to such branches, acquired approximately \$324.8 million in principal balance of loans, primarily residential mortgage loans, acquired \$5.5 million of property, plant and equipment and received \$217.7 million of cash, through an alliance with Banco Popular of Puerto Rico ("Popular"), who was the successful lead bidder with the FDIC on the failed Doral Bank, as well as other co-bidders. Under the FDIC's bidding format, Popular was the lead bidder and party to the purchase and assumption agreement with the FDIC covering all assets and deposits to be

Supplemental cash flow information is as follows:



acquired by Popular and its alliance co-bidders. Popular entered into back to back purchase assumption agreements with the alliance co-bidders, including FirstBank, for the transferred assets and deposits. There is no loss-share arrangement with the FDIC related to the acquired assets, meaning that FirstBank will assume all losses with respect to such assets, with no financial assistance from the FDIC. The gain of \$13.4 million represents the excess of the estimated fair value of the assets acquired (including cash payments of \$217.7 million received from the FDIC) over the estimated fair value of the liabilities assumed.

Non-interest income for the first quarter of 2016 amounted to \$18.5 million, compared to \$32.7 million for the same period in 2015. Non-interest income for both periods included unusual and/or non-recurring items such as: (i) the OTTI charge on debt securities of \$6.7 million recorded in the first quarter of 2016, primarily on Puerto Rico Government debt securities, (ii) the \$4.2 million gain on the repurchase and cancellation of \$10 million in trust preferred securities, and (iii) the \$13.4 million bargain purchase gain on assets acquired and liabilities assumed from Doral Bank in the first quarter of 2015. Excluding the aforementioned unusual and/or non-recurring items, adjusted non-interest income increased by \$1.5 million primarily related to:

- A \$1.2 million increase in service charges on deposits associated with the deposits assumed from Doral Bank in late February 2015, as well as the implementation of new service and transactional fees on certain products implemented in November 2015.

- A \$1.1 million increase in revenues from the mortgage banking business, primarily driven by a \$1.4 million increase in gains on sale of residential mortgage loans in the secondary market associated with both a higher volume of sales and market expectation of lower long-term interest rates that resulted in higher gain margins, partially offset by a \$0.5 million increase in losses on TBAs MBS forward contracts. Loans sold in the secondary market to U.S. government-sponsored entities amounted to \$106.0 million with a related gain of \$4.3 million in the first quarter of 2016, compared to \$85.3 million with a related gain of \$2.9 million in the first quarter of 2015.

Partially offset by:

- A \$1.1 million decrease in “other operating income” in the table above, reflecting a \$1.9 million decrease in fees from merchant transactions due to the sale of merchant contracts completed in the fourth quarter of 2015 (a reduction of approximately \$1.1 million in processing costs, depreciation and other expenses related to the sale of merchant contracts was reflected in non-interest expenses). The decrease in fees from merchant contracts was partially offset by higher interchange and ATM fee income as well as fee income of \$0.4 million recorded in the first quarter of 2016 related to a terminated credit agreement in which the Bank was committed to purchase a loan participation.

<b>Non-Interest Expenses</b>							
The following table presents non-interest expenses for the periods indicated:							
				<b>Quarter Ended March 31,</b>			
				<b>2016</b>		<b>2015</b>	
(In thousands)							
	Employees' compensation and benefits	\$	38,435		\$	35,654	
	Occupancy and equipment		14,183			14,349	
	Insurance and supervisory fees		7,343			6,860	
	Taxes, other than income taxes		3,792			3,001	
	Professional fees:						
	Collections, appraisals and other credit-related fees		2,381			3,447	

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

	Outsourcing technology services		4,768			4,704	
	Other professional fees		3,627			7,067	
	Credit and debit card processing expenses		3,282			3,957	
	Business promotion		4,003			2,868	
	Communications		1,808			1,608	
	Net loss on OREO and OREO operations		3,206			2,628	
	Other		6,169			5,585	
	Total	\$	92,997		\$	91,728	

Non-interest expenses for the first quarter of 2016 were \$93.0 million, compared to \$91.7 million for the same period in 2015. Excluding non-recurring acquisition and conversion costs of \$2.1 million related to the acquisition of assets and assumption of liabilities from Doral Bank in February 2015, adjusted non-interest expenses increased by \$3.4 million. The increase in adjusted non-interest expenses was mainly due to:

- A \$2.8 million increase in employees' compensation, reflecting salary merit increases that became effective after March 31, 2015 and the full quarter impact of personnel costs associated with the branches acquired from Doral Bank in February 2015.
- A \$1.1 million increase in business promotion expenses, primarily due to the timing of marketing campaigns and higher charitable contribution expenses.
- A \$0.6 million increase in losses on OREO operations, primarily reflecting the impact of a \$1.2 million gain realized at the time of disposition of certain commercial OREO properties sold in the first quarter of 2015, partially offset by a \$0.7 million increase in rental income associated with both a higher inventory of income-producing properties and increased activity.
- A \$0.6 million increase in the provision for unfunded loan commitments, included as part of "Other" in the table above, primarily related to a floor plan revolving line of credit.

- A \$0.3 million increase in the FDIC insurance premium expense, included as part of “Insurance and supervisory fees” in the table above, as the 2014 fourth quarter significant net income no longer part of the core earnings to average assets ratio component of the assessment that considers the last four quarters of earnings.

These increases were partially offset by:

- A \$1.1 million decrease in collections, appraisals and other credit-related professional service fees associated with lower costs on troubled loans resolution efforts.
- The aforementioned decrease of \$1.1 million in processing costs, depreciation and other expenses related to the sale of merchant contracts completed in the fourth quarter of 2015. Most of this decrease is reflected in “Credit and debit card processing fees” and “Occupancy and equipment” in the table above.

## **Income Taxes**

Income tax expense includes Puerto Rico and USVI income taxes as well as applicable U.S. federal and state taxes. The Corporation is subject to Puerto Rico income tax on its income from all sources. As a Puerto Rico corporation, First BanCorp. is treated as a foreign corporation for U.S. and USVI income tax purposes and is generally subject to U.S. and USVI income tax only on its income from sources within the U.S. and USVI or income effectively connected with the conduct of a trade or business in those regions. Any tax paid in the U.S. and USVI is also creditable against the Corporation’s Puerto Rico tax liability, subject to certain conditions and limitations.

Under the Puerto Rico Internal Revenue Code of 2011, as amended (the “2011 PR Code”), the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns and, thus, the Corporation is not able to utilize losses from one subsidiary to offset gains in another subsidiary. Accordingly, in order to obtain a tax benefit from a net operating loss (“NOL”), a particular subsidiary must be able to demonstrate sufficient taxable income within the applicable NOL carry forward period. The 2011 PR Code provides a dividend received deduction of 100% on dividends received from “controlled” subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

The Corporation has maintained an effective tax rate lower than the maximum statutory rate in Puerto Rico mainly by investing in government obligations and mortgage-backed securities exempt from U.S. and Puerto Rico income taxes and by doing business through an International Banking Entity (“IBE”) unit of the Bank, and through the Bank’s subsidiary, FirstBank Overseas Corporation, whose interest income and gain on sales is exempt from Puerto Rico

Supplemental cash flow information is as follows:

income taxation. The IBE and FirstBank Overseas Corporation were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by IBEs operating in Puerto Rico on the specific activities identified in the IBE Act. An IBE that operates as a unit of a bank pays income taxes at the corporate standard rates to the extent that the IBE's net income exceeds 20% of the bank's total net taxable income.

As of March 31, 2016, the deferred tax assets, net of a valuation allowance of \$197.0 million, amounted to \$307.6 million and management concluded, based upon the assessment of all positive and negative evidence, that it is more likely than not that the Corporation will generate sufficient taxable income within the applicable NOL carry-forward periods to realize such amount.

The Corporation recorded an income tax expense of \$5.7 million in the first quarter of 2016 compared to \$8.0 million for the quarter ended March 31, 2015. For the quarter ended March 31, 2016, the Corporation calculated the provision for income taxes by applying the estimated annual effective tax rate for the full fiscal year to ordinary income or loss. In the computation of the consolidated worldwide annual estimated effective tax rate, ASC 740-270 requires the exclusion of legal entities with pre-tax losses from which a tax benefit cannot be recognized. The consolidated worldwide estimated effective tax rate, excluding entities with pre-tax losses from which a tax benefit cannot be recognized, is 21% for the quarter ended on March 31, 2016 compared to 22% for the quarter ended on March 31, 2015. The effective tax rate including all entities for the first quarter of 2016 is 20%.

**FINANCIAL CONDITION AND OPERATING DATA ANALYSIS****Assets**

Total assets were \$12.7 billion, an increase of \$141.4 million from December 31, 2015. The increase was mainly due to a \$274.4 million increase in cash and cash equivalents primarily tied to an increase in demand deposits and proceeds from the repayment of certain large commercial loans during the first quarter of 2016, partially offset by a \$140.5 million decrease in total loans as further discussed below.

**Loan Portfolio**

The following table presents the composition of the Corporation's loan portfolio, including loans held for sale, as of the dates indicated:

		<b>March 31,</b>		<b>December 31,</b>	
	(In thousands)	<b>2016</b>		<b>2015</b>	
Residential mortgage loans	\$	3,330,945		\$	3,344,719
Commercial loans:					
Commercial mortgage loans		1,524,491			1,537,806
Construction loans		146,129			156,195
Commercial and Industrial loans		2,343,416			2,407,996
Total commercial loans		4,014,036			4,101,997
Finance leases		230,801			229,165
Consumer loans		1,555,560			1,597,984
Total loans held for investment		9,131,342			9,273,865
Less:					
Allowance for loan and lease losses		(238,125)			(240,710)
Total loans held for investment, net	\$	8,893,217		\$	9,033,155
Loans held for sale		37,868			35,869
Total loans, net	\$	8,931,085		\$	9,069,024

As of March 31, 2016, the Corporation's total loans held for investment, net of allowance, decreased by \$139.9 million, when compared to the balance as of December 31, 2015. The decline primarily reflects an \$88.0 million decrease in commercial and construction loans and a \$40.8 million decrease in consumer loans and finance leases. The decrease in commercial loans was driven by the repayment of two large commercial loans totaling \$94.3 million during the first quarter of 2016, and a \$17 million decrease in the floor plan lending portfolio, partially offset by a \$49.6 million increase in the commercial and construction loan portfolio in the Florida region.

As shown in the table above, as of March 31, 2016, the loans held for investment portfolio was comprised of commercial loans (44%), residential real estate loans (36%), and consumer and finance leases (20%). Of the total gross loan portfolio held for investment of \$9.1 billion as of March 31, 2016, approximately 80% has credit risk concentration in Puerto Rico, 13% in the United States (mainly in the state of Florida) and 7% in the Virgin Islands, as shown in the following table:

<b>As of March 31, 2016</b>	<b>Puerto Rico</b>		<b>Virgin Islands</b>		<b>United States</b>		<b>Total</b>	
	(In thousands)							
Residential mortgage loans	\$	2,562,348	\$	325,326	\$	443,271	\$	3,330,945
Commercial mortgage loans		1,200,153		71,948		252,390		1,524,491
Construction loans		61,178		61,756		23,195		146,129
Commercial and Industrial loans		1,815,470		113,612		414,334		2,343,416
Total commercial loans		3,076,801		247,316		689,919		4,014,036
Finance leases		230,801		-		-		230,801
Consumer loans		1,463,043		48,021		44,496		1,555,560
Total loans held for investment, gross	\$	7,332,993	\$	620,663	\$	1,177,686	\$	9,131,342
Loans held for sale		35,745		354		1,769		37,868
Total loans	\$	7,368,738	\$	621,017	\$	1,179,455	\$	9,169,210

<b>As of December 31, 2015</b>	<b>Puerto Rico</b>		<b>Virgin Islands</b>		<b>United States</b>		<b>Total</b>	
	(In thousands)							
Residential mortgage loans	\$	2,575,888	\$	327,976	\$	440,855	\$	3,344,719
Commercial mortgage loans		1,208,347		69,773		259,686		1,537,806
Construction loans		63,654		69,874		22,667		156,195
Commercial and Industrial loans		1,876,143		173,916		357,937		2,407,996

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Total commercial loans		3,148,144			313,563			640,290			4,101,997
Finance leases		229,165			-			-			229,165
Consumer loans		1,506,773			48,430			42,781			1,597,984
Total loans held for investment, gross	\$	7,459,970		\$	689,969		\$	1,123,926		\$	9,273,865
Loans held for sale		33,787			507			1,575			35,869
Total loans	\$	7,493,757		\$	690,476		\$	1,125,501		\$	9,309,734



### *Residential Real Estate Loans*

As of March 31, 2016, the Corporation's residential real estate loan portfolio held for investment decreased by \$13.8 million as compared to the balance as of December 31, 2015, mainly resulting from activities in Puerto Rico as principal repayments and charge-offs exceeded the volume of new loan originated and held for investment purposes.

The majority of the Corporation's outstanding balance of residential mortgage loans consists of fixed-rate, fully amortizing, full documentation loans. In accordance with the Corporation's underwriting guidelines, residential real estate loans are mostly fully documented loans, and the Corporation does not generally originate negative amortization loans. Refer to "Contractual Obligations and Commitments" below for additional information about outstanding commitments to sell mortgage loans.

### *Commercial and Construction Loans*

As of March 31, 2016, the Corporation's commercial and construction loan portfolio held for investment decreased by \$88.0 million, as compared to the balance as of December 31, 2015. The reduction primarily reflects the aforementioned repayment of two large loans totaling \$94.3 million comprised of a \$60.0 million credit facility of a government-related facility in the Virgin Islands and a \$34.3 million commercial credit facility in Puerto Rico.

As of March 31, 2016, the Corporation had \$315.6 million of credit facilities, excluding investment securities, extended to the Puerto Rico Government, its municipalities and public corporations, of which \$302.2 million was outstanding (book value of \$297.2 million), compared to \$314.6 million outstanding as of December 31, 2015. Approximately \$199.3 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico whose revenues are independent of the Puerto Rico central government. The good faith, credit and unlimited taxing power of the applicable municipality have been pledged to the repayment of the municipality's loans. Approximately 88% of the Corporation's municipality exposure consists primarily of senior priority loans concentrated on five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as are required for the payment of all of their respective general obligation bonds and loans. Late in 2015, GDB and the Municipal Revenue Collection Center (CRIM) signed a deed of trust. Through this deed, GDB, as fiduciary, is bound to keep the CRIM funds separate from any other deposits and must distribute the funds pursuant to the applicable law. In addition to municipalities, loans extended to the Puerto Rico Government include \$6.9 million of loans to units of the Puerto Rico central government, and approximately \$96.0 million (\$91.0 million book value) consisted of loans to public corporations, including a direct exposure to PREPA with a book value of \$69.7 million as of March 31, 2016. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015 and interest payments are recorded on a cost-recovery basis.

Furthermore, as of March 31, 2016, the Corporation had \$128.6 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and the operations of the underlying collateral are the primary sources of repayment and the TDF provides a secondary guarantee for payment performance, compared to \$129.4 million as of December 31, 2015. These loans were placed in non-accrual status and classified as impaired in the first quarter of 2016. Recent developments related to the Puerto Rico government's fiscal situation introduced additional uncertainty regarding TDF's ability to honor its guarantee, including the enactment of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, which gives Puerto Rico's governor emergency powers to deal with Puerto Rico's challenging fiscal situation, including the ability to declare a moratorium on all bonds and other payments. Puerto Rico's governor also issued an executive order intended to protect the GDB's liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services. These loans were current on contractual payments as of March 31, 2016. Prospectively, principal and interest collections will be applied against the outstanding balance of the loans. The Corporation has been receiving combined payments from the borrowers and TDF as guarantor sufficient to cover contractual payments on these loans, including collections of principal and interest from TDF of \$0.6 million in the first quarter of 2016 and \$5.3 million in the entire year 2015. These loans have been adversely classified since the third quarter of 2015.

The general reserve for commercial loans was increased in the fourth quarter of 2015 due to qualitative factors that stressed the historical loss rates applied to the Puerto Rico Government-related exposure, including the TDF-guaranteed portfolio. The migration of the loans guaranteed by the TDF to non-accrual status and impaired classification in the first quarter of 2016 did not result in a significant increase to the total allowance for loan losses. As of March 31, 2016, the total reserve coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 20%.

As of March 31, 2016, the Corporation's total exposure to shared national credit ("SNC") loans amounted to \$752.7 million, compared to \$603.1 million as of December 31, 2015. As of March 31, 2016, approximately \$505.3 million of the SNC exposure is in Puerto Rico, including the \$69.7 million book value of the PREPA credit facility and \$74.1 million of the loans guaranteed by the TDF.

The Corporation has significantly reduced its exposure to construction loans and current originations are mainly draws from existing commitments.

The composition of the Corporation's construction loan portfolio held for investment as of March 31, 2016 by category and geographic location follows:

<b>As of March 31, 2016</b>										
		<b>Puerto Rico</b>		<b>Virgin Islands</b>		<b>United States</b>				<b>Total</b>
(In thousands)										
Loans for residential housing projects:										
Mid-rise (1)	\$	748	\$	3,987	\$	-	\$	4,735		
Single-family, detached		5,580		-		5,332		10,912		
<b>Total for residential housing projects</b>		<b>6,328</b>		<b>3,987</b>		<b>5,332</b>		<b>15,647</b>		
Construction loans to individuals secured by residential properties		937		1,569		-		2,506		
Loans for commercial projects		23,789		39,765		17,694		81,248		
Bridge loans - commercial		-		12,840		-		12,840		
Land loans - residential		18,616		3,651		169		22,436		
Land loans - commercial		11,612		-		-		11,612		
Total before net deferred fees and allowance for loan losses	\$	61,282	\$	61,812	\$	23,195	\$	146,289		
Net deferred fees		(104)		(56)		-		(160)		
Total construction loan portfolio, gross		61,178		61,756		23,195		146,129		
Allowance for loan losses		(2,343)		(641)		(29)		(3,013)		
<b>Total construction loan portfolio, net</b>	<b>\$</b>	<b>58,835</b>	<b>\$</b>	<b>61,115</b>	<b>\$</b>	<b>23,166</b>	<b>\$</b>	<b>143,116</b>		
(1)	Mid-rise relates to buildings of up to 7 stories.									

The following table presents further information related to the Corporation's construction portfolio as of and for the quarter ended March 31, 2016:

(In thousands)			
Total undisbursed funds under existing commitments	\$		62,639
Construction loans held for investment in non-accrual status	\$		54,036
Construction loans held for sale in non-accrual status	\$		8,079
Net charge offs - Construction loans	\$		74
Allowance for loan losses - Construction loans	\$		3,013

Supplemental cash flow information is as follows:

	Non-performing construction loans to total construction loans, including held for sale		40.28%
	Allowance for loan losses - construction loans to total construction loans held for investments		2.06%
	Net charge-offs (annualized) to total average construction loans		0.18%

The following summarizes the construction loans for residential housing projects in Puerto Rico segregated by the estimated selling price of the units:			
			(In thousands)
	Under \$300k	\$	3,787
	Over \$600k (1)		2,541
		\$	6,328
(1)	One residential housing project in Puerto Rico.		

*Consumer Loans and Finance Leases*

As of March 31, 2016, the Corporation's consumer loan and finance lease portfolio decreased by \$40.8 million to \$1.8 billion, as compared to the portfolio balance as of December 31, 2015. The decrease was mainly the result of charge-offs and repayments that exceeded the volume of new originations. The auto and finance lease portfolio decreased by \$29.0 million during the first quarter of 2016 reflecting repayments, charge-offs and a reduced activity in new loan originations. The auto loan and finance lease portfolios in Puerto Rico amounted to \$858.6 million and \$230.8 million, respectively, as of March 31, 2016, compared to \$891.0 million and \$229.2 million, respectively, as of December 31, 2015. The remaining decrease in the consumer loan portfolio was primarily related to an \$8.0 million decline in the credit card loan portfolio balance and a \$3.2 million decrease in boat financings.

**Loan Production**

First BanCorp. relies primarily on its retail network of branches to originate residential and consumer loans. The Corporation supplements its residential mortgage originations with wholesale servicing released mortgage loan purchases from mortgage bankers. The Corporation manages its construction and commercial loan originations through centralized units and most of its originations come from existing customers as well as through referrals and direct solicitations.

The following table provides a breakdown of First BanCorp.'s loan production, including purchases, refinancings, renewals and draws from existing revolving and nonrevolving commitments, for the periods indicated:											
		<b>Quarter Ended March 31,</b>									
		<b>2016</b>		<b>2015</b>							
		(In thousands)									
Residential real estate	\$	164,220		\$	152,675						
C&I and commercial mortgage		345,246			394,762						
Construction		3,033			9,424						
Finance leases		21,943			19,656						
Consumer		185,514			189,537						
Total loan production	\$	719,956		\$	766,054						

The Corporation is experiencing continued loan demand and has continued its targeted origination strategy. During the first quarter of 2016, total loan originations, including purchases, refinancings and draws from existing revolving and non-revolving commitments, amounted to approximately \$720.0 million, compared to \$766.1 million for the comparable period in 2015. The statistics for 2015 exclude the \$324.8 million of loans acquired from Doral Bank in

Supplemental cash flow information is as follows:

February 2015.

Residential mortgage loan originations and purchases amounted to \$164.2 million for the first quarter of 2016 compared to \$152.7 million for the first quarter of 2015. The higher volume of loan originations includes an increase of \$21.4 million in Puerto Rico, mainly refinancings and conforming loan originations, partially offset by decreases of \$5.4 million and \$4.4 million in residential mortgage loan originations in Florida and Virgin Islands, respectively.

Commercial and construction loan originations (excluding government loans) amounted to \$336.5 million for the first quarter of 2016 compared to \$384.8 million for the first quarter of 2015. The decrease was primarily reflected in the Puerto Rico region, which reflects a decline of \$87.5 million, partially offset by an increase of \$44.6 million in the Florida region.

Government loan originations amounted to \$11.8 million for the first quarter of 2016 compared to \$19.4 million for the first quarter of 2015. The decrease was driven by the reduced draws in existing commercial credit facilities granted to the Commonwealth of Puerto Rico central government and instrumentalities.

Originations of auto loans (including finance leases) amounted to \$86.2 million for the first quarter of 2016 compared to \$89.2 million for the first quarter of 2015 and other personal loan originations amounted to \$46.8 million, compared to \$42.9 million for the first quarter of 2015. The prolonged economic recession in Puerto Rico continues to put pressure in the activity of new auto sales. The total loan originations include the utilization activity on outstanding credit cards portfolio of approximately \$74.5 million for the first quarter of 2016 compared to \$77.1 million for the comparable period in 2015.

### **Investment Activities**

As part of its liquidity, revenue diversification and interest rate risk strategies, First BanCorp. maintains an investment portfolio that is classified as available for sale. The Corporation's total available-for-sale investment securities portfolio as of March 31, 2016 amounted to \$1.9 billion, an increase of \$17.9 million from December 31, 2015. The increases were mainly due to a \$24.6 million increase in the fair value of U.S. agency MBS and debt securities and purchases of approximately \$56.6 million (\$42.7 million of U.S.

agency MBS and \$13.9 million of SBA Guaranteed Loan Pool securities), partially offset by U.S. agency MBS prepayment of \$50.8 million in the quarter and a \$10.0 million U.S. agency note called prior to maturity.

Approximately 97% of the Corporation's available-for-sale securities portfolio is invested in U.S. Government and Agency debentures and fixed-rate U.S. government sponsored-agency MBS (mainly GNMA, FNMA and FHLMC fixed-rate securities).

As mentioned above, during the first quarter of 2016, the Corporation recorded a \$6.3 million OTTI charge on three Puerto Rico Government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the GDB and the Puerto Rico Public Buildings Authority. This is the third OTTI charge on these securities recorded since June 30, 2015, as OTTI charges of \$12.9 million and \$3.0 million were booked in the second and fourth quarters of 2015. As of March 31, 2016, the Corporation owns Puerto Rico Government debt securities in the aggregate amortized cost of \$43.4 million (net of the \$22.2 million OTTI aggregate charges taken on these securities), recorded on its books at a fair value of \$26.4 million.

The following table presents the carrying value of investments as of the indicated dates:							
		As of			As of		
		March 31,			December 31,		
		2016			2015		
		(In thousands)					
Money market investments	\$		213,093		\$	219,473	
Investment securities available for sale, at fair value:							
U.S. Government and agencies obligations			475,549			460,558	
Puerto Rico government obligations			26,448			28,217	
Mortgage-backed securities			1,401,744			1,397,520	
Other			514			100	
			1,904,255			1,886,395	
Other equity securities, including \$31.3 million of FHLB stock							
as of March 31, 2016 and December 31, 2015			32,310			32,169	
Total money market and investment securities	\$		2,149,658		\$	2,138,037	

Mortgage-backed securities as of the indicated dates consist of:					
	<b>As of</b>		<b>As of</b>		
	<b>March 31,</b>		<b>December 31,</b>		
(In thousands)	<b>2016</b>		<b>2015</b>		
Available for sale:					
FHLMC certificates	\$	281,897	\$	287,445	
GNMA certificates		286,423		301,573	
FNMA certificates		808,830		783,195	
Other mortgage pass-through certificates		24,594		25,307	
Total mortgage-backed securities	\$	1,401,744	\$	1,397,520	



The carrying values of investment securities classified as available for sale as of March 31, 2016 by contractual maturity (excluding mortgage-backed securities and equity securities) are shown below:				
(Dollars in thousands)		<b>Carrying Amount</b>		<b>Weighted Average Yield %</b>
U.S. Government and agencies obligations				
Due within one year	\$	14,636		0.68
Due after one year through five years		394,769		1.31
Due after five years through ten years		52,220		2.42
Due after ten years		13,924		0.84
		475,549		1.39
Puerto Rico Government obligations				
Due after one year through five years		9,922		4.38
Due after five years through ten years		856		5.20
Due after ten years		15,670		5.38
		26,448		4.88
Other Investment Securities				
Due after one year through five years		100		1.50
Total		502,097		1.69
Equity securities		414		-
Mortgage-backed securities		1,401,744		2.59
Total investment securities available for sale	\$	1,904,255		2.34

Net interest income of future periods could be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate. Conversely, acceleration of the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by the Corporation's investment in callable securities. As of March 31, 2016, the Corporation has approximately \$137.7 million in debt securities (U.S. Agencies and Puerto Rico government securities) with embedded calls and with an average yield of 1.77%. Refer to "Risk Management" below for further analysis of the effects of changing interest rates on the Corporation's net interest income and of the interest rate risk management strategies followed by the Corporation. Also refer to Note 4 to the accompanying unaudited consolidated financial statements for additional information regarding the Corporation's investment portfolio.

## **RISK MANAGEMENT**

Risks are inherent in virtually all aspects of the Corporation's business activities and operations. Consequently, effective risk management is fundamental to the success of the Corporation. The primary goals of risk management are to ensure that the Corporation's risk-taking activities are consistent with the Corporation's objectives and risk tolerance, and that there is an appropriate balance between risk and reward in order to maximize stockholder value.

The Corporation has in place a risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities. First BanCorp.'s business is subject to eleven broad categories of risks: (1) liquidity risk; (2) interest rate risk; (3) market risk; (4) credit risk; (5) operational risk; (6) legal and compliance risk; (7) reputational risk; (8) model risk; (9) capital risk; (10) strategic risk; and (11) information technology risk. First BanCorp. has adopted policies and procedures designed to identify and manage the risks to which the Corporation is exposed.

The Corporation's risk management policies are described below as well as in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of First BanCorp.'s 2015 Annual Report on Form 10-K.

## Liquidity Risk and Capital Adequacy

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs for liquidity and accommodate fluctuations in asset and liability levels due to changes in the Corporation's business operations or unanticipated events.

The Corporation manages liquidity at two levels. The first is the liquidity of the parent company, which is the holding company that owns the banking and non-banking subsidiaries. The second is the liquidity of the banking subsidiary. As of March 31, 2016, FirstBank could not pay any dividend to the parent company except upon receipt of prior approval by the New York FED and the Federal Reserve Board because of the Written Agreement.

The Asset and Liability Committee of the Board of Directors is responsible for establishing the Corporation's liquidity policy as well as approving operating and contingency procedures, and monitoring liquidity on an ongoing basis. The Management Investment and Asset Liability Committee ("MIALCO"), using measures of liquidity developed by management, which involve the use of several assumptions, reviews the Corporation's liquidity position on a monthly basis. The MIALCO oversees liquidity management, interest rate risk and other related matters.

The MIALCO, which reports to the Board of Directors' Asset and Liability Committee, is composed of senior management officers, including the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Retail Financial Services Director, the Risk Manager of the Treasury and Investments Division, the Financial Analysis and Asset/Liability Director and the Treasurer. The Treasury and Investments Division is responsible for planning and executing the Corporation's funding activities and strategy, monitoring liquidity availability on a daily basis and reviewing liquidity measures on a weekly basis. The Treasury and Investments Accounting and Operations area of the Comptroller's Department is responsible for calculating the liquidity measurements used by the Treasury and Investment Division to review the Corporation's liquidity position on a monthly basis; the Financial Analysis and Asset/Liability Director estimates the liquidity gap for longer periods.

In order to ensure adequate liquidity through the full range of potential operating environments and market conditions, the Corporation conducts its liquidity management and business activities in a manner that will preserve and enhance funding stability, flexibility and diversity. Key components of this operating strategy include a strong focus on the continued development of customer-based funding, the maintenance of direct relationships with wholesale market funding providers, and the maintenance of the ability to liquidate certain assets when, and if, requirements warrant.

The Corporation develops and maintains contingency funding plans. These plans evaluate the Corporation's liquidity position under various operating circumstances and are design to help ensure that the Corporation will be able to operate through periods of stress when access to normal sources of funds is constrained. The plans project funding requirements during a potential period of stress, specify and quantify sources of liquidity, outline actions and procedures for effectively managing through a difficult period, and define roles and responsibilities. Under the contingency funding plan, the Corporation stresses the balance sheet and the liquidity position to critical levels that imply difficulties in getting new funds or even maintaining the current funding position of the Corporation and the Bank and are designed to help ensure the ability of the Corporation and the Bank to honor its respective commitments, and establish liquidity triggers monitored by the MIALCO in order to maintain the ordinary funding of the banking business. Four different scenarios are defined in the contingency funding plan: local market event, credit rating downgrade, an economic cycle downturn event, and a concentration event. They are reviewed and approved annually by the Board of Directors' Asset and Liability Committee.

The Corporation manages its liquidity in a proactive manner, and maintains a sound liquidity position. Multiple measures are utilized to monitor the Corporation's liquidity position, including core liquidity, basic liquidity, and time-based reserve measures. As of March 31, 2016, the estimated core liquidity reserve (which includes cash and free liquid assets) was \$1.8 billion or 14.1% of total assets, compared to \$1.5 billion or 12.3% of total assets as of December 31, 2015. The basic liquidity ratio (which adds available secured lines of credit to the core liquidity) was approximately 19.0% of total assets, compared to 17.4% of total assets as of December 31, 2015. As of March 31, 2016, the Corporation had \$617.8 million available for additional credit from the FHLB NY. Unpledged liquid securities as of March 31, 2016, mainly fixed-rate MBS and U.S. agency debentures, amounted to approximately \$584.6 million. The Corporation does not rely on uncommitted inter-bank lines of credit (federal funds lines) to fund its operations and does not include them in the basic liquidity measure. As of March 31, 2016, the holding company had \$34.6 million of cash and cash equivalents. Cash and cash equivalents at the Bank level as of March 31, 2016 were approximately \$1.0 billion. The Bank has \$2.0 billion in brokered CDs as of March 31, 2016, of which approximately \$1.2 billion mature over the next twelve months. Liquidity at the Bank level is highly dependent on bank deposits, which fund 75% of the Bank's assets (or 59% excluding brokered CDs).

#### *Sources of Funding*

The Corporation utilizes different sources of funding to help ensure that adequate levels of liquidity are available when needed. Diversification of funding sources is of great importance to protect the Corporation's liquidity from market disruptions. The principal

sources of short-term funds are deposits, including brokered CDs, securities sold under agreements to repurchase, and lines of credit with the FHLB.

The Asset Liability Committee of the Board of Directors reviews credit availability on a regular basis. The Corporation has also sold mortgage loans as a supplementary source of funding. Long-term funding has also been obtained in the past through the issuance of notes and long-term brokered CDs. The cost of these different alternatives, among other things, is taken into consideration.

The Corporation has continued reducing the amounts of brokered CDs. As of March 31, 2016, the amount of brokered CDs had decreased \$91.2 million to \$2.0 billion from brokered CDs of \$2.1 billion as of December 31, 2015. At the same time as the Corporation focuses on reducing its reliance on brokered CDs, it is seeking to add core deposits. During the first quarter of 2016, the Corporation increased non-brokered deposits, excluding government deposits, by \$137.1 million to \$6.8 billion, primarily reflecting increases in demand deposits and savings in both Puerto Rico and the Virgin Islands.

The Corporation continues to have the support of creditors, including counterparties to repurchase agreements, the FHLB, and other agents such as wholesale funding brokers. While liquidity is an ongoing challenge for all financial institutions, management believes that the Corporation's available borrowing capacity and efforts to grow retail deposits will be adequate to provide the necessary funding for the Corporation's business plans in the foreseeable future.

The Corporation's principal sources of funding are:

*Brokered CDs* – A large portion of the Corporation's funding has been retail brokered CDs issued by FirstBank. Total brokered CDs decreased during the first quarter of 2016 by \$91.2 million to \$2.0 billion as of March 31, 2016.

The average remaining term to maturity of the retail brokered CD outstanding as of March 31, 2016 is approximately 1.1 years.

The use of brokered CDs has been particularly important for the growth of the Corporation. The Corporation encounters intense competition in attracting and retaining regular retail deposits in Puerto Rico. The brokered CD market is very competitive and liquid, and has enabled the Corporation to obtain substantial amounts of funding in short periods of time. This strategy has enhanced the Corporation's liquidity position, since brokered CDs are insured by the FDIC up to regulatory limits and can be obtained faster than regular retail deposits. During the first quarter of

Supplemental cash flow information is as follows:

2016, the Corporation issued \$207.2 million in brokered CDs with an average cost of 1.23% (average life of 2 years).

The following table presents a maturity summary of brokered CDs as of March 31, 2016:			
			<b>Total</b>
			<b>(In thousands)</b>
	Three months or less	\$	254,484
	Over three months to six months		379,095
	Over six months to one year		612,755
	One to three years		700,558
	Three to five years		58,719
	Over five years		702
	<b>Total</b>	<b>\$</b>	<b>2,006,313</b>

Certificates of deposit in denominations of \$100,000 or higher include brokered CDs of \$2.0 billion issued to deposit brokers in the form of large (\$100,000 or more) certificates of deposit that are generally participated out by brokers in shares of less than \$100,000 and are therefore insured by the FDIC.

*Government deposits* – As of March 31, 2016, the Corporation had \$416.5 million of Puerto Rico public sector deposits (\$362.1 million in transactional accounts and \$54.4 million in time deposits) compared to \$390.4 million as of December 31, 2015. Approximately 33% came from municipalities and 67% came from public corporations and the central government and agencies.

In addition, as of March 31, 2016, the Corporation had \$211.5 million of government deposits in the Virgin Islands, compared to \$186.9 million as of December 31, 2015.

*Retail deposits* – The Corporation's deposit products also include regular savings accounts, demand deposit accounts, money market accounts and retail CDs. Total deposits, excluding brokered CDs and government deposits, increased by \$137.1 million to \$6.8 billion from the balance of \$6.7 billion as of December 31, 2015. The higher balance reflects increases of \$156.9 million and \$44.6 million

in Puerto Rico and the Virgin Islands regions, respectively, primarily increases in demand deposits and savings. These increases were partially offset by a \$64.4 million decrease in the Florida region. Refer to Note 14 in the accompanying unaudited consolidated financial statements for further details.

Refer to the “Net Interest Income” above for information about average balances of interest-bearing deposits, and the average interest rate paid on deposits for the quarters ended March 31, 2016 and 2015.

*Securities sold under agreements to repurchase* - The Corporation’s investment portfolio is funded in part with repurchase agreements. The Corporation’s outstanding securities sold under repurchase agreements amounted to \$900 million as of March 31, 2016 and December 31, 2015. One of the Corporation’s strategies has been the use of structured repurchase agreements and long-term repurchase agreements to reduce liquidity risk and manage exposure to interest rate risk by lengthening the final maturities of its liabilities while keeping funding costs at reasonable levels. In addition to these repurchase agreements, the Corporation has been able to maintain access to credit by using cost-effective sources such as FHLB advances. Refer to Note 15 in the Corporation’s unaudited consolidated financial statements for the quarter ended March 31, 2016 for further details about repurchase agreements outstanding by counterparty and maturities.

In 2015, the Corporation entered into \$200 million of reverse repurchase agreements with a counterparty under a master netting arrangement that provides for a right of setoff that meets the conditions of ASC 210-20-45-11. These repurchase agreements and reverse repurchase agreements are presented net on the consolidated statement of financial condition.

Under the Corporation’s repurchase agreements, as is the case with derivative contracts, the Corporation is required to pledge cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines due to changes in interest rates, a liquidity crisis or any other factor, the Corporation is required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity.

Given the quality of the collateral pledged, the Corporation has not experienced margin calls from counterparties arising from credit-quality-related write-downs in valuations.

*Advances from the FHLB* – The Bank is a member of the FHLB system and obtains advances to fund its operations under a collateral agreement with the FHLB that requires the Bank to maintain qualifying mortgages and/or investments as collateral for advances taken. As of March 31, 2016 and December 31, 2015, the outstanding balance of FHLB advances was \$455.0 million. As of March 31, 2016, the Corporation had \$617.8 million available for additional credit on FHLB lines of credit.

*Trust-Preferred Securities* – In 2004, FBP Statutory Trust I, a statutory trust that is wholly owned by the Corporation and not consolidated in the Corporation's financial statements, sold to institutional investors \$100 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of \$3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase \$103.1 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures.

Also in 2004, FBP Statutory Trust II, a statutory trust that is wholly owned by the Corporation and not consolidated in the Corporation's financial statements, sold to institutional investors \$125 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of \$3.9 million of FBP Statutory Trust II variable rate common securities, were used by FBP Statutory Trust II to purchase \$128.9 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures.

The trust-preferred debentures are presented in the Corporation's consolidated statement of financial condition as Other Borrowings. The variable rate trust-preferred securities are fully and unconditionally guaranteed by the Corporation. The \$100 million Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and the \$125 million issued in September 2004 mature on June 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust-preferred securities). The Collins Amendment of the Dodd-Frank Act eliminated certain trust-preferred securities from Tier 1 Capital. Bank Holding Companies such as the Corporation were required to fully phase out these instruments from Tier I capital in January 1, 2016; however, they may remain in Tier 2 capital until the instruments are redeemed or mature.

As mentioned above, during the first quarter of 2016, the Corporation completed the repurchase of trust preferred securities that were being auctioned in a public sale at which the Corporation was invited to participate. The Corporation repurchased and cancelled \$10 million in trust preferred securities of the FBP Statutory Trust II, resulting in a commensurate reduction in the related subordinated debenture. The Corporation's winning bid equated to 70% of the \$10 million par value. The 30% discount, plus accrued interest, resulted in a pre-tax gain of approximately \$4.2 million. As of March 31, 2016, the Corporation still has subordinated debentures outstanding in the aggregate amount of \$216.2 million.



With respect to the outstanding subordinated debentures, the Corporation has deferred the interest payments that were due in quarterly periods since March 2012. The aggregate amount of payments deferred and accrued approximates \$29.4 million as of March 31, 2016. Under the indentures, we have the right, from time to time, and without causing an event of default, to defer payments of interest on the subordinated debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. Future interest payments are subject to Federal Reserve approval.

The Corporation's principal uses of funds are for the origination of loans and the repayment of maturing deposits and borrowings. The ratio of residential real estate loans to total loans has increased over time. Commensurate with the increase in its mortgage banking activities, the Corporation has also invested in technology and personnel to enhance the Corporation's secondary mortgage market capabilities.

The enhanced capabilities improve the Corporation's liquidity profile as they allow the Corporation to derive liquidity, if needed, from the sale of mortgage loans in the secondary market. The U.S. (including Puerto Rico) secondary mortgage market is still highly liquid, in large part because of the sale of mortgages through guarantee programs of the FHA, VA, HUD, FNMA and FHLMC. During the first quarter of 2016, the Corporation sold approximately \$67.7 million of FHA/VA mortgage loans to GNMA, which packages them into mortgage-backed securities. Any regulatory actions affecting GNMA, FNMA or FHLMC could adversely affect the secondary mortgage market.

Though currently not in use, other potential sources of short-term funding for the Corporation include commercial paper and federal funds purchased. Furthermore, in previous years, the Corporation entered into several financing transactions to diversify its funding sources, including the issuance of notes payable and junior subordinated debentures as part of its longer-term liquidity and capital management activities. No assurance can be given that these sources of liquidity will be available in the future and, if available, will be on comparable terms.

#### *Impact of Credit Ratings on Access to Liquidity*

The Corporation's liquidity is contingent upon its ability to obtain external sources of funding to finance its operations. The Corporation's current credit ratings and any downgrade in credit ratings can hinder the Corporation's access to new forms of external funding and/or cause external funding to be more expensive, which could in turn adversely affect results of operations. Also, changes in credit ratings may further affect the fair value of unsecured derivatives that consider the Corporation's own credit risk as part of the valuation.

The Corporation does not have any outstanding debt or derivative agreements that would be affected by credit downgrades. Furthermore, given our non-reliance on corporate debt or other instruments directly linked in terms of pricing or volume to credit ratings, the liquidity of the Corporation so far has not been affected in any material way by downgrades. The Corporation's ability to access new non-deposit sources of funding, however, could be adversely affected by credit downgrades.

The Corporation's credit as a long-term issuer is currently rated B+ by S&P and B- by Fitch. At the FirstBank subsidiary level, long-term issuer ratings are currently B3 by Moody's, six notches below their definition of investment grade, B+ by S&P, four notches below their definition of investment grade, and B- by Fitch, six notches below their definition of investment grade.

### *Cash Flows*

Cash and cash equivalents were \$1.0 billion as of March 31, 2016, an increase of \$274.4 million when compared to the balance as of December 31, 2015. The following discussion highlights the major activities and transactions that affected the Corporation's cash flows during the first quarter of 2016 and 2015.

#### *Cash Flows from Operating Activities*

First BanCorp.'s operating assets and liabilities vary significantly in the normal course of business due to the amount and timing of cash flows. Management believes cash flows from operations, available cash balances and the Corporation's ability to generate cash through short- and long-term borrowings will be sufficient to fund the Corporation's operating liquidity needs.

For the first quarter of 2016 and 2015, net cash provided by operating activities was \$54.3 million and \$75.5 million, respectively. Net cash generated from operating activities was higher than reported net income largely as a result of adjustments for operating items such as the provision for loan and lease losses, depreciation and amortization, and impairments as well as the cash generated from sales of loans held for sale.

#### *Cash Flows from Investing Activities*

The Corporation's investing activities primarily relate to originating loans to be held for investment and purchasing, selling and repayments of available-for-sale investment securities. For the quarter ended March 31, 2016, net cash provided by investing activities was \$131.5 million, primarily reflecting principal repayments on loans held for investment and available-for-sale mortgage-backed securities.

For the first quarter of 2015, net cash provided by investing activities was \$280.0 million, primarily reflecting the net cash received from the FDIC in the Doral Bank transaction completed in February 2015.

#### *Cash Flows from Financing Activities*

The Corporation's financing activities primarily include the receipt of deposits and the issuance of brokered CDs, the issuance and payments of long-term debt, the issuance of equity instruments and activities related to its short-term funding. For the first quarter of 2016, net cash provided by financing activities was \$88.6 million, mainly reflecting the effect of the increase in non-brokered deposits, partially offset by the cash used for the repurchase and cancellation of trust preferred securities and the repayments of maturing brokered CDs.

In the first quarter of 2015, net cash used in financing activities was \$167.2 million, mainly due to the repayments of maturing brokered CDs, partially offset by the organic increase in non-brokered deposits.

### **Capital**

As of March 31, 2016, the Corporation's stockholders' equity was \$1.7 billion, an increase of \$55.0 million from December 31, 2015. The increase was mainly driven by net income of \$23.3 million for the first quarter of 2016 and a \$24.6 million increase in the fair value of available-for-sale U.S. agency MBS and debt securities recorded as part of other comprehensive income. As a result of the Written Agreement with the New York FED, currently neither First BanCorp., nor FirstBank, is permitted to pay dividends on capital securities without prior approval.

Supplemental cash flow information is as follows:



Set forth below are First BanCorp.'s and FirstBank's regulatory capital ratios as of March 31, 2016 and December 31, 2015:							
<b>Banking Subsidiary</b>							
	<b>First BanCorp</b>			<b>FirstBank</b>			<b>To be well capitalized</b>
		<b>Fully</b>			<b>Fully</b>		
	<b>Actual</b>	<b>Phased-in</b>		<b>Actual</b>	<b>Phased-in</b>		
<b>As of March 31, 2016</b>		<b>(1)</b>			<b>(1)</b>		
Total capital ratio (Total capital to risk-weighted assets)	20.17%	19.65%		19.97%	19.46%		10.00%
Common Equity Tier 1 capital ratio							
(Common equity Tier 1 capital to risk weighted assets)	16.60%	15.75%		16.15%	14.89%		6.50%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	16.60%	16.14%		18.70%	18.19%		8.00%
Leverage ratio	12.20%	12.13%		13.75%	13.69%		5.00%
<b>Banking Subsidiary</b>							
	<b>First BanCorp</b>			<b>FirstBank</b>			<b>To be well capitalized</b>
		<b>Fully</b>			<b>Fully</b>		
	<b>Actual</b>	<b>Phased-in</b>		<b>Actual</b>	<b>Phased-in</b>		
<b>As of December 31, 2015</b>		<b>(1)</b>			<b>(1)</b>		
Total capital (Total capital to risk-weighted assets)	20.01%	19.44%		19.73%	19.18%		10.00%
Common Equity Tier 1 capital ratio							
(Common equity Tier 1 capital to risk weighted assets)	16.92%	15.44%		16.35%	14.61%		6.50%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	16.92%	15.83%		18.45%	17.91%		8.00%
Leverage ratio	12.22%	11.69%		13.33%	13.24%		5.00%
(1) Certain adjustments required under the Basel III rules will be phased in through the end of 2018. The ratios shown in this column are calculated							
assuming a fully phased-in basis of all such adjustments as if they were effective as of March 31, 2016 and December 31, 2015.							

The decrease in common equity Tier 1 capital, Tier 1 capital and leverage ratios of FirstBanCorp. and the decrease in the common equity Tier 1 capital of FirstBank during the first quarter of 2016 reflects the transitional effects of the Basel III rules related to deferred tax assets that arise from NOLs and tax credit carryforwards and, for FirstBanCorp., also reflects the effect of the phase out of trust preferred securities from Tier 1 capital.

Although the Corporation and FirstBank became subject to the Basel III rules beginning on January 1, 2015, certain requirements of the Basel III rules will be phased in over several years. The phase-in period for certain deductions and adjustments to regulatory capital (such as certain intangible assets and deferred tax assets that arise from net operating losses and tax credit carryforwards) will be completed on January 1, 2018. The Corporation and FirstBank compute risk-weighted assets using the Standardized Approach required by the Basel III rules.

The Basel III rules require the Corporation to maintain an additional capital conservation buffer of 2.5% to avoid limitations on both (i) capital distributions (e.g., repurchases of capital instruments or dividend or interest payments on capital instruments), and (ii) discretionary bonus payments to executive officers and heads of major business lines. The phase-in of the capital conservation buffer began on January 1, 2016 with a first year requirement of 0.625% of additional Common Equity Tier 1 capital ("CET1"), which will be progressively increased over a four-year period, increasing by that same percentage amount on each subsequent January 1 until it reaches the fully phased-in 2.5% CET1 requirement on January 1, 2019.

Under the fully phased-in rules, the Corporation will be required to maintain: (i) a minimum CET1 capital to risk-weighted assets ratio of at least 4.5%, plus the 2.5% "capital conservation buffer," resulting in a required minimum CET1 ratio of at least 7%, (ii) a minimum ratio of total Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum Tier 1 capital ratio of 8.5%, (iii) a minimum ratio of total Tier 1 plus Tier 2 capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum total capital ratio of 10.5%, and (iv) a required minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average on-balance sheet (non-risk adjusted) assets.

In addition, as required under Basel III rules, the Corporation's trust preferred securities ("TRuPs") were fully phased out from Tier 1 capital on January 1, 2016. However, the Corporation's TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature.

The tangible common equity ratio and tangible book value per common share are non-GAAP financial measures generally used by the financial community to evaluate capital adequacy. Tangible common equity is total equity less preferred equity, goodwill, core deposit

intangibles, purchased credit card relationship and insurance customer relationship intangible assets. Tangible assets are total assets less goodwill, core deposit intangibles, purchased credit card relationship and insurance customer relationship intangible assets. Refer to “Basis of Presentation” below for additional information.

The following table is a reconciliation of the Corporation’s tangible common equity and tangible assets as of March 31, 2016 and December 31, 2015, respectively:

	<b>March 31,</b>		<b>December 31,</b>	
(In thousands, except ratios and per share information)	<b>2016</b>		<b>2015</b>	
Total equity - GAAP	\$	1,749,167	\$	1,694,134
Preferred equity		(36,104)		(36,104)
Goodwill		(28,098)		(28,098)
Purchased credit card relationship intangible		(12,622)		(13,319)
Core deposit intangible		(8,674)		(9,166)
Insurance customer relationship intangible		(1,042)		-
<b>Tangible common equity</b>	<b>\$</b>	<b>1,662,627</b>	<b>\$</b>	<b>1,607,447</b>
Total assets - GAAP	\$	12,714,370	\$	12,573,019
Goodwill		(28,098)		(28,098)
Purchased credit card relationship intangible		(12,622)		(13,319)
Core deposit intangible		(8,674)		(9,166)
Insurance customer relationship intangible		(1,042)		-
<b>Tangible assets</b>	<b>\$</b>	<b>12,663,934</b>	<b>\$</b>	<b>12,522,436</b>
<b>Common shares outstanding</b>		<b>217,012</b>		<b>215,089</b>
<b>Tangible common equity ratio</b>		<b>13.13%</b>		<b>12.84%</b>
<b>Tangible book value per common share</b>	<b>\$</b>	<b>7.66</b>	<b>\$</b>	<b>7.47</b>

### Off -Balance Sheet Arrangements

In the ordinary course of business, the Corporation engages in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different from the full contract or notional amount of the transaction. These transactions are designed to (1) meet the financial needs of customers, (2) manage the Corporation’s credit, market or liquidity risks, (3) diversify the Corporation’s funding sources, and (4) optimize

Supplemental cash flow information is as follows:

capital.

As a provider of financial services, the Corporation routinely enters into commitments with off-balance-sheet risk to meet the financial needs of its customers. These financial instruments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval processes used for on-balance-sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. As of March 31, 2016, commitments to extend credit and commercial and financial standby letters of credit amounted to approximately \$1.2 billion (including \$644.2 million pertaining to credit card loans) and \$37.6 million, respectively. Commitments to extend credit are agreements to lend to customers as long as the conditions established in the contract are met. Generally, the Corporation does not enter into interest rate lock agreements with prospective borrowers in connection with its mortgage banking activities.



<b>Contractual Obligations and Commitments</b>										
The following table presents the maturities of the Corporation's contractual obligations and commitments, which consist of CDs, long-term contractual debt obligations, commitments to sell mortgage loans and commitments to extend credit:										
<b>Contractual Obligations and Commitments</b>										
<b>As of March 31, 2016</b>										
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>After 5 years</b>					
<b>(In thousands)</b>										
Contractual obligations:										
Certificates of deposit	\$ 4,381,661	\$ 2,634,792	\$ 1,545,249	\$ 199,468	\$ 2,152					
Securities sold under agreements to repurchase (1)	700,000	400,000	100,000	-	200,000					
Advances from FHLB	455,000	100,000	225,000	130,000	-					
Other borrowings	216,183	-	-	-	216,183					
<b>Total contractual obligations</b>	<b>\$ 5,752,844</b>	<b>\$ 3,134,792</b>	<b>\$ 1,870,249</b>	<b>\$ 329,468</b>	<b>\$ 418,335</b>					
Commitments to sell mortgage loans										
Standby letters of credit	\$ 83,638									
Commitments to extend credit:										
Lines of credit	\$ 1,112,752									
Letters of credit	34,043									
Construction undisbursed funds	62,639									
<b>Total commercial commitments</b>	<b>\$ 1,209,434</b>									
(1) Reported net of reverse repurchase agreement by counterparty, when applicable, pursuant to ASC 210-20-45-11.										

The Corporation has obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under other commitments to sell mortgage loans at fair value and to extend credit. Commitments to

extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Other contractual obligations result mainly from contracts for the rental and maintenance of equipment. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. There have been no significant or unexpected draws on existing commitments. In the case of credit cards and personal lines of credit, the Corporation can cancel the unused credit facility at any time and without cause.

### ***Interest Rate Risk Management***

First BanCorp. manages its asset/liability position in order to limit the effects of changes in interest rates on net interest income and to maintain stability of profitability under varying interest rate scenarios. The MIALCO oversees interest rate risk, and MIALCO meetings focus on, among other things, current and expected conditions in world financial markets, competition and prevailing rates in the local deposit market, liquidity, loan originations pipeline, securities market values, recent or proposed changes to the investment portfolio, alternative funding sources and related costs, hedging and the possible purchase of derivatives such as swaps and caps, and any tax or regulatory issues which may be pertinent to these areas. The MIALCO approves funding decisions in light of the Corporation's overall strategies and objectives.

On a quarterly basis, the Corporation performs a consolidated net interest income simulation analysis to estimate the potential change in future earnings from projected changes in interest rates. These simulations are carried out over a one-to-five-year time horizon, assuming upward and downward yield curve shifts. The rate scenarios considered in these simulations reflect gradual upward and downward interest rate movements of 200 basis points during a twelve-month period. Simulations are carried out in two ways:

- (1) Using a static balance sheet, as the Corporation had on the simulation date, and
- (2) Using a dynamic balance sheet based on recent patterns and current strategies.

The balance sheet is divided into groups of assets and liabilities detailed by maturity or re-pricing structure 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, deposit decay and other factors, which may be important in projecting net interest income.



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

These simulations are highly complex, and are based on many assumptions that are intended to reflect the general behavior of the balance sheet components over the period in question. It is unlikely that actual events will match these assumptions in most cases. For this reason, the results of these forward-looking computations are only approximations of the true sensitivity of net interest income to changes in market interest rates. Several benchmark and market rate curves were used in the modeling process, primarily the LIBOR/SWAP curve, Prime, U.S. Treasury, FHLB rates, brokered CD rates, repurchase agreements rates and the mortgage commitment rate of 30 years.

The 12-month net interest income is forecasted assuming the March 31, 2016 interest rate curves remain constant. Then, net interest income is estimated under rising and falling rate scenarios. For the rising rate scenario, a gradual (ramp) parallel upward shift of the yield curve is assumed during the first twelve months (the “+200 ramp” scenario). Conversely, for the falling rate scenarios, a gradual (ramp) parallel downward shift of the yield curves is assumed during the first twelve months (the “-200 ramp” scenario). However, given the current low levels of interest rates, a full downward shift of 200 basis points would represent an unrealistic scenario. Therefore, under the falling rate scenario, rates move downward up to 200 basis points, but without reaching zero. The resulting scenario shows interest rates close to zero in most cases, reflecting a flattening yield curve instead of a parallel downward scenario.

The Libor/Swap curve for March 2016, as compared to December 2015, reflected a 3 basis points increase in the short-term horizon, between one to twelve months, while market rates decreased by 47 basis points in the medium term, that is, between 2 to 5 years. In the long term, that is, over a 5-year-time horizon, market rates decreased by 54 basis points. The U.S. Treasury curve in the short-term decreased by 2 basis points and in the medium-term horizon decreased 50 basis points as compared to December 2015 end of month levels. The long-term horizon decreased by 45 basis points as compared to December 2015 end-of-month levels.

The following table presents the results of the simulations as of March 31, 2016 and December 31, 2015. Consistent with prior years, these exclude non-cash changes in the fair value of derivatives:											
March 31, 2016						December 31, 2015					
Net Interest Income Risk						Net Interest Income Risk					
(Projected for the next 12 months)						(Projected for the next 12 months)					
Static Simulation			Growing Balance Sheet			Static Simulation			Growing Balance Sheet		
(Dollars in millions)	Change	% Change	Change	% Change	Change	% Change	Change	% Change	Change	% Change	
+ 200 bps ramp	\$ 16.2	3.30 %	\$ 13.3	2.62 %	\$ 12.6	2.51 %	\$ 14.2	2.81 %			

Supplemental cash flow information is as follows:

- 200 bps ramp	\$	(5.9)		(1.20)	%	\$	(10.7)		(2.12)	%	\$	(7.8)		(1.55)	%	\$	(8.7)		(1.72)	%
-------------------	----	-------	--	--------	---	----	--------	--	--------	---	----	-------	--	--------	---	----	-------	--	--------	---

The Corporation continues to manage its balance sheet structure to control the overall interest rate risk. As part of the strategy to limit the interest rate risk, the Company has executed certain transactions that affected the simulation results. The composition of the loan portfolio has changed as compared to the previous quarter, primarily reflecting lower commercial and consumer loan balances, including the repayment of two large loans totaling approximately \$94.3 million. However, non-performing assets increased in the quarter by \$127.3 million, primarily attributable to the \$128.6 million exposure to commercial loans guaranteed by the TDF, which were placed on non-accrual status in the first quarter. The Corporation has continued reducing its holdings of brokered CDs, with a reduction of \$91.2 million during the first quarter. Total deposits, excluding brokered CDs and government deposits, increased in the quarter by \$137.1 million, primarily reflecting increases in demand deposits and savings in both Puerto Rico and the Virgin Islands.

Taking into consideration the above-mentioned facts for modeling purposes, the net interest income for the next twelve months under a non-static balance sheet scenario is estimated to increase by \$13.3 million in the rising rate scenario when compared against the Corporation's flat or unchanged interest rate forecast scenario. Under the falling rate, non-static scenario the net interest income is estimated to decrease \$10.7 million.

#### *Derivatives*

First BanCorp. uses derivative instruments and other strategies to manage its exposure to interest rate risk caused by changes in interest rates beyond management's control.

The following summarizes major strategies, including derivative activities, used by the Corporation in managing interest rate risk:

*Interest rate cap agreements* - Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Corporation enters into interest rate cap agreements for protection from rising interest rates.

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

For detailed information regarding the volume of derivative activities (e.g. notional amounts), location and fair values of derivative instruments in the Statement of Financial Condition and the amount of gains and losses reported in the Statement of Income, refer to Note 10 in the accompanying unaudited consolidated financial statements.

The following tables summarize the fair value changes in the Corporation’s derivatives as well as the sources of the fair values:					
	Asset Derivatives			Liability Derivatives	
	Quarter Ended			Quarter Ended	
(In thousands)	March 31, 2016			March 31, 2016	
Fair value of contracts outstanding at the beginning of the period	\$	806		\$	(921)
Changes in fair value during the period		(438)			285
Fair value of contracts outstanding as of March 31, 2016	\$	368		\$	(636)

Sources of Fair Value	Payment Due by Period										Maturity in Excess of 5 Years	Total Fair Value
	Maturity Less Than One Year		Maturity 1-3 Years		Maturity 3-5 Years							
(In thousands)												
<b>As of March 31, 2016</b>												
Pricing from observable market inputs -												
Asset Derivatives	\$	-	\$	5	\$	363	\$	-	\$	368		
Pricing from observable market inputs -												

Supplemental cash flow information is as follows:

Liability Derivatives				(272)		(5)		(359)		-		(636)
			\$	(272)	\$	-	\$	4	\$	-	\$	(268)

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

As of March 31, 2016 and December 31, 2015, all of the derivative instruments held by the Corporation were considered undesignated economic hedges.

The use of derivatives involves market and credit risk. The market risk of derivatives stems principally from the potential for changes in the value of derivative contracts based on changes in interest rates. The credit risk of derivatives arises from the potential of default of the counterparty. To manage this credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. Master netting agreements incorporate rights of set-off that provide for the net settlement of contracts with the same counterparty in the event of default.

Refer to Note 20 of the accompanying unaudited consolidated financial statements for additional information regarding the fair value determination of derivative instruments.

### ***Credit Risk Management***

First BanCorp. is subject to credit risk mainly with respect to its portfolio of loans receivable and off-balance-sheet instruments, mainly derivatives and loan commitments. Loans receivable represents loans that First BanCorp. holds for investment and, therefore, First BanCorp. is at risk for the term of the loan. Loan commitments represent commitments to extend credit, subject to specific conditions, for specific amounts and maturities. These commitments may expose the Corporation to credit risk and are subject to the same review and approval process as for loans. Refer to “Contractual Obligations and Commitments” above for further details. The credit risk of derivatives arises from the potential of the counterparty’s default on its contractual obligations. To manage this credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. For further details and information on the Corporation’s derivative credit risk exposure, refer to “—Interest Rate Risk Management” above. The Corporation manages its credit risk through its credit policy, underwriting, independent loan review and quality control procedures, statistical analysis, comprehensive financial analysis, and established management committees. The Corporation also employs proactive collection and loss mitigation efforts. Furthermore, personnel performing structured loan workout functions are responsible for mitigating defaults and minimizing losses upon default within each region and for each business segment. In the case of the C&I, commercial mortgage and construction loan portfolios, the Special Asset Group (“SAG”) focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary.

The Corporation may also have risk of default in the securities portfolio. The securities held by the Corporation are principally fixed-rate U.S. agency mortgage-backed securities and U.S. Treasury and agency securities. Thus, a substantial portion of these instruments is backed by mortgages, a guarantee of a U.S. government-sponsored entity or the full faith and credit of the U.S. government.

Management, consisting of the Corporation’s Commercial Credit Risk Officer, Retail Credit Risk Officer, Chief Lending Officer and other senior executives, has the primary responsibility for setting strategies to achieve the Corporation’s credit risk goals and objectives. These goals and objectives are documented in the Corporation’s Credit Policy.

### ***Allowance for Loan and Lease Losses and Non-performing Assets***

#### ***Allowance for Loan and Lease Losses***

Supplemental cash flow information is as follows:



The allowance for loan and lease losses represents the estimate of the level of reserves appropriate to absorb inherent credit losses. The amount of the allowance was determined by empirical analysis and judgments regarding the quality of each individual loan portfolio. All known relevant internal and external factors that affected loan collectability were considered, including analyses of historical charge-off experience, migration patterns, changes in economic conditions, and changes in loan collateral values. For example, factors affecting the economies of Puerto Rico, Florida (USA), the United States Virgin Islands and the British Virgin Islands may contribute to delinquencies and defaults above the Corporation's historical loan and lease losses. Such factors are subject to regular review and may change to reflect updated performance trends and expectations, particularly in times of severe stress. The process includes judgments and quantitative elements that may be subject to significant change. There is no certainty that the allowance will be adequate over time to cover credit losses in the portfolio because of continued adverse changes in the economy, market conditions, or events adversely affecting specific customers, industries or markets. To the extent actual outcomes differ from our estimates, the credit quality of our customer base materially decreases, the risk profile of a market, industry, or group of customers changes materially, or the allowance is determined to not be adequate, additional provisions for credit losses could be required, which could adversely affect our business, financial condition, liquidity, capital, and results of operations in future periods.

The allowance for loan and lease losses provides for probable losses that have been identified with specific valuation allowances for individually evaluated impaired loans and probable losses believed to be inherent in the loan portfolio that have not been specifically identified. An internal risk rating is assigned to each business loan at the time of approval and is subject to subsequent periodic reviews by the Corporation's senior management. The allowance for loan and lease losses is reviewed on a quarterly basis as part of the Corporation's continued evaluation of its asset quality.

The ratio of allowance for loan losses to total loans held for investment remained relatively flat at 2.61% as of March 31, 2016 from 2.60% as of December 31, 2015. The allowance to total loans for each of the Corporation's categories of loans changed as follows: the allowance to total loans for the C&I portfolio increased from 2.86% as of December 31, 2015 to 3.03% at March 31, 2016; the allowance to total loans for the commercial mortgage portfolio increased from 4.44% at December 31, 2015 to 4.51% at March 31, 2016; the allowance to total loans for the construction loan portfolio decreased from 2.25% as of December 31, 2015 to 2.06% at March 31, 2016; the allowance to total loans for the residential mortgage portfolio decreased from 1.18% at December 31, 2015 to 1.16% at March 31, 2016; and the allowance to total consumer loans and finance leases decreased from 3.32% as of December 31, 2015 to 3.18% as of March 31, 2016.

The ratio of the total allowance to non-performing loans held for investment was 41.42% as of March 31, 2016 compared to 54.36% as of December 31, 2015 reflecting the migration to non-performing status of the \$128.6 million exposure to commercial mortgage loans guaranteed by the TDF. These loans have been adversely classified since the third quarter of 2015 and the general reserve for commercial loans was increased in the fourth quarter of 2015 due to qualitative factor adjustments applied to the Puerto Rico Government-related exposure, including this particular portfolio. The migration of the loans guaranteed by the TDF to non-performing status and classification as impaired in the first quarter of 2016 did not result in a significant increase to the total allowance for loan losses. As of March 31, 2016, the total reserve coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 20%.

Substantially all of the Corporation's loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the U.S. and British Virgin Islands or the U.S. mainland (mainly in the state of Florida), the performance of the Corporation's loan portfolio and the value of the collateral supporting the transactions are dependent upon the performance of and conditions within each specific area's real estate market. The real estate market in Puerto Rico experienced readjustments in value over the last few years driven by the loss of income due to higher unemployment, reduced demand and general adverse economic conditions. The Corporation sets adequate loan-to-value ratios upon original approval following its regulatory and credit policy standards.

As shown in the following table, the allowance for loan and lease losses amounted to \$238.1 million as of March 31, 2016, or 2.61% of total loans, compared with \$240.7 million, or 2.60% of total loans, as of December 31, 2015. Refer to "Provision for Loan and Lease Losses" above for additional information.

	Quarter Ended March 31			
	2016		2015	
(Dollars in thousands)				
Allowance for loan and lease losses, beginning of period	\$	240,710	\$	222,395
Provision (release) for loan and lease losses:				
Residential Mortgage		5,938		6,475
Commercial Mortgage		1,062		(2,137)
Commercial and Industrial		5,809		10,353
Construction		(432)		1,215
Consumer and Finance Leases		8,676		17,064
Total provision for loan and lease losses		21,053		32,970
Charge-offs				
Residential Mortgage		(7,306)		(5,192)
Commercial Mortgage		(575)		(4,006)
Commercial and Industrial		(3,759)		(4,453)
Construction		(91)		(605)
Consumer and Finance Leases		(14,804)		(17,757)

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Total charge offs		(26,535)				(32,013)		
Recoveries:								
Residential Mortgage		346				98		
Commercial Mortgage		46				276		
Commercial and Industrial		280				558		
Construction		17				207		
Consumer and Finance Leases		2,208				1,573		
Total recoveries		2,897				2,712		
Net Charge-Offs		(23,638)				(29,301)		
Allowance for loan and lease losses, end of period	\$	238,125				\$ 226,064		
Allowance for loan and lease losses to period end total loans held for investment		2.61	%			2.38	%	
Net charge-offs (annualized) to average loans outstanding during the period		1.03	%			1.25	%	
Provision for loan and lease losses to net charge-offs during the period		0.89	x			1.13	x	

The following table sets forth information concerning the allocation of the loan allowance for loan and lease losses by loan

category and the percentage of loan balances in each category to the total of such loans as of the dates indicated:

(In thousands)	As of					As of				
	March 31, 2016					December 31, 2015				
	Amount		Percent of loans in each category to total loans			Amount		Percent of loans in each category to total loans		
Residential mortgage	\$ 38,548		36 %			\$ 39,570		36 %		
Commercial mortgage loans	68,744		17 %			68,211		16 %		
Construction loans	3,013		2 %			3,519		2 %		
Commercial and Industrial loans	71,098		25 %			68,768		26 %		
Consumer loans and finance leases	56,722		20 %			60,642		20 %		
	\$ 238,125		100 %			\$ 240,710		100 %		

The following table sets forth information concerning the composition of the Corporation's allowance for loan and lease losses as of March 31, 2016 and December 31, 2015 by loan category and by whether the allowance and related provisions were calculated individually or through a general valuation allowance.

As of March 31, 2016	Residential Mortgage Loans	Commercial Mortgage Loans	C&I Loans	Construction Loans	Consumer and Finance Leases	Total
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	\$ 62,899	\$ 35,565	\$ 29,230	\$ 42,068	\$ 3,092	\$ 172,854
Impaired loans with specific reserves:						
Principal balance of	398,707	155,686	138,930	10,870	40,544	744,737

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

loans, net of charge-offs																				
Allowance for loan and lease losses	16,150		36,007		18,749		1,202		9,387		81,495									
Allowance for loan and lease losses to principal																				
balance	4.05 %		23.13 %		13.50 %		11.06 %		23.15 %		10.94 %									
PCI loans:																				
Carrying value of PCI loans	169,190		3,142		-		-		-		172,332									
Allowance for PCI loans	4,423		145		-		-		-		4,568									
Allowance for PCI loans to carrying value	2.61 %		4.61 %		-		-		-		2.65 %									
Loans with general allowance:																				
Principal balance of loans	2,700,149		1,330,098		2,175,256		93,191		1,742,725		8,041,419									
Allowance for loan and lease losses	17,975		32,592		52,349		1,811		47,335		152,062									
Allowance for loan and lease losses to principal																				
balance	0.67 %		2.45 %		2.41 %		1.94 %		2.72 %		1.89 %									
Total loans held for investment:																				
Principal balance of loans	\$ 3,330,945		\$ 1,524,491		\$ 2,343,416		\$ 146,129		\$ 1,786,361		\$ 9,131,342									
Allowance for loan and lease losses	38,548		68,744		71,098		3,013		56,722		238,125									
Allowance for loan and lease losses to principal																				

Supplemental cash flow information is as follows:



(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	C&I Loans	Construction Loans	Consumer and Finance Leases	Total								
<b>As of December 31, 2015</b>														
Impaired loans without specific reserves:														
Principal balance of loans, net of charge-offs	\$ 65,495	\$ 54,048	\$ 27,492	\$ 42,512	\$ 2,618	\$ 192,165								
Impaired loans with specific reserves:														
Principal balance of loans, net of charge-offs	395,173	27,479	143,214	11,004	37,474	614,344								
Allowance for loan and lease losses	21,787	3,073	18,096	1,202	8,423	52,581								
Allowance for loan and lease losses to principal balance	5.51 %	11.18 %	12.64 %	10.92 %	22.48 %	8.56 %								
PCI loans:														
Carrying value of PCI loans	170,766	3,147	-	-	-	173,913								
Allowance for PCI loans	3,837	125	-	-	-	3,962								
Allowance for PCI loans to carrying value	2.25 %	3.97 %	-	-	-	2.28 %								

Supplemental cash flow information is as follows:





The following tables show the activity for impaired loans held for investment and the related specific reserve during the first quarter of 2016 and 2015:					
		<b>March 31, 2016</b>		<b>March 31, 2015</b>	
		(In thousands)			
<b>Impaired Loans:</b>					
Balance at beginning of period	\$	806,509		\$	945,407
Loans determined impaired during the period		157,984			62,933
Charge-offs		(8,352)			(11,715)
Loans sold, net of charge-offs		-			(1,137)
Increases to impaired loans - additional disbursements		1,347			519
Foreclosures		(7,421)			(9,952)
Loans no longer considered impaired		(20,339)			(9,898)
Paid in full or partial payments		(12,137)			(21,176)
Balance at end of period	\$	917,591		\$	954,981
		<b>March 31, 2016</b>		<b>March 31, 2015</b>	
		(In thousands)			
<b>Specific Reserve:</b>					
Balance at beginning of period	\$	52,581		\$	55,205
Provision for loan losses		37,266			18,650
Charge-offs		(8,352)			(11,715)
Balance at end of period	\$	81,495		\$	62,140

In addition, as of March 31, 2016, the Corporation maintained a \$1.3 million reserve for unfunded loan commitments mainly related to outstanding commercial loan commitments and a floor plan revolving line of credit. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments to borrowers that are experiencing financial difficulties at the balance sheet date. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statement of financial condition and any change to the reserve is included as part of other non-interest expenses in the consolidated statement of income.

#### *Non-performing Loans and Non-performing Assets*

Total non-performing assets consist of non-performing loans (generally loans held for investment or loans held for sale on which the recognition of interest income has been discontinued when the loan became 90 days past due or earlier if the full and timely collection of interest or principal is uncertain), foreclosed real estate and other repossessed

Supplemental cash flow information is as follows:

properties. When a loan is placed in non-performing status, any interest previously recognized and not collected is reversed and charged against interest income.

*Non-performing Loans Policy*

*Residential Real Estate Loans* — The Corporation classifies real estate loans in non-performing status when interest and principal have not been received for a period of 90 days or more.

*Commercial and Construction Loans* — The Corporation places commercial loans (including commercial real estate and construction loans) in non-performing status when interest and principal have not been received for a period of 90 days or more or when collection of all of the principal or interest is not expected due to deterioration in the financial condition of the borrower.

*Finance Leases* — Finance leases are classified in non-performing status when interest and principal have not been received for a period of 90 days or more.

*Consumer Loans* — Consumer loans are classified in non-performing status when interest and principal have not been received for a period of 90 days or more. Credit card loans continue to accrue finance charges and fees until charged-off at 180 days delinquent.

*Purchased Credit Impaired Loans* — PCI loans were recorded at fair value at acquisition. Since the initial fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, the subsequent accounting for PCI loans differs from the accounting for non-PCI loans. The Corporation, therefore, separately tracks and reports PCI loans and excludes these from its non-performing loans, impaired loans, TDRs, and non-performing assets statistics.

Cash payments received on certain loans that are impaired and collateral dependent are recognized when collected in accordance with the contractual terms of the loans. The principal portion of the payment is used to reduce the principal balance of the loan, whereas the interest portion is recognized on a cash basis (when collected). However, when management believes that the ultimate collectability of principal is in doubt, the interest portion is applied to the outstanding principal. The risk exposure of this portfolio is diversified as to individual borrowers and industries, among other factors. In addition, a large portion is secured with real estate collateral.

#### ***Other Real Estate Owned***

OREO acquired in settlement of loans is carried at the lower of cost (the carrying value of the loan) or fair value less estimated costs to sell off the real estate. Appraisals are obtained periodically, generally, on an annual basis.

#### ***Other Repossessed Property***

The other repossessed property category generally includes repossessed boats and autos acquired in settlement of loans. Repossessed boats and autos are recorded at the lower of cost or estimated fair value.

#### ***Past-Due Loans 90 days and still accruing***

These are accruing loans that are contractually delinquent 90 days or more. These past-due loans are either current as to interest but delinquent as to the payment of principal or are insured or guaranteed under applicable FHA and VA programs. Past due loans 90 days and still accruing also include PCI loans with individual delinquencies over 90 days, primarily related to mortgage loans acquired from Doral Bank in 2015 and from Doral Financial in 2014.

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure, generally for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loans being returned to accrual status at the time of the restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan.



The following table presents non-performing assets as of the dates indicated:							
		March 31,			December 31,		
(Dollars in thousands)		2016			2015		
Non-performing loans held for investment:							
Residential mortgage	\$	172,890			\$	169,001	
Commercial mortgage		182,763				51,333	
Commercial and Industrial		137,896				137,051	
Construction		54,036				54,636	
Finance leases		2,136				2,459	
Consumer		25,215				28,293	
Total non-performing loans held for investment	\$	574,936			\$	442,773	
OREO		142,888				146,801	
Other repossessed property		11,339				12,223	
Total non-performing assets, excluding loans held for sale	\$	729,163			\$	601,797	
Non-performing loans held for sale		8,079				8,135	
Total non-performing assets, including loans held for sale (1)(2)	\$	737,242			\$	609,932	
Past due loans 90 days and still accruing (3)(4)	\$	184,890			\$	163,197	
Non-performing assets to total assets		5.80	%			4.85	%
Non-performing loans held for investment to total loans held for investment		6.30	%			4.77	%
Allowance for loan and lease losses	\$	238,125			\$	240,710	
Allowance to total non-performing loans held for investment		41.42	%			54.36	%
Allowance to total non-performing loans held for investment, excluding residential real estate loans		59.23	%			87.92	%
(1)	Purchased credit impaired loans accounted for under ASC 310-30 of \$172.3 million and \$173.9 million as of March 31, 2016 and December 31, 2015, respectively, are excluded and not considered non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.						
(2)	Non-performing assets exclude \$413.4 million and \$414.9 million of TDR loans that are in compliance with the modified terms and in accrual status as of March 31, 2016 and December 31, 2015, respectively.						
(3)	It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to						

Supplemental cash flow information is as follows:

	non-performing loans since the principal repayment is insured. These balances include \$34.9 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 15 months delinquent, and are no longer accruing interest as of March 31, 2016.
(4)	Amounts include purchased credit impaired loans with individual delinquencies over 90 days and still accruing with a carrying value as of March 31, 2016 and December 31, 2015 of approximately \$25.9 million and \$23.2 million, respectively, primarily related to loans acquired from Doral Bank in the first quarter of 2015 and from Doral Financial in the second quarter of 2014.

The following table shows non-performing assets by geographic segment:					
	March 31,			December 31,	
(Dollars in thousands)	2016			2015	
<b>Puerto Rico:</b>					
Non-performing loans held for investment:					
Residential mortgage	\$	148,338		\$	147,975
Commercial mortgage		167,226			34,917
Commercial and Industrial		132,324			131,450
Construction		11,857			11,894
Finance leases		2,136			2,459
Consumer		23,379			26,329
Total non-performing loans held for investment		485,260			355,024
OREO					
		130,181			133,121
Other repossessed property					
		11,290			12,115
Total non-performing assets, excluding loans held for sale	\$	626,731		\$	500,260
Non-performing loans held for sale					
		8,079			8,135
Total non-performing assets, including loans held for sale (1)	\$	634,810		\$	508,395
Past due loans 90 days and still accruing (2)	\$	175,987		\$	154,915
<b>Virgin Islands:</b>					
Non-performing loans held for investment:					
Residential mortgage	\$	16,258		\$	14,228
Commercial mortgage		9,723			10,073
Commercial and Industrial		5,572			5,601
Construction		42,179			42,590
Consumer		474			471
Total non-performing loans held for investment		74,206			72,963
OREO					
		5,255			5,458
Other repossessed property					
		11			32
Total non-performing assets, excluding loans held for sale	\$	79,472		\$	78,453
Non-performing loans held for sale					
		-			-
Total non-performing assets, including loans held for sale	\$	79,472		\$	78,453
Past due loans 90 days and still accruing	\$	8,171		\$	8,173
<b>United States:</b>					
Non-performing loans held for investment:					
Residential mortgage	\$	8,294		\$	6,798

Supplemental cash flow information is as follows:

Commercial mortgage		5,814			6,343
Construction		-			152
Consumer		1,362			1,493
Total non-performing loans held for investment		15,470			14,786
OREO		7,452			8,222
Other repossessed property		38			76
Total non-performing assets	\$	22,960		\$	23,084
Past due loans 90 days and still accruing	\$	732		\$	109
(1)	Purchased credit impaired loans accounted for under ASC 310-30 of \$172.3 million and \$173.9 million as of March 31, 2016 and December 31, 2015, respectively, are excluded and not considered non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.				
(2)	Amount includes purchased credit impaired loans with individual delinquencies over 90 days and still accruing with a carrying value as of March 31, 2016 and December 31, 2015 of approximately \$25.9 million and \$23.2 million, respectively, primarily related to loans acquired from Doral Bank in the first quarter of 2015 and from Doral Financial in the second quarter of 2014.				



Total non-performing loans, including non-performing loans held for sale, were \$583.0 million as of March 31, 2016. This represents an increase of \$132.1 million from \$450.9 million as of December 31, 2015. The increase was primarily attributable to the inflow of the \$128.6 million exposure to commercial mortgage loans guaranteed by the TDF and a \$3.9 million increase in non-performing residential mortgage loans.

Non-performing commercial mortgage loans increased by \$131.4 million to \$182.8 million as of March 31, 2016 from \$51.3 million as of December 31, 2015. The increase was primarily driven by the aforementioned inflow of the \$128.6 million exposure to loans guaranteed by the TDF. Total inflows of non-performing commercial mortgage loans amounted to \$133.5 million during the first quarter of 2016. Excluding the \$128.6 million exposure to loans guaranteed by the TDF, non-performing commercial mortgage loan inflows decreased by \$0.9 million to \$4.9 million compared to \$5.8 million in the first quarter of 2015.

Non-performing C&I loans of \$137.9 million as of March 31, 2016 remained relatively flat compared to \$137.1 million as of December 31, 2015. The increase of \$0.8 million was primarily reflected in Puerto Rico. Total inflows of non-performing C&I loans were \$8.6 million compared to \$79.5 million in the first quarter of 2015. Excluding the inflow to non-performing status in the first quarter of 2015 of the \$75.0 million PREPA credit facility, total inflows in the first quarter of 2016 were \$4.1 million higher than inflows for the same period in 2015.

Non-performing construction loans, including non-performing construction loans held for sale, decreased by \$0.7 million to \$62.1 million from \$62.8 million as of December 31, 2015, primarily as a result of cash collections. The inflows of non-performing construction loans during the first quarter of 2016 amounted to \$0.3 million compared to inflows of \$0.1 million for the same period in 2015.

The following tables present the activity of commercial and construction non-performing loans held for investment:										
			Commercial Mortgage		Commercial & Industrial		Construction			Total
(In thousands)										
<b>Quarter ended March 31, 2016</b>										
Beginning balance			\$ 51,333		\$ 137,051		\$ 54,636			243,020
Plus:										
Additions to non-performing			133,452		8,577		308			142,337
Less:										
Loans returned to accrual status			(145)		(361)		-			(506)
Non-performing loans transferred to OREO			(562)		(583)		(55)			(1,200)
Non-performing loans charged-off			(315)		(3,754)		(69)			(4,138)

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

	Loan collections			(1,078)			(3,034)			(706)		(4,818)
	Reclassification			78			-			(78)		-
	Ending balance		\$	182,763		\$	137,896		\$	54,036		\$ 374,695

			Commercial Mortgage		Commercial & Industrial		Construction		Total
(In thousands)									
<b>Quarter ended March 31, 2015</b>									
Beginning balance		\$	148,473	\$	122,547	\$	29,354		300,374
Plus:									
Additions to non-performing			5,802		79,503		128		85,433
Less:									
Loans returned to accrual status			(1,521)		(243)		(22)		(1,786)
Non-performing loans transferred to OREO			-		(4,866)		(265)		(5,131)
Non-performing loans charged-off			(3,970)		(4,304)		(605)		(8,879)
Loan collections			(6,399)		(3,907)		(1,178)		(11,484)
Reclassification			-		-		(249)		(249)
Non-performing loans sold, net of charge-off			-		(2,230)		-		(2,230)
Ending balance		\$	142,385	\$	186,500	\$	27,163	\$	356,048

Total non-performing commercial and construction loans, including non-performing loans held for sale, with a book value of \$382.8 million as of March 31, 2016 are being carried at 60.7% of unpaid principal balance, net of reserves and accumulated charge-offs.

Non-performing residential mortgage loans increased by \$3.9 million to \$172.9 million as of March 31, 2016 from \$169.0 million from December 31, 2015. The increase was mainly driven by inflows of two loans totaling \$2.3 million during the first quarter of 2016, partially offset by loans brought current, foreclosures, and charge-offs. The inflows of non-performing residential mortgage loans during the first quarter of 2016 amounted to \$24.9 million compared to inflows of \$19.2 million for the same period in 2015. Approximately \$56.9 million, or 33% of total non-performing residential mortgage loans, have been written down to their net realizable value and no specific reserve was allocated.

The following table presents the activity of residential non-performing loans held for investment:					
Quarters Ended					
(In thousands)	March 31, 2016		March 31, 2015		
Beginning balance	\$	169,001	\$	180,707	
Plus:					
Additions to non-performing		24,916		19,213	
Less:					
Loans returned to accrual status		(9,327)		(13,918)	
Non-performing loans transferred to OREO		(6,744)		(5,048)	
Non-performing loans charged-off		(4,134)		(5,073)	
Loan collections		(822)		(3,547)	
Reclassification		-		249	
Ending balance	\$	172,890	\$	172,583	

The amount of non-performing consumer loans, including finance leases, showed a \$3.4 million decrease during the first quarter of 2016 to \$27.4 million compared to \$30.8 million as of December 31, 2015. The decrease was mainly related to charge-offs and cash collections, primarily in auto loans. The inflows of non-performing consumer loans of \$10.1 million decreased \$4.0 million compared to inflows of \$14.1 million for the same period in 2015.

As of March 31, 2016, approximately \$274.5 million of the loans placed in non-accrual status, mainly commercial loans, were current, or had delinquencies of less than 90 days in their interest payments, including \$119.2 million of TDRs maintained in nonaccrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability. Collections on these loans are being recorded on a cash basis through earnings, or on a cost-recovery basis, as conditions warrant.

During the quarter ended March 31, 2016, interest income of approximately \$2.9 million related to non-performing loans with a carrying value of \$460.7 million as of March 31, 2016, mainly non-performing construction and commercial loans, was applied against the related principal balances under the cost-recovery method.

As of March 31, 2016, approximately \$149.3 million, or 26%, of total non-performing loans held for investment has been charged-off to their net realizable value and no specific reserve was allocated as shown in the following table.



(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	C&I Loans	Construction Loans	Consumer and Finance Leases	Total
<b>As of March 31, 2016</b>						
Non-performing loans held for investment						
charged-off to realizable value	\$ 56,858	\$ 21,406	\$ 29,230	\$ 39,037	\$ 2,053	\$ 148,584
Other non-performing loans held for investment	116,032	161,357	108,666	14,999	25,298	426,352
Total non-performing loans held for investment	\$ 172,890	\$ 182,763	\$ 137,896	\$ 54,036	\$ 27,351	\$ 574,936
Allowance to non-performing loans held for investments	22.30 %	37.61 %	51.56 %	5.58 %	207.39 %	41.42 %
Allowance to non-performing loans held for investments, excluding non-performing loans charged-off to realizable value	33.22 %	42.60 %	65.43 %	20.09 %	224.22 %	55.85 %
<b>As of December 31, 2015</b>						
Non-performing loans held for investment						
charged-off to realizable value	\$ 53,612	\$ 15,190	\$ 27,492	\$ 39,466	\$ 1,282	\$ 137,042
Other non-performing						

Supplemental cash flow information is as follows:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

loans held														
for investment	115,389		36,143		109,559		15,170		29,470		305,731			
Total non-performing loans held														
for investment	\$ 169,001		\$ 51,333		\$ 137,051		\$ 54,636		\$ 30,752		\$ 442,773			
Allowance to non-performing loans held for														
investments	23.41	%	132.88	%	50.18	%	6.44	%	197.20	%	54.36	%		
Allowance to non-performing loans held for														
investments, excluding non-performing loans														
charged-off to realizable value	34.29	%	188.73	%	62.77	%	23.20	%	205.78	%	78.73	%		

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico that is similar to the U.S. government's Home Affordable Modification Program guidelines. Depending upon the nature of borrowers' financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction, and residential mortgage loans in the U.S. mainland, fit the definition of a TDR. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of March 31, 2016, the Corporation's total TDR loans held for investment of \$659.1 million consisted of \$384.3 million of residential mortgage loans, \$144.8 million of commercial and industrial loans, \$43.5 million of commercial mortgage loans, \$45.2 million of construction loans, and \$41.3 million of consumer loans.

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

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in, or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of March 31, 2016, the Corporation classified an additional \$7.2 million of residential mortgage loans as TDRs that were participating in or had been offered a trial modification.



For the commercial real estate, commercial and industrial, and construction portfolios, at the time of a restructuring, the Corporation determines, on a loan-by-loan basis, whether a concession was granted for economic or legal reasons related to the borrower's financial difficulty. Concessions granted for commercial loans could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waivers of borrower covenants; forgiveness of principal or interest; or other contractual changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collection function. The function's objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of the commercial and industrial, commercial mortgage, and construction loan portfolios, the SAG focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists, and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary. The SAG utilizes its collections infrastructure of workout collection officers, credit work-out specialists, in-house legal counsel, and third-party consultants. In the case of residential construction projects and large commercial loans, the SAG function also utilizes third-party specialized consultants to monitor the residential and commercial construction projects in terms of construction, marketing and sales, and to assist with the restructuring of large commercial loans.

In addition, the Corporation extends, renews, and restructures loans with satisfactory credit profiles. Many commercial loan facilities are structured as lines of credit, which are mainly one year in term and therefore are required to be renewed annually. Other facilities may be restructured or extended from time to time based upon changes in the borrower's business needs, use of funds, the timing of completion of projects, and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals, and restructurings are done in the normal course of business and are not considered to be concessions, and the loans continue to be recorded as performing.

TDR loans are classified as either accrual or nonaccrual loans. Loans in accrual status may remain in accrual status when their contractual terms have been modified in a TDR if the loan had demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Otherwise, loans on non-accrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure, generally for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of the restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a non-accrual loan. Loan modifications increase the Corporation's interest income by returning a non-performing loan to performing status, if applicable, increase cash flows by providing for payments to be made by the borrower, and limit increases in foreclosure and OREO costs. The Corporation continues to consider a modified loan as an impaired loan for purposes of estimating the allowance for loan and lease losses.

The following table provides a breakdown between the accrual and nonaccrual TDRs:
-----------------------------------------------------------------------------------

(In thousands)		March 31, 2016							
		Accrual		Non-accrual (1)		Total TDRs			
Non-FHA/VA Residential Mortgage loans	\$	302,773		\$	81,562		\$	384,335	
Commercial Mortgage Loans		27,763			15,706			43,469	
Commercial and Industrial Loans		47,463			97,365			144,828	
Construction Loans		3,948			41,232			45,180	
Consumer Loans - Auto		15,943			7,537			23,480	
Finance Leases		2,329			140			2,469	
Consumer Loans - Other		13,214			2,129			15,343	
Total Troubled Debt Restructurings	\$	413,433		\$	245,671		\$	659,104	
(1)	Included in non-accrual loans are \$119.2 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability.								

The OREO portfolio, which is part of non-performing assets, decreased by \$3.9 million. The following table shows the activity during the quarter ended March 31, 2016 of the OREO portfolio by geographic region and type of property:

(In thousands)	As of March 31, 2016											
	Puerto Rico			Virgin Islands			Florida			Consolidated		
	Residential	Commercial	Construction	Residential	Commercial	Construction	Residential	Commercial	Construction			
Beginning Balance	\$ 37,501	\$ 86,424	\$ 9,196	\$ 838	\$ 110	\$ 4,510	\$ 5,225	\$ 1,314	\$ 1,683			\$ 146,801
Additions	7,732	898	-	-	220	45	250	-	-			9,145
Sales	(4,538)	(665)	(1,416)	(724)	-	-	(990)	-	-			(8,333)
Fair value adjustments	(2,276)	(2,293)	(87)	(11)	-	(27)	(31)	-	-			(4,725)
	\$ 38,419	\$ 84,364	\$ 7,693	\$ 103	\$ 330	\$ 4,528	\$ 4,454	\$ 1,314	\$ 1,683			\$ 142,888

#### *Net Charge-offs and Total Credit Losses*

Total net charge-offs for the first quarter of 2016 were \$23.6 million, or 1.03% of average loans on an annualized basis, compared to \$29.3 million, or an annualized 1.25%, for the first quarter of 2015, mainly reflecting lower charge-offs in the commercial mortgage and consumer loan portfolios.

Commercial mortgage loans net charge-offs in the first quarter of 2016 were \$0.5 million, or an annualized 0.14% of related average loans, compared to \$3.7 million, or an annualized 0.90%, for the first quarter of 2015. Substantially all of the \$0.5 million in net charge-offs for the first quarter of 2016 related to loans in Puerto Rico.

C&I loans net charge-offs in the first quarter of 2016 totaled \$3.5 million, or an annualized 0.59% of related average loans, compared to \$3.9 million, or an annualized 0.63%, for the first quarter of 2015. Substantially all of the charge-offs recorded in the first quarter of 2016 related to loans in Puerto Rico, including a \$1.9 million charge-off on an individual loan.

Construction loans net charge-offs in the first quarter of 2016 were \$0.1 million, or an annualized 0.18% of related average loans, compared to \$0.4 million, or an annualized 0.93%, for the first quarter of 2015.

Residential mortgage loans net charge-offs in the first quarter of 2016 were \$7.0 million, or an annualized 0.84% of related average loans, compared to \$5.1 million, or an annualized 0.65%, for the first quarter of 2015. Approximately \$4.1 million in charge-offs for the first quarter of 2016 resulted from valuations for impairment purposes of residential mortgage loans considered homogeneous given high delinquency and loan-to-value levels, compared to \$3.8 million for the first quarter of 2015. Net charge-offs on residential mortgage loans also included \$2.1 million related to foreclosures, compared to \$1.1 million in the first quarter of 2015.

Net charge-offs of consumer loans and finance leases in the first quarter of 2016 were \$12.6 million, or an annualized 2.79% of related average loans, compared to \$16.2 million, or an annualized 3.30% of average loans, in the first quarter of 2015. The decrease is mainly attributable to the auto loan portfolio.

The following table presents annualized net charge-offs to average loans held-in-portfolio:							
		Quarter Ended					
		March 31, 2016			March 31, 2015		
Residential mortgage loans		0.84	%		0.65	%	
Commercial mortgage		0.14	%		0.90	%	
Commercial and industrial		0.59	%		0.63	%	
Construction loans		0.18	%		0.93	%	
Consumer loans (1)		2.79	%		3.30	%	
Total loans		1.03	%		1.25	%	
(1)	Includes lease financing.						

The following table presents net charge-offs to average loans held in various portfolios by geographic segment:							
		Quarter Ended					
		March 31, 2016			March 31, 2015		
<b>PUERTO RICO:</b>							
	Residential mortgage	1.07	%		0.82	%	
	Commercial mortgage	0.16	%		0.75	%	
	Commercial and Industrial	0.76	%		0.72	%	
	Construction	0.12	%		2.21	%	
	Consumer and finance leases (1)	2.93	%		3.42	%	
	Total loans	1.27	%		1.43	%	
<b>VIRGIN ISLANDS:</b>							
	Residential mortgage	0.07	%		0.04	%	
	Commercial mortgage	(0.13)	%		-	%	
	Commercial and Industrial	(0.03)	%		0.61	%	
	Construction	0.41	%		0.66	%	
	Consumer and finance leases	0.83	%		0.13	%	
	Total loans	0.11	%		0.22	%	
<b>FLORIDA:</b>							
	Residential mortgage	0.05	%		0.08	%	
	Commercial mortgage	0.12	%		1.80	%	
	Commercial and Industrial (2)	(0.02)	%		-	%	
	Construction (3)	(0.30)	%		(2.36)	%	
	Consumer and finance leases (4)	(0.61)	%		1.25	%	

Supplemental cash flow information is as follows:

	Total loans	0.01	%	0.53	%
(1) Includes lease financing.					
(2) For the first quarter of 2016 recoveries in commercial and industrial loans in Florida exceeded charge-offs.					
(3) For the first quarters of 2016 and 2015 recoveries in construction loans in Florida exceeded charge-offs.					
(4) For the first quarter of 2016 recoveries in consumer loans in Florida exceeded charge-offs.					

The above ratios are based on annualized charge-offs and are not necessarily indicative of the results expected for the entire year or in subsequent periods.

Total credit losses (equal to net charge-offs plus losses on OREO operations) for the first quarter of 2016 amounted to \$26.8 million, or 1.15% on an annualized basis to average loans and repossessed assets, in contrast to credit losses of \$31.9 million, or a loss rate of 1.34%, for the same period in 2015.

The following table presents a detail of the OREO inventory and credit losses for the periods indicated:					
			<b>Quarter Ended</b>		
			<b>March 31,</b>		
			<b>2016</b>		<b>2015</b>
			(Dollars in thousands)		
<b>OREO</b>					
OREO balances, carrying value:					
Residential			\$	42,976	\$ 32,898
Commercial				86,008	72,473
Construction				13,904	17,257
Total			\$	142,888	\$ 122,628
OREO activity (number of properties):					
Beginning property inventory,				549	458
Properties acquired				83	67
Properties disposed				(69)	(52)
Ending property inventory				563	473
Average holding period (in days)					
Residential				328	456
Commercial				545	436
Construction				1,308	970
				554	517
OREO operations (loss) gain:					
Market adjustments and (losses) gain on sale:					
Residential			\$	(824)	\$ (1,063)
Commercial				(1,887)	(37)
Construction				34	(406)
				(2,677)	(1,506)
Other OREO operations expenses				(529)	(1,122)
<b>Net Loss on OREO operations</b>			<b>\$</b>	<b>(3,206)</b>	<b>\$ (2,628)</b>
<b>CHARGE-OFFS</b>					
Residential charge offs, net				(6,960)	(5,094)
Commercial charge offs, net				(4,008)	(7,625)
Construction charge offs, net				(74)	(398)
Consumer and finance leases charge-offs, net				(12,596)	(16,184)
Total charge-offs, net				(23,638)	(29,301)
<b>TOTAL CREDIT LOSSES (1)</b>			<b>\$</b>	<b>(26,844)</b>	<b>\$ (31,929)</b>
<b>LOSS RATIO PER CATEGORY (2):</b>					
Residential				0.93%	0.78%

Supplemental cash flow information is as follows:

Commercial		0.59%		0.73%
Construction		0.09%		1.68%
Consumer		2.77%		3.28%
<b>TOTAL CREDIT LOSS RATIO (3)</b>		<b>1.15%</b>		<b>1.34%</b>
(1)	Equal to OREO operations (losses) gains plus charge-offs, net.			
(2)	Calculated as net charge-offs plus market adjustments and gains (losses) on sale of OREO divided by average loans and repossessed assets.			
(3)	Calculated as net charge-offs plus net loss on OREO operations divided by average loans and repossessed assets.			



## **Operational Risk**

The Corporation 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 Corporation has developed, and continues to enhance, specific internal controls, policies and procedures that are designated to identify and manage operational risk at appropriate levels throughout the organization. The purpose of these mechanisms is to provide reasonable assurance that the Corporation's business operations are functioning within the policies and limits established by management.

The Corporation 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, and legal and compliance, the Corporation has specialized groups, such as the Legal Department, Information Security, Corporate Compliance, 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.

## **Legal and Compliance Risk**

Legal and compliance risk includes the risk of noncompliance with applicable legal and regulatory requirements, the risk of adverse legal judgments against the Corporation, and the risk that a counterparty's performance obligations will be unenforceable. The Corporation is subject to extensive regulation in the different jurisdictions in which it conducts its business, and this regulatory scrutiny has been significantly increasing over the last several years. The Corporation has established and continues to enhance procedures based on legal and regulatory requirements that are designed to ensure compliance with all applicable statutory and regulatory requirements. The Corporation has a Compliance Director who reports to the Chief Risk Officer and is responsible for the oversight of regulatory compliance and implementation of an enterprise-wide compliance risk assessment process. The Compliance division has officer roles in each major business area with direct reporting relationships to the Corporate Compliance Group.

## **Concentration Risk**

The Corporation conducts its operations in a geographically concentrated area, as its main market is Puerto Rico. However, the Corporation has diversified its geographical risk as evidenced by its operations in the Virgin Islands and in Florida. Of the total gross loans held for investment of \$9.1 billion as of March 31, 2016, approximately 80% have credit risk concentration in Puerto Rico, 13% in the United States, and 7% in the Virgin Islands.

**Exposure to Puerto Rico Government**

As of March 31, 2016, the Corporation had \$315.6 million of credit facilities, excluding investment securities, extended to the Puerto Rico Government, its municipalities and public corporations, of which \$302.2 million was outstanding (book value of \$297.2 million), compared to \$314.6 million outstanding as of December 31, 2015 (book value of \$311.0 million). Approximately \$199.3 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico whose revenues are independent of the central government. The good faith, credit and unlimited taxing power of the applicable municipality have been pledged to the repayment of the municipality's loans. Approximately 88% of the Corporation's municipality exposure consists primarily of senior priority loans concentrated on five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of their respective general obligation bonds and loans. In addition to municipalities, loans extended to the Puerto Rico Government include \$6.9 million of loans to units of the Puerto Rico central government, and approximately \$96.0 million (\$91.0 million book value) consisted of loans to public corporations, including a direct exposure to PREPA with a book value of \$69.7 million as of March 31, 2016. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015 and interest payments are recorded on a cost-recovery basis.

Furthermore, as of March 31, 2016, the Corporation had \$128.6 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and the operations of the underlying collateral are the primary sources of repayment and the TDF provides a secondary guarantee for payment performance, compared to \$129.4 million as of December 31, 2015. These loans were placed in non-accrual status in the first quarter of 2016. Recent developments related to the Puerto Rico government's fiscal situation introduced additional uncertainty regarding TDF's ability to honor its guarantee, including the enactment of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, which gives Puerto Rico's governor emergency powers to deal with Puerto Rico's challenging fiscal situation, including the ability to declare a moratorium on all bonds and other payments. Puerto Rico's governor also issued an executive order intended to protect the GDB's liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services. These loans were current on contractual payments as of March 31, 2016. Prospectively, principal and interest payment collections will be applied against the outstanding balance of the loans. The Corporation has been receiving combined payments from the borrowers and TDF as guarantor sufficient to cover contractual

payments on these loans, including collections of principal and interest from TDF of \$0.6 million in the first quarter of 2016 and \$5.3 million in the entire year 2015. These loans have been adversely classified since the third quarter of 2015.

The general reserve for commercial loans was increased in the fourth quarter of 2015 due to qualitative factors that stressed the historical loss rates applied to the Puerto Rico Government-related exposure, including the TDF-guaranteed portfolio. The migration of the loans guaranteed by the TDF to non-accrual status in the first quarter of 2016 did not result in a significant increase to the total allowance for loan losses. As of March 31, 2016, the total reserve coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 20%.

In addition, the Corporation had \$124.3 million in indirect exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico Government guarantees up to \$75 million of the principal insured by the mortgage loans insurance program. According to the most recently released audited financial statements of the Puerto Rico Housing Finance Authority, as of June 30, 2015, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans aggregating to approximately \$552 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. As of June 30, 2015, Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately \$77.4 million.

As of March 31, 2016, the Corporation also had \$43.4 million of obligations of the Puerto Rico government as part of its available-for-sale investment securities portfolio, net of the \$22.2 million other-than-temporary credit impairment charges recorded in 2016 and 2015, recorded on its books at a fair value of \$26.4 million as of March 31, 2016.

Furthermore, as of March 31, 2016, the Corporation had \$416.5 million of public sector deposits in Puerto Rico. Approximately 33% is from municipalities and municipal agencies in Puerto Rico and 67% is from public corporations and the central government and agencies in Puerto Rico.

### ***Impact of Inflation and Changing Prices***

The financial statements and related data presented herein have been prepared in conformity with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Supplemental cash flow information is as follows:

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a greater impact on a financial institution's performance than the effects of general levels of inflation. Interest rate movements are not necessarily correlated with changes in the prices of goods and services.

### **Basis of Presentation**

The Corporation has included in this Form 10-Q the following financial measures that are not recognized under U.S. generally accepted accounting principles, which are referred to as non-GAAP financial measures: (i) the calculation of net interest income, interest rate spread and net interest margin rate on a tax-equivalent basis and excluding changes in the fair value of derivative instruments; (ii) the calculation of the tangible common equity ratio and the tangible book value per common share; and (iii) certain other financial measures, including net income, non-interest income and non-interest expenses adjusted to exclude the effect of other-than-temporary impairment charges on debt securities recorded on the first quarter of 2016 and the first quarter of 2015, the effect of the gain on the repurchase and cancellation of \$10 million in trust preferred securities recorded in the first quarter of 2016, and the bargain purchase gain and acquisition and conversion costs related to the acquisition of assets and assumption of deposits from Doral Bank recorded in the first quarter of 2015. Investors should be aware that non-GAAP financial measures have inherent limitations and should be read only in conjunction with the Corporation's consolidated financial data prepared in accordance with GAAP.

Net interest income, interest rate spread and net interest margin are reported excluding changes in the fair value of derivative instruments and on a tax-equivalent basis, in order to provide to investors additional information about the Corporation's net interest income that management uses and believes should facilitate comparability and analysis. The changes in the fair value of derivative instruments have no effect on interest due or interest earned on interest-bearing liabilities or interest-earning assets, respectively. The tax-equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a marginal income tax rate. Income from tax-exempt earning assets is increased by an amount equivalent to the taxes that would have been paid if this income had been taxable at statutory rates. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully tax-equivalent basis. This adjustment puts all earning assets, most notably tax-exempt securities and certain loans, on a common basis that facilitates comparison of results to results of peers. Refer to "*Net Interest Income*" above for the table that reconciles the non-GAAP financial measure "net interest income excluding fair value changes and on a tax-equivalent basis" with net interest income calculated and presented in

accordance with GAAP. The table also reconciles the non-GAAP financial measures “net interest spread and margin excluding fair value changes and on a tax-equivalent basis” with net interest spread and margin calculated and presented in accordance with GAAP.

The tangible common equity ratio and tangible book value per common share are non-GAAP financial measures generally used by the financial community to evaluate capital adequacy. Tangible common equity is total equity less preferred equity, goodwill, core deposit intangibles, and other intangibles, such as the purchased credit card relationship intangible and the insurance customer relationship intangible. Tangible assets are total assets less goodwill, core deposit intangibles, and other intangibles, such as the purchased credit card relationship intangible and the insurance customer relationship intangible. 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 with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase method of accounting for mergers and acquisitions. Accordingly, the Corporation believes that disclosures of these financial measures may be useful also to investors. Neither tangible common equity nor tangible assets, or the 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 Corporation calculates its tangible common equity, tangible assets, and any other related measures may differ from that of other companies reporting measures with similar names. Refer to “*Risk Management-Capital*” above for a reconciliation of the Corporation’s tangible common equity and tangible assets.

To supplement the Corporation’s financial statements presented in accordance with GAAP, the Corporation uses, and believes that investors would benefit from disclosure of the following additional measures of adjusted non-interest income, adjusted non-interest expenses, and adjusted net income that exclude gains and losses or expenses that are either unusual and/or non-recurring or so unusually large that management believes that a complete analysis of the Corporation’s performance requires consideration also of these adjusted financial measures:

- Adjusted non-interest income excludes the \$6.7 million in OTTI charges on debt securities recorded in the first quarter of 2016 (\$6.3 million on Puerto Rico Government debt securities and \$0.4 million on private label MBS), the \$4.2 million gain on the repurchase and cancellation of trust preferred securities recorded in the first quarter of 2016, and the \$13.4 million bargain purchase gain on assets acquired and deposits assumed from Doral Bank.
- Adjusted non-interest expenses exclude acquisition and conversion costs of approximately \$2.1 million associated with the assets acquired and liabilities assumed from Doral Bank in the first quarter of 2015.
- Adjusted net income excludes the after-tax effect of all the aforementioned unusual and/or non-recurring items for the first quarter of 2016 and first quarter of 2015.

Management believes that these non-GAAP financial measures enhance the ability of analysts and investors to analyze trends in the Corporation’s business and better understand the performance of the Corporation. In addition, the Corporation may utilize these non-GAAP financial measures as a guide in its budgeting and long-term planning

Supplemental cash flow information is as follows:

process.

The following table reconciles these non-GAAP financial measures to the corresponding measures presented in accordance with GAAP.						
2016 First Quarter	As reported (GAAP)	Gain on Repurchase and Cancellation of Trust Preferred Securities	OTTI on Debt Securities	Adjusted (Non-GAAP)		
Non-interest income	\$ 18,469	\$ (4,217)	\$ 6,687	\$ 20,939		
Net income	\$ 23,344	\$ (4,217)	\$ 6,687	\$ 25,814		
2015 First Quarter	As reported (GAAP)	Bargain Purchase Gain	OTTI on Debt Securities	Acquisition and conversion costs - Doral Bank transaction	Adjusted (Non-GAAP)	
Non-interest income	\$ 32,729	\$ (13,443)	\$ 156	\$ -	\$ 19,442	
Non-interest expense	\$ 91,728	\$ -	\$ -	\$ (2,084)	\$ 89,644	
Net income	\$ 25,646	\$ (8,201)	\$ 156	\$ 1,272	\$ 18,873	

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

For information regarding market risk to which the Corporation is exposed, see the information contained in “Part I – Item 2 -“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management.”

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

#### **Disclosure Control and Procedures**

First BanCorp.’s management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of First BanCorp.’s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2016. Based on this evaluation, as of the end of the period covered by this Form 10-Q, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

#### **Internal Control over Financial Reporting**

There have been no changes to the Corporation’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 fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.



## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Not applicable.

### **ITEM 1A. RISK FACTORS**

The Corporation's business, operating results and/or the market price of our common and preferred stock may be significantly affected by a number of factors. For a detailed discussion of certain risk factors that could affect the Corporation's future operations, financial condition or results for future periods see the risk factors below and in Item 1A, "Risk Factors," in the Corporation's 2015 Annual Report on Form 10-K. These factors could also cause actual results to differ materially from historical results or the results contemplated by the forward-looking statements contained in this report. Also refer to the discussion in "Part I – Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report for additional information that may supplement or update the discussion of risk factors in the Corporation's 2015 Form 10-K.

Additional risks and uncertainties that are not currently known to the Corporation or are currently deemed by the Corporation to be immaterial also may materially adversely affect the Corporation's business, financial condition or results of operations.

#### ***The Corporation's financial results may be adversely affected by Puerto Rico's current economic condition.***

A significant portion of the Corporation's financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico, which has been in an economic recession since 2006. Based on the most recent information available, the main economic indicators suggest that the Puerto Rico economy remains weak. For fiscal years 2015, 2016 and 2017, the Puerto Rico Planning Board projects a continued economic contraction in the Commonwealth's real gross national product ("GNP") of 0.6%, 1.2% and 2.0%, respectively, while the Government Development Bank of Puerto Rico's (the "GDB") economic activity index (the "GDB-EAI") in March 2016 decreased 2.1% on a year-over-year basis. The GDB-EAI is a coincident index of economic activity for Puerto Rico made up of four indicators (payroll employment, electric power generation, cement sales and gasoline consumption). The seasonally adjusted unemployment rate in Puerto Rico was 11.8% in March 2016.

Based on information published by the Puerto Rico Government, preliminary fiscal year-to-date (July 2015-March 2016) General Fund net revenues totaled approximately \$6.26 billion, a year-over-year increase of \$260.9 million. Fiscal year-to-date revenues were \$30.6 million below revised estimates and \$157.5 million below estimates included

Supplemental cash flow information is as follows:

in the original Fiscal Year 2016 budget.

On April 6, 2016, the Puerto Rico governor signed the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, which gives Puerto Rico's governor emergency powers to deal with the challenging fiscal situation, including the ability to declare a moratorium on any debt payment. Puerto Rico's governor also issued an executive order intended to protect the GDB's liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services.

On April 11, 2016, the Puerto Rico Government announced the details of a revised voluntary exchange proposal presented to the Commonwealth's creditors. Specifically, the new proposal includes the following changes to the original proposal:

- Annual aggregate debt service has been increased from \$1.7 billion to \$1.85 billion (equal to 15% of 2021 revenues), allowing the Commonwealth to increase the aggregate amount of Base Bonds by approximately 11 to 30 percent depending on how many Puerto Rican residents elect the Local Option (as described below);
- The "Growth Bond" has been replaced with a "Capital Appreciation Bond". The Growth Bond was a contingent payment instrument, payable only if the Commonwealth economy achieved a specific level of economic growth. By contrast, the Capital Appreciation Bond is mandatorily payable – like the Base Bond – and will enable all creditors to recover the principal amount of their existing investments irrespective of future growth;
- Interest will now be paid currently on the Base Bonds; previously interest payments only began in 2018;
- Puerto Rican residents will be offered the option to receive a par Base Bond with a long-dated maturity and a 2.0% interest rate (the "Local Option"); and
- As a result of the forgoing adjustments, under the revised proposal, the Commonwealth's \$49.3 billion of tax-supported debt would be reduced, depending on how many Puerto Rican residents elect the Local Option, to between \$32.6 and \$37.4 billion. Under the original proposal, tax-supported debt would have been reduced to \$26.5 billion.

Based on the new proposal, including both the Base Bond and Capital Appreciation Bond and assuming all Puerto Rican residents elect the Local Option, the following are the average recovery rates across all bonds of selected issuers (assuming a 5% yield):

- GO and Commonwealth-Guaranteed – 74%
- COFINA – 57%
- GDB – 36%
- HTA – 56%
- Other – 51%

The proposal also seeks to lower the Commonwealth's ratio of debt service-to-revenue on tax-supported debt from the current level of 36% to approximately 15% based on 2021 revenues.

On April 12, 2016, the U.S. Congress House Committee on Natural Resources released H.R. 4900, the "Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which, if passed as is, will impose a seven-member financial oversight board over Puerto Rico that would be appointed by the U.S president and will have broad encompassing powers over Puerto Rico. The bill is still under consideration of the House Committee on Natural Resources and must be approved before being referred to floor of the U.S. House and Senate.

On May, 1 2016, pursuant to the debt moratorium law, the Puerto Rico governor issued an executive order for the moratorium on the debt service payment due by GDB on May 1, 2016. The GDB paid the scheduled interest payment of \$22 million but defaulted on the principal payment of \$367 million of its notes due on May 1, 2016. In addition, on April 29, 2016, the GDB announced that it reached an agreement with various state-chartered credit unions in Puerto Rico to implement a limited private exchange of approximately \$33 million of notes issued by GDB maturing on May 1, 2016 for newly issued GDB notes with substantially the same terms, but maturing on May 1, 2017. The exchange was structured to be completed in advance of the May 1, 2016 principal payment date and settled on April 29, 2016.

On May 1, 2016, the GDB announced that it had negotiated a framework of indicative terms for a restructuring of GDB bonds with a group of bondholders (the "Ad Hoc Group") holding approximately \$900 million of the \$3.8 billion of GDB's outstanding notes (the "Old Notes"). As part of the understanding, the Ad Hoc Group and GDB intend to negotiate the terms over the next 30 days and forbear from pursuing legal action related to the May 1st debt service payment during such negotiations.

The agreed key terms contemplate a two-step restructuring of GDB's obligations, in which all holders of the Old Notes, including the Ad Hoc Group, would first exchange (the "Interim Exchange") their current holdings for new notes at GDB, to be followed by an exchange of such new notes as part of a future global restructuring of the Puerto Rico's debt that includes GDB's debt. As part of the agreed key economic terms, creditors would agree to a haircut of 43.75% of the face amount of the Old Notes in the Interim Exchange. In addition, as part of the transaction, bondholders

Supplemental cash flow information is as follows:

would agree to the proposed treatment of their notes, in a second step exchange as part of a Global Restructuring, that would result in an agreed haircut of 53% of the face amount of their Old Notes. The proposed terms of the Interim Exchange require 100% participation by all bondholders, including, in addition to the Ad Hoc Group, the state-chartered credit unions in Puerto Rico and other large institutional groups on the island.

The Puerto Rico Government has payments totaling approximately \$1.9 billion coming due on July 1, 2016 including about \$780 million in general obligation bonds.

Ultimate outcomes from the aforementioned described proposed exchanges are uncertain at this time, and may vary considerably, particularly due to factors that are difficult to predict, such as U.S. federal actions to intervene in this matter and bondholders' willingness to accept the proposed exchange levels. The decline in Puerto Rico's economy since 2006 has resulted in, among other things, a decline in the Corporation's loan originations, an increase in the level of non-performing assets, higher loan loss provisions and charge-offs, all of which have adversely effected our profitability. Any further potential deterioration of economic activity could result in further adverse effects on the Corporation's profitability and credit quality.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

a) Not applicable.

b) Not applicable

c) Purchase of equity securities by the issuer and affiliated purchases. The following table provides information relating to the Corporation's purchases of shares of its common stock in the first quarter of 2016.

Period	Total number of shares purchased (1)	Average price paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under These Plans or Programs
January 2016	25,646	\$ 2.59	-	-
February 2016	24,031	2.51	-	-
March 2016	65,444	2.84	-	-
Total	115,121	\$ 2.71	-	-

(1) Reflects shares of common stock withheld from the common stock paid to certain senior officers as additional compensation which the Corporation calls salary stock, and upon vesting of restricted stock to cover minimum tax withholding obligations. The Corporation intends to continue to satisfy statutory tax withholding obligations in connection with shares paid as salary stock to certain senior officers and the vesting of outstanding restricted stock through the withholding of shares.



**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

123

---

**ITEM 6. EXHIBITS**

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

124

---



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized:

	<b>First BanCorp.</b>
	Registrant

Date: May 10, 2016	By:	/s/ Aurelio Alemán
		Aurelio Alemán
		President and Chief Executive Officer

Date: May 10, 2016	By:	/s/ Orlando Berges
		Orlando Berges
		Executive Vice President and Chief Financial Officer

**Exhibit Index**

12.1 – Ratio of Earnings to Fixed Charges.

12.2 – Ratio of Earnings to Fixed Charges and Preference Dividends.

31.1 – CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 - CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 - CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 - CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.1- Interactive Data File (Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016, furnished in XBRL (eXtensible Business Reporting Language))

