FIRST BANCORP /PR/
Form 10-Q
August 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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)

Puerto Rico (State or other jurisdiction of incorporation or organization)	66-0561882 (I.R.S. employer identification number)
1519 Ponce de León Avenue, Stop 23 Santurce, Puerto Rico (Address of principal executive offices)	00908 (Zip Code)

(787) 729-8200
(Registrant's telephone number, including area code)
Not applicable

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

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

Yesþ 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).

Yesþ 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.

Large accelerated filer ¨ Accelerated filer þ

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

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

Common stock: 217,177,665 shares outstanding as of July 29, 2016.

FIRST BANCORP.

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Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (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 recent payment defaults on the Puerto Rico government general obligations, bonds of the Government Development Bank for Puerto Rico (the“GDB”) and certain bonds of government public corporations, and recent and any future downgrades of the long-term and short-term debt ratings of the Puerto Rico government, which could exacerbate Puerto Rico’s adverse economic conditions and, in turn, further adversely impact the Corporation;

- uncertainty as to the ultimate outcomes of actions resulting from the enactment by the U.S. government of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address Puerto Rico’s financial problems;

- 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 and uncertainty whether such consent will be provided for future interest payments on the subordinated debt despite the consent that enabled the Corporation to pay all the accrued but deferred interest payments plus the interest for the second quarter of 2016 on the Corporation's subordinated debentures associated with its trust preferred 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 have 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 or revise 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)

	June 30, 2016			December 31, 2015	
(In thousands, except for share information)					
ASSETS					
Cash and due from banks	$	617,827		$	532,985
Money market investments:					
Time deposits with other financial institutions		2,800			3,000
Other short-term investments		207,287			216,473
Total money market investments		210,087			219,473
Investment securities available for sale, at fair value:					
Securities pledged that can be repledged		780,895			793,562
Other investment securities		1,222,154			1,092,833
Total investment securities available for sale		2,003,049			1,886,395
Investment securities held to maturity, at amortized cost:					
Securities pledged that can be repledged		-			-
Other investment securities		161,342			161,483
Total investment securities held to maturity		161,342			161,483
Other equity securities		32,379			32,169
Loans, net of allowance for loan and lease losses of $234,454					
(2015 - $240,710)		8,636,293			8,871,672
Loans held for sale, at lower of cost or market		37,958			35,869
Total loans, net		8,674,251			8,907,541
Premises and equipment, net		155,608			161,016
Other real estate owned		139,159			146,801
Accrued interest receivable on loans and investments		45,984			48,697
Other assets		469,016			476,459
Total assets	$	12,508,702		$	12,573,019
LIABILITIES					
Non-interest-bearing deposits	$	1,409,072		$	1,336,559
Interest-bearing deposits		7,815,947			8,001,565
Total deposits		9,225,019			9,338,124
Securities sold under agreements to repurchase		700,000			700,000
		455,000			455,000

Advances from the Federal Home Loan Bank (FHLB)					
Other borrowings		216,187			226,492
Accounts payable and other liabilities		126,043			159,269
Total liabilities		10,722,249			10,878,885
STOCKHOLDERS' EQUITY					
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, 218,278,207 shares (2015 - 216,051,128 shares issued)		21,828			21,605
Less: Treasury stock (at par value)		(115)			(96)
Common stock outstanding, 217,129,074 shares outstanding (2015 - 215,088,698					
shares outstanding)		21,713			21,509
Additional paid-in capital		928,900			926,348
Retained earnings, includes legal surplus reserve of $42,798		783,219			737,922
Accumulated other comprehensive income (loss), net of tax of $7,752		16,517			(27,749)
Total stockholders' equity		1,786,453			1,694,134
Total liabilities and stockholders' equity	$	12,508,702		$	12,573,019

The accompanying notes are an integral part of these statements.

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FIRST BANCORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Quarter Ended June 30, 2016	Quarter Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
(In thousands, except per share information)				
Interest and dividend income:				
Loans	$ 132,111	$ 137,997	$ 267,250	$ 275,497
Investment securities	13,552	13,125	28,171	27,573
Money market investments	1,271	510	2,344	1,047
Total interest income	146,934	151,632	297,765	304,117
Interest expense:				
Deposits	17,224	16,980	34,481	34,674
Securities sold under agreements to repurchase	6,029	5,388	11,505	11,781
Advances from FHLB	1,471	944	2,942	1,878
Other borrowings	1,982	1,843	3,961	3,660
Total interest expense	26,706	25,155	52,889	51,993
Net interest income	120,228	126,477	244,876	252,124
Provision for loan and lease losses	20,986	74,266	42,039	107,236
Net interest income after provision for loan and lease losses	99,242	52,211	202,837	144,888
Non-interest income:				
Service charges and fees on deposit accounts	5,618	5,219	11,418	9,774
Mortgage banking activities	4,893	4,763	9,646	8,381
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	-	(29,521)	(1,845)	(29,521)
Portion of other-than-temporary impairment				
recognized in other comprehensive income (OCI)	-	16,424	(4,842)	16,268
Net impairment losses on available-for-sale debt securities	-	(13,097)	(6,687)	(13,253)

Gain on early extinguishment of debt	-	-	4,217	-
Insurance commission income	1,542	1,522	4,811	4,544
Bargain purchase gain	-	-	-	13,443
Other non-interest income	7,725	8,263	14,834	16,510
Total non-interest income	19,778	6,670	38,247	39,399
Non-interest expenses:				
Employees' compensation and benefits	37,401	37,945	75,836	73,599
Occupancy and equipment	13,043	15,059	27,226	29,408
Business promotion	4,048	3,934	8,051	6,802
Professional fees	11,327	19,005	22,103	34,223
Taxes, other than income taxes	3,756	3,131	7,548	6,132
Insurance and supervisory fees	7,066	6,796	14,409	13,656
Net loss on other real estate owned (OREO) and OREO operations	3,325	4,874	6,531	7,502
Credit and debit card processing expenses	3,274	3,945	6,556	7,902
Communications	1,725	2,045	3,533	3,653
Other non-interest expenses	4,579	6,065	10,748	11,650
Total non-interest expenses	89,544	102,799	182,541	194,527
Income (loss) before income taxes	29,476	(43,918)	58,543	(10,240)
Income tax (expense) benefit	(7,523)	9,844	(13,246)	1,812
Net income (loss)	$ 21,953	$ (34,074)	$ 45,297	$ (8,428)
Net income (loss) attributable to common stockholders	$ 21,953	$ (34,074)	$ 45,297	$ (8,428)
Net income (loss) per common share:				
Basic	$ 0.10	$ (0.16)	$ 0.21	$ (0.04)
Diluted	$ 0.10	$ (0.16)	$ 0.21	$ (0.04)
Dividends declared per common share	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

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FIRST BANCORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Quarter Ended		Six-Month Period Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
(In thousands)				
Net income (loss)	$ 21,953	$ (34,074)	$ 45,297	$ (8,428)
Available-for-sale debt securities on which an other-than-temporary				
impairment has been recognized:				
Unrealized gain on debt securities on which an				
other-than-temporary impairment has been recognized	2,453	683	1,455	1,372
Reclassification adjustment for other-than-temporary impairment				
on debt securities included in net income	-	13,097	6,687	13,253
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 (losses) on				
available-for-sale securities arising during the period	11,422	(23,948)	36,132	(17,653)
Other comprehensive income (loss) for the period, net of tax	13,875	(10,168)	44,266	(3,028)
Total comprehensive income (loss)	$ 35,828	$ (44,242)	$ 89,563	$ (11,456)

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six-Month Period Ended			
	June 30, 2016		June 30, 2015	
(In thousands)				
Cash flows from operating activities:				
Net income (loss)	$	45,297	$	(8,428)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization		9,015		10,561
Amortization of intangible assets		2,442		2,491
Provision for loan and lease losses		42,039		107,236
Deferred income tax expense		11,972		2,683
Stock-based compensation		3,346		3,043
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		13,253
Unrealized loss (gain) on derivative instruments		243		(182)
Net gain on disposition of premises and equipment and other assets		(686)		(178)
Net gain on sales of loans		(5,089)		(3,157)
Net amortization/accretion of premiums, discounts and deferred loan fees and costs		(4,624)		(2,217)
Originations and purchases of loans held for sale		(220,056)		(213,586)
Sales and repayments of loans held for sale		224,765		210,394
Amortization of broker placement fees		1,645		2,504
Net amortization/accretion of premium and discounts on investment securities		1,898		3,803
Decrease in accrued interest receivable		2,713		313
(Decrease) increase in accrued interest payable		(26,580)		1,737
Decrease (increase) in other assets		2,816		(627)
(Decrease) increase in other liabilities		(11,414)		16,523
Net cash provided by operating activities		82,204		132,723
Cash flows from investing activities:				
Principal collected on loans		1,494,316		1,563,520
Loans originated and purchased		(1,321,511)		(1,437,877)
Proceeds from sales of loans held for investment		-		107,702

Proceeds from sales of repossessed assets		27,674		33,720
Proceeds from sales of available-for-sale securities		14,990		-
Purchases of available-for-sale securities		(279,500)		(158,932)
Purchase of securities held to maturity		-		(4,530)
Proceeds from principal repayments and maturities of available-for-sale securities		183,570		141,226
Proceeds from principal repayments and maturities of held-to-maturity securities		141		142
Additions to premises and equipment		(5,280)		(6,161)
Purchases of other equity securities		(210)		(400)
Proceeds from sale of premises and equipment and other assets		2,250		2,511
Net cash received from acquisition		-		217,659
Net cash outflows from purchase/sale of insurance contracts		(960)		-
Net cash provided by investing activities		115,480		458,580
Cash flows from financing activities:				
Net decrease in deposits		(114,613)		(504,270)
Change in securities sold under agreements to repurchase		-		(200,000)
Repurchase of outstanding common stock		(590)		(738)
Repayment of junior subordinated debentures		(7,025)		-
Net cash used in financing activities		(122,228)		(705,008)
Net increase (decrease) in cash and cash equivalents		75,456		(113,705)
Cash and cash equivalents at beginning of period		752,458		796,108
Cash and cash equivalents at end of period	$	827,914	$	682,403
Cash and cash equivalents include:				
Cash and due from banks	$	617,827	$	462,934
Money market instruments		210,087		219,469
	$	827,914	$	682,403
The accompanying notes are an integral part of these statements.				

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Six-Month Period Ended				
	June 30, 2016			June 30, 2015	
(In thousands)					
Preferred Stock	$	36,104		$	36,104
Common Stock outstanding:					
Balance at beginning of period		21,509			21,298
Common stock issued as compensation		44			17
Common stock withheld for taxes		(19)			(12)
Common stock issued in exchange for trust preferred securities		-			85
Restricted stock grants		179			83
Restricted stock forfeited		-			(2)
Balance at end of period		21,713			21,469
Additional Paid-In-Capital:					
Balance at beginning of period		926,348			916,067
Stock-based compensation		3,346			3,043
Common stock withheld for taxes		(571)			(726)
Common stock issued in exchange for trust preferred securities		-			5,543
Restricted stock grants		(179)			(83)
Common stock issued as compensation		(44)			(17)
Restricted stock forfeited		-			2
Balance at end of period		928,900			923,829
Retained Earnings:					
Balance at beginning of period		737,922			716,625
Net income (loss)		45,297			(8,428)
Balance at end of period		783,219			708,197
Accumulated Other Comprehensive Income (Loss), net of tax:					
Balance at beginning of period		(27,749)			(18,351)
Other comprehensive income (loss), net of tax		44,266			(3,028)
Balance at end of period		16,517			(21,379)
Total stockholders' equity	$	1,786,453		$	1,668,220

The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) of First BanCorp. (the “Corporation”) have been prepared in conformity with the accounting policies stated in the Corporation’s Audited Consolidated Financial Statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 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 intercompany accounts and transactions have been eliminated in consolidation.

During the second quarter of 2016, the Corporation reviewed its historical accounting treatment as loans for its $161.3 million of financing arrangements with Puerto Rico municipalities issued in bond form, but underwritten as loans with features that are typically found in commercial loan transactions. This review came as a result of the recent determination of the Federal Reserve Board that the transactions must be treated for regulatory reporting purposes as investment securities. The Puerto Rico Municipal Finance Act (the “Act”) requires the designation of financing arrangements obtained by municipalities with maturities greater than 8 years as “special obligation bonds” subject to specific provisions under the Act. The Corporation has concluded that the impact of accounting for the transactions as investment securities rather than loans does not have a material effect on previously reported results of operations, financial condition, or cash flows and, accordingly, these financing arrangements are now accounted for and reported as held-to-maturity investment securities and not as loans as of June 30, 2016 and for prior periods.

The results of operations for the quarter and six-month period ended June 30, 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 June 2014, the FASB updated the Accounting Standards Codification (the "Codification" or the "ASC") 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 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

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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 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-base 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, and (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.

In June 2016, the FASB updated the Codification and issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), which introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination.

The new model, referred to as the current expected credit losses (CECL) model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses (ECL) should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating ECL. The ASU does not prescribe a specific method to make the estimate so its application will require significant judgment.

Generally, upon initial recognition of a financial asset the estimate of the ECL will be recorded through an allowance for loan and lease losses with an offset to current earnings. Subsequently, the ECL will need to be assessed each period, and both negative and positive changes to the estimate will be recognized through an adjustment to the allowance for loan and lease losses and earnings.

The ASU amends the current available-for-sale security other-than-temporary impairment (OTTI) model for debt securities. The new available-for-sale debt security model will require an estimate of ECL only when the fair value is below the amortized cost of the asset. The length of time the fair value of an available-for-sale debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. As such, the new available-for-sale debt security model is not an OTTI model. In addition, credit losses on available-for-sale debt securities will now be limited to the difference between the security's amortized cost basis and its fair value. The available-for-sale debt security model will also require the use of an allowance to record estimated credit losses (and subsequent recoveries).

The purchased financial assets with credit deterioration (PCD) model applies to purchased financial assets (measured at amortized cost or available-for-sale) that have experienced more than insignificant credit deterioration since origination. This represents a change from the scope of what are considered purchased credit-impaired assets under today's model. In contrast to the accounting for originated or purchased assets that do not qualify as PCD, the initial estimate of expected credit losses for a PCD would be recognized through an allowance for loan and lease losses with an offset to the cost basis of the related financial asset at acquisition (i.e., there is no impact to net income at initial recognition). Subsequently, the accounting will follow the applicable CECL or available-for-sale debt security impairment model with all adjustments of the allowance for loan and lease losses recognized through earnings. Beneficial interests classified as held-to-maturity or available-for-sale will need to apply the PCD model if the beneficial interest meets the definition of PCD or if there is a significant difference between contractual and expected cash flows at initial recognition.

In general, the new guidance will require modified retrospective application to all outstanding instruments, with a cumulative effect adjustment recorded to opening retained earnings as of the beginning of the first period in which the guidance becomes effective. However, prospective application is required for PCD assets previously accounted for under ASC 310-30 and for debt securities for which an other-than-temporary impairment was recognized prior to the date of adoption.

ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year).

The ASU will be effective for public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application of the guidance will be permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

NOTE 2 – EARNINGS PER COMMON SHARE

The calculations of earnings (loss) per common share for the quarters and six-month periods ended June 30, 2016 and 2015 are as follows:

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2016		2015		2016		2015	
(In thousands, except per share information)								
Net income (loss)	$	21,953	$	(34,074)	$	45,297	$	(8,428)
Net income (loss) attributable to common stockholders	$	21,953	$	(34,074)	$	45,297	$	(8,428)
Weighted-Average Shares:								
Average common shares outstanding		212,768		211,247		212,558		210,968
Average potential dilutive common shares		3,155		-		2,040		-
Average common shares outstanding- assuming dilution		215,923		211,247		214,598		210,968
Earnings (loss) per common share:								
Basic	$	0.10	$	(0.16)	$	0.21	$	(0.04)
Diluted	$	0.10	$	(0.16)	$	0.21	$	(0.04)

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 number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. Stock options not included in the computation of outstanding shares because they were antidilutive amounted to 39,855 and 69,848 as of June 30, 2016 and 2015, respectively. Warrants outstanding to purchase 1,285,899 shares of common stock and 2,939,794 unvested shares of restricted stock were excluded from the computation of diluted earnings per share for the quarter and six-month period ended June 30, 2015 because the Corporation reported a net loss attributable to common stockholders for the periods and their inclusion would have an antidilutive effect.

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 1997 stock option plan as of its expiration.

The activity of stock options granted under the 1997 stock option plan for the six-month period ended June 30, 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	0.5	$	-

On May 24, 2016, the Corporation’s stockholders approved the amendment and restatement of the First BanCorp 2008 Omnibus Incentive Plan, as amended (the “Omnibus Plan”), to, among other things, increase the number of shares of Common Stock reserved for issuance under the Omnibus Plan, to extend the term of the Omnibus Plan to May 24, 2026 and to re-approve the material terms of the performance goals under the Omnibus Plan for purposes of Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended. 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, cash-based awards and other stock-based awards. The Omnibus Plan authorizes the issuance of up to 7,335,928 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 half of 2016, the Corporation issued 1,786,137 shares of restricted stock to employees subject to a vesting period of two years. Included in those 1,786,137 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 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 25% of its investment in First BanCorp. Therefore, the restriction on transfer relating to 25% of the shares granted under TARP requirements were released.

The fair value of the shares of restricted stock granted in the first half 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 each share of restricted stock 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 half 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:

	Six-Month Period Ended June 30, 2016		
	Number of shares of restricted stock		Weighted-Average Grant Date Fair Value
Non-vested shares at beginning of year	2,968,461	$	3.34
Granted	1,786,137		1.62
Forfeited	(1,000)		6.03
Vested	(468,391)		3.78
Non-vested shares at June 30, 2016	4,285,207	$	2.57

For the quarter and six-month period ended June 30, 2016, the Corporation recognized $1.0 million and $1.9 million, respectively, of stock-based compensation expense related to restricted stock awards, compared to $1.0 million and $2.0 million for the same periods in 2015. As of June 30, 2016, there was $4.9 million of total unrecognized compensation cost related to nonvested shares of restricted stock. The weighted average period over which the Corporation expects to recognize such cost is 1.7 years.

During the first half 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, during the first half of 2015, the Corporation issued 793,964 shares of restricted stock to employees and independent directors subject to vesting periods that range from 3 months to 3 years. Included in those 793,964 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 six months 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 were forfeited due to employee or director turnover. Approximately $5 thousand and $36 thousand of compensation expense was reversed during the first half of 2016 and 2015, respectively, related to forfeited awards.

Also, under the Omnibus Plan, effective April 1, 2013, the Corporation's Board of Directors determined to increase the salary amounts paid to certain executive officers primarily by paying the increased salary amounts in the form of shares of the Corporation's common stock, instead of cash. During the first half of 2016, the Corporation issued 441,942 shares of common stock (first half of 2015 – 168,265 shares) with a weighted average market value of $3.20 (first half of 2015 – $6.20) as salary stock compensation. This resulted in a compensation expense of $1.4 million recorded in the first half of 2016 (first half of 2015 – $1.0 million).

For the first half of 2016, the Corporation withheld 134,949 shares (first half of 2015 – 56,486 shares) from the common stock paid to certain senior officers as additional compensation and 51,754 shares of restricted stock that vested during the first half of 2016 (first half of 2015 – 61,372) 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 June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016					
	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
	(Dollars in thousands)					
U.S. Treasury securities:						
Due within one year	$ 7,519	$ -	$ 4	$ -	$ 7,523	0.57
Obligations of U.S. government-sponsored agencies:						
Due within one year	14,628	-	16	-	14,644	0.68
After 1 to 5 years	461,198	-	4,172	-	465,370	1.29
After 5 to 10 years	30,037	-	1,018	-	31,055	2.16
After 10 years	45,465	-	60	35	45,490	0.87
Puerto Rico government obligations:						
	21,423	9,785	-	-	11,638	4.38

After 1 to 5 years						
After 5 to 10 years	845	-	1	-	846	5.20
After 10 years	21,178	3,706	169	1,578	16,063	5.38
United States and Puerto Rico						
government obligations	602,293	13,491	5,440	1,613	592,629	1.54
Mortgage-backed securities:						
FHLMC certificates:						
After 5 to 10 years	298	-	31	-	329	4.95
After 10 years	266,916	-	5,730	-	272,646	2.16
	267,214	-	5,761	-	272,975	2.17
GNMA certificates:						
Due within one year	2	-	-	-	2	1.72
After 1 to 5 years	91	-	3	-	94	4.34
After 5 to 10 years	105,841	-	2,951	-	108,792	3.06
After 10 years	150,109	-	14,007	1	164,115	4.38
	256,043	-	16,961	1	273,003	3.83
FNMA certificates:						
After 1 to 5 years	24,726	-	45	85	24,686	1.55
After 5 to 10 years	21,300	-	1,089	-	22,389	2.73
After 10 years	715,204	-	18,185	-	733,389	2.34
	761,230	-	19,319	85	780,464	2.33
Collateralized mortgage						
obligations issued or guaranteed by						
the FHLMC and GNMA:						
After 5 to 10 years	19,854	-	14	24	19,844	1.12

After 10 years		39,843		-		2		45		39,800	1.14
		59,697		-		16		69		59,644	1.13
Other mortgage pass-through											
trust certificates:											
After 5 to 10 years		84		-		-		-		84	7.20
After 10 years		31,708		7,976		-		-		23,732	2.34
		31,792		7,976		-		-		23,816	2.34
Total mortgage-backed											
securities		1,375,976		7,976		42,057		155		1,409,902	2.52
Other											
After 1 to 5 years		100		-		-		-		100	1.50
Equity Securities (1)		410		-		8		-		418	2.13
Total investment securities											
available for sale	$	1,978,779	$	21,467	$	47,505	$	1,768	$	2,003,049	2.22

(1) Equity securities consisted of investment in a Community Reinvestment Act Qualified Investment Fund.

	December 31, 2015					
		Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized			
	Amortized cost		**gains**	**losses**	**Fair value**	**Weighted average yield%**
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:						

	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

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

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

The following tables show the Corporation's available-for-sale investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2016 and December 31, 2015. The tables also include debt securities for which an OTTI was recognized and only the amount related to a credit loss was recognized in earnings. For unrealized losses for which OTTI was recognized, the related credit loss was charged against the amortized cost basis of the debt security.

	As of June 30, 2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
Puerto Rico Government obligations	$ -	$ -	$ 23,349	$ 15,069	$ 23,349	$ 15,069
U.S. Treasury and U.S. government agencies obligations	13,947	35	-	-	13,947	35
Mortgage-backed securities:						
FNMA	22,776	85	-	-	22,776	85
FHLMC	-	-	-	-	-	-
GNMA	-	-	1,054	1	1,054	1
Collateralized mortgage obligations issued or guaranteed by FHLMC and GNMA	40,769	69	-	-	40,769	69
Other mortgage pass-through trust certificates	-	-	23,732	7,976	23,732	7,976
	$ 77,492	$ 189	$ 48,135	$ 23,046	$ 125,627	$ 23,235

	As of December 31, 2015					
	Less than 12 months		12 months or more		Total	
		Unrealized		Unrealized		Unrealized

	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
	(In thousands)					
Debt securities:						
Puerto Rico Government obligations	$ -	$ -	$ 23,008	$ 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
Mortgage-backed securities:						
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
Collateralized mortgage obligations						
issued or guaranteed by FHLMC and GNMA	-	-	-	-	-	-
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 on Available-For-Sale Securities

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 June 30, 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 available-for-sale 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 $31.7 million, and 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:

	Quarter ended June 30,		Six-Month Period Ended June 30,	
	2016	2015	2016	2015
(In thousands)				
Total other-than-temporary impairment losses	$ -	$ (29,521)	$ (1,845)	$ (29,521)
Portion of other-than-temporary impairment recognized in OCI	-	16,424	(4,842)	16,268
Net impairment losses recognized in earnings (1)	$ -	$ (13,097)	$ (6,687)	$ (13,253)

(1) For the first half of 2016 and 2015, approximately $6.3 million and $12.9 million, respectively, of the credit impairment recognized in earnings consisted of credit losses on Puerto Rico Government debt securities and $0.4 million and $0.6 million, respectively, was associated with credit losses on

	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			
	March 31, 2016 Balance	**Credit impairments recognized in earnings on securities not previously impaired**	**Credit impairments recognized in earnings on securities that have been previously impaired**	**June 30, 2016 Balance**
(In thousands)				
Available-for-sale securities				
Puerto Rico Government obligations	$ 22,189	$ -	$ -	$ 22,189
Private label MBS	6,792	-	-	6,792
Total OTTI credit losses for available-for-sale debt securities	$ 28,981	$ -	$ -	$ 28,981

	Cumulative OTTI credit losses recognized in earnings on securities still held			
	December 31, 2015 Balance	**Credit impairments recognized in earnings on securities not previously impaired**	**Credit impairments recognized in earnings on securities that have been previously impaired**	**June 30, 2016 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			
	March 31, 2015 Balance	Credit impairments recognized in earnings on securities not previously impaired	Credit impairments recognized in earnings on securities that have been previously impaired	June 30, 2015 Balance
(In thousands)				
Available-for-sale securities				
Puerto Rico Government obligations	$ -	$ 12,856	$ -	$ 12,856
Private label MBS	5,933	-	241	6,174
Total OTTI credit losses for available-for-sale debt securities	$ 5,933	$ 12,856	$ 241	$ 19,030

	Cumulative OTTI credit losses recognized in earnings on securities still held			
	December 31, 2014 Balance	Credit impairments recognized in earnings on securities not previously impaired	Credit impairments recognized in earnings on securities that have been previously impaired	June 30, 2015 Balance
(In thousands)				
Available-for-sale securities				
Puerto Rico Government obligations	$ -	$ 12,856	$ -	$ 12,856
Private label MBS	5,777	-	397	6,174
Total OTTI credit losses for available-for-sale debt securities	$ 5,777	$ 12,856	$ 397	$ 19,030

In 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 maturing on February 1, 2019 and the Puerto Rico Public Buildings Authority maturing on July 1, 2028. This was 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, and reduced the amortized cost basis of these three Puerto Rico Government debt securities to $34.7 million as of June 30, 2016 ($21.4 million of GDB bonds and $13.3 million of Puerto Rico Public Buildings Authority bonds).

During the first half 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, the issuance of the GDB and the Commonwealth's audited financial statements, 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 of 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%). GDB defaulted on a $28 million payment of interest due to its creditors on August 1, 2016, including interest due on bonds held by the Corporation. As of June 30, 2016, the Corporation had $0.7 million of accrued interest receivable related to such bonds. The default marked the first time the GDB failed to pay interest on bonds held by the Corporation.

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 half 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, 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:

	June 30, 2016				**December 31, 2015**		
	Weighted				**Weighted**		
	Average		**Range**		**Average**		**Range**
Discount rate	14.5%		14.5%		14.5%		14.5%
Prepayment rate	31%		21.83% - 100%		28%		15.92% - 100.00%
Projected Cumulative Loss Rate	7%		0.52% - 80%		7%		0.18% - 80.00%

Investments Held to Maturity

The amortized cost, gross unrealized gains and losses, approximate fair value, weighted-average yield and contractual maturities of investment securities held to maturity as of June 30, 2016 and December 2015 were as follows:

	June 30, 2016					
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
Puerto Rico Municipal Bonds:					
After 1 to 5 years	$ 1,371	$ -	$ 20	$ 1,351	5.38
After 5 to 10 years	11,382	-	728	10,654	4.23
After 10 years	148,589	-	22,629	125,960	4.64
Total investment securities held to maturity	$ 161,342	$ -	$ 23,377	$ 137,965	4.62

	December 31, 2015				
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
Puerto Rico Municipal Bonds:					
After 1 to 5 years	$ 1,371	$ -	$ 37	$ 1,334	5.38
After 5 to 10 years	11,523	-	1,041	10,482	4.25
After 10 years	148,589	-	28,861	119,728	4.64

Total investment securities														
	held to maturity	$	161,483		$	-		$	29,939		$	131,544		4.62

The following tables show the Corporation's held-to-maturity investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2016 and December 31, 2015:

	As of June 30, 2016					
	Less than 12 months		12 months or more		Total	
		Unrealized		Unrealized		Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
	(In thousands)					
Debt securities:						
Puerto Rico Municipal Bonds	$ -	$ -	$ 137,965	$ 23,377	$ 137,965	$ 23,377

	As of December 31, 2015					
	Less than 12 months		12 months or more		Total	
		Unrealized		Unrealized		Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
	(In thousands)					
Debt securities:						
Puerto Rico Municipal Bonds	$ 4,163	$ 140	$ 127,381	$ 29,799	$ 131,544	$ 29,939

Approximately 87% of the held-to-maturity municipal bonds were issued by five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These obligations typically are not issued in bearer form, nor are they registered with the SEC and are not rated by external credit agencies. In most cases, these bonds have priority over to the payment of operating costs and expenses of the municipality, which 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.

The Corporation determines the fair market value of Puerto Rico Municipal Bonds based on a discounted cash flow analysis using risk-adjusted discount rates. A security with similar characteristics traded in the open market is used as a proxy for each municipal bond. Then the cash flow is discounted at the average spread over the discount curve exhibited by the proxy security at the end of each quarter.

When evaluating if the decrease in fair value could be classified as other-than-temporary, management considered aspects such as the fact that all municipalities are current on their payments and the fact that the bonds are subject to periodic credit reviews and are supported by assigned property tax revenues.

Based on the quarterly analysis performed and the circumstances discussed above, management concluded that the unrealized loss is attributable to the time value of money and liquidity assumptions and no individual municipal bond was other-than-temporarily impaired as of June 30, 2016.

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 June 30, 2016 and December 31, 2015, the Corporation had investments in FHLB stock with a book value of $31.1 million and $31.3 million, respectively. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the quarters ended June 30, 2016 and 2015 was $0.4 million and $0.3 million, respectively, and for the six-month periods ended June 30, 2016 and 2015 was $0.7 million and $0.6 million, respectively.

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

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of June 30, 2016 and December 31, 2015 was $1.2 million and $0.9 million, respectively.

NOTE 6 – LOANS HELD FOR INVESTMENT

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

		As of June 30,		**As of December 31,**
		2016		**2015**
(In thousands)				

Residential mortgage loans, mainly secured by first mortgages	$	3,323,844		$	3,344,719
Commercial loans:					
Construction loans		137,406			156,195
Commercial mortgage loans		1,523,676			1,537,806
Commercial and Industrial loans (1)		2,133,623			2,246,513
Total commercial loans		3,794,705			3,940,514
Finance leases		230,025			229,165
Consumer loans		1,522,173			1,597,984
Loans held for investment		8,870,747			9,112,382
Allowance for loan and lease losses		(234,454)			(240,710)
Loans held for investment, net	$	8,636,293		$	8,871,672

(1) As of June 30, 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:

(In thousands)		June 30, 2016		December 31, 2015
Non-performing loans:				
Residential mortgage	$	164,399	$	169,001
Commercial mortgage		200,376		51,333
Commercial and Industrial		154,405		137,051
Construction:				
Land		11,889		12,174
Construction-commercial		38,607		39,466
Construction-residential		2,053		2,996
Consumer:				
Auto loans		14,260		17,435
Finance leases		2,111		2,459
Other consumer loans		10,094		10,858
Total non-performing loans held for investment (1)(2)(3)	$	598,194	$	442,773

(1)	As of June 30, 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 $169.7 million and $173.9 million as of June 30, 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 $421.0 million and $414.9 million of Troubled Debt Restructuring ("TDR")loans that are in compliance with modified terms and in accrual status as of June 30, 2016 and December 31, 2015, respectively.

Loans in Process of Foreclosure

As of June 30, 2016, the recorded investment of residential mortgage loans collateralized by residential real estate property that are in the process of foreclosure amounted to $144.1 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 proceedings, court delays and title issues, among other reasons.

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

As of June 30, 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 (2) (3) (4)	$ -	$ 6,143	$ 83,638	$ 89,781	$ -	$ 46,045	$ 135,826	$ 83,638
Other residential mortgage loans (4)	-	87,083	181,962	269,045	166,556	2,752,417	3,188,018	17,563
Commercial:								
Commercial and Industrial loans	2,169	522	158,425	161,116	-	1,972,507	2,133,623	4,020
Commercial mortgage loans (4)	-	1,354	207,885	209,239	3,134	1,311,303	1,523,676	7,509
Construction:								
Land (4)	-	351	12,188	12,539	-	21,764	34,303	299
Construction-commercial (4)	-	-	38,607	38,607	-	48,591	87,198	-
Construction-residential	-	-	2,053	2,053	-	13,852	15,905	-

(4)								
Consumer:								
Auto loans	62,121	13,969	14,260	90,350	-	784,136	874,486	-
Finance leases	8,379	2,607	2,111	13,097	-	216,928	230,025	-
Other consumer loans	9,146	6,275	14,340	29,761	-	617,926	647,687	4,246
Total loans held for investment	$ 81,815	$ 118,304	$ 715,469	$ 915,588	$ 169,690	$ 7,785,469	$ 8,870,747	$ 117,275

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

(2) 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 $31.7 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 June 30, 2016.

(3) As of June 30, 2016, includes $44.8 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, and land loans past due 30-59 days as of June 30, 2016 amounted to $10.0 million, $149.7 million, $21.8 million, and $1.0 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	-	2,083,631	2,246,513	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	$	8,097,281	$	9,112,382	$	139,987

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

(2) 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.

(3) As of December 31, 2015, includes $37.3 million of defaulted loans collateralizing 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 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.

The Corporation's credit quality indicators by loan type as of June 30, 2016 and December 31, 2015 are summarized below:

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness Category:				
June 30, 2016	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 200,815	$ 51,487	$ -	$ 252,302	$ 1,523,676
Construction:					
Land	13,592	-	-	13,592	34,303
Construction-commercial	38,607	-	-	38,607	87,198
Construction-residential	2,053	-	-	2,053	15,905
Commercial and Industrial	187,686	72,036	478	260,200	2,133,623

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness Category:				
December 31, 2015	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(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 June 30, 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.

	Consumer Credit Exposure-Credit Risk Profile based on Payment activity				
	Residential Real Estate		Consumer		
June 30, 2016	**FHA/VA/ Guaranteed (1)**	**Other residential loans**	**Auto**	**Finance Leases**	**Other Consumer**
(In thousands)					
Performing	$ 135,826	$ 2,857,063	$ 860,226	$ 227,914	$ 637,593
Purchased Credit-Impaired (2)	-	166,556	-	-	-
Non-performing	-	164,399	14,260	2,111	10,094
Total	$ 135,826	$ 3,188,018	$ 874,486	$ 230,025	$ 647,687

(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 $31.7 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 June 30, 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.

	Consumer Credit Exposure-Credit Risk Profile based on Payment activity				
	Residential Real Estate		Consumer		
December 31, 2015	**FHA/VA/ Guaranteed (1)**	**Other residential loans**	**Auto**	**Finance Leases**	**Other Consumer**
(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
Total	$ 143,141	$ 3,201,578	$ 934,980	$ 229,165	$ 663,004

(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.

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

Impaired Loans								
(In thousands)								
					Quarter ended		**Six-month Period Ended**	
					June 30, 2016			
	Recorded Investment	**Unpaid Principal Balance**	**Related Specific Allowance**	**Year-To-Date Average Recorded Investment**	**Interest Income Recognized on Accrual Basis**	**Interest Income Recognized on Cash Basis**	**Interest Income Recognized on Accrual Basis**	**Interest Income Recognized on Cash Basis**
As of June 30, 2016								
With no related allowance recorded:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	58,474	69,873	-	60,041	153	102	241	194
Commercial:								
Commercial mortgage loans	44,639	54,226	-	45,243	278	123	509	258
Commercial and Industrial Loans	13,812	17,131	-	14,008	37	-	37	-
Construction:								
Land	-	-	-	-	-	-	-	-
Construction-commercial	38,607	40,000	-	39,037	-	-	-	-
Construction-residential	956	1,531	-	956	-	-	-	-
Consumer:								
Auto loans	2	2	-	3	-	-	-	-
Finance leases	14	14	-	15	-	-	-	-
Other consumer loans	3,303	4,430	-	3,500	5	34	17	72
	$ 159,807	$ 187,207	$ -	$ 162,803	$ 473	$ 259	$ 804	$ 524
With an allowance recorded:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	393,806	444,389	11,972	399,060	4,706	249	9,311	570

Other residential mortgage loans								
Commercial:								
Commercial mortgage loans	166,709	174,843	40,071	167,614	96	31	202	270
Commercial and Industrial Loans	183,556	210,474	27,750	187,504	629	59	1,157	88
Construction:								
Land	9,261	13,451	991	9,314	8	16	20	27
Construction-commercial	-	-	-	-	-	-	-	-
Construction-residential	392	551	123	392	-	-	-	-
Consumer:								
Auto loans	24,369	24,369	3,669	25,518	470	-	936	-
Finance leases	2,298	2,298	57	2,467	55	-	105	-
Other consumer loans	13,576	13,944	1,739	14,106	362	7	713	17
	$ 793,967	$ 884,319	$ 86,372	$ 805,975	$ 6,326	$ 362	$ 12,444	$ 972
Total:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	452,280	514,262	11,972	459,101	4,859	351	9,552	764
Commercial:								
Commercial mortgage loans	211,348	229,069	40,071	212,857	374	154	711	528
Commercial and Industrial Loans	197,368	227,605	27,750	201,512	666	59	1,194	88
Construction:								
Land	9,261	13,451	991	9,314	8	16	20	27
Construction-commercial	38,607	40,000	-	39,037	-	-	-	-
Construction-residential	1,348	2,082	123	1,348	-	-	-	-
Consumer:								
Auto loans	24,371	24,371	3,669	25,521	470	-	936	-
Finance leases	2,312	2,312	57	2,482	55	-	105	-
Other consumer loans	16,879	18,374	1,739	17,606	367	41	730	89
	$ 953,774	$ 1,071,526	$ 86,372	$ 968,778	$ 6,799	$ 621	$ 13,248	$ 1,496

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Average Recorded Investment
As of December 31, 2015				
With no related allowance recorded:				
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
With an allowance recorded:				
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
Total:				
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
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 $8.9 million ($6.1 million accrual basis and $2.8 million cash basis) and $18.1 million ($12.1 million accrual basis and $6.0 million cash basis) was recognized on impaired loans for the second quarter and six-month period ended June 30, 2015, respectively.

The following tables show the activity for impaired loans and the related specific reserve for the quarters and six-month periods ended June 30, 2016 and 2015:

(In thousands)	Quarter Ended June 30, 2016	Quarter Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
Impaired Loans:				
Balance at beginning of period	$ 917,591	$ 954,981	$ 806,509	$ 945,407
Loans determined impaired during the period	76,947	34,889	234,931	97,822
Charge-offs (1)	(11,249)	(70,813)	(19,601)	(82,528)
Loans sold, net of charge-offs	-	(66,699)	-	(67,836)
Increases to impaired loans-additional disbursements	414	1,597	1,761	2,116
Foreclosures	(9,189)	(10,234)	(16,610)	(20,186)
Loans no longer considered impaired	(4,547)	(3,287)	(24,886)	(13,185)
Paid in full or partial payments	(16,193)	(15,618)	(28,330)	(36,794)
Balance at end of period	$ 953,774	$ 824,816	$ 953,774	$ 824,816

(1) Includes $63.9 million of charge-offs related to a bulk sale of assets completed in the second quarter of 2015, mostly comprised of non-performing and adversely classified commercial loans, as further discussed below.

(In thousands)	Quarter Ended June 30, 2016	Quarter Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
Specific Reserve:				
Balance at beginning of period	$ 81,495	$ 62,140	$ 52,581	55,205
Provision for loan losses	16,126	53,707	53,392	72,357
Net charge-offs	(11,249)	(65,929)	(19,601)	(77,644)
	$ 86,372	$ 49,918	$ 86,372	$ 49,918

Balance at end of period														

PCI Loans

The Corporation acquired PCI loans accounted for under ASC 310-30 as part of the 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 that 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:

	June 30, 2016		December 31, 2015	
(In thousands)				
Residential mortgage loans	$	166,556	$	170,766
Commercial mortgage loans		3,134		3,147
Total PCI loans	$	169,690	$	173,913
Allowance for loan losses		(6,857)		(3,962)
Total PCI loans, net of allowance for loan losses	$	162,833	$	169,951

The following tables present PCI loans by past due status as of June 30, 2016 and December 31, 2015:

As of June 30, 2016 (In thousands)	30-59 Days	60-89 Days	90 days or more	Total Past Due	Current	Total PCI loans
	$ -	$ 12,354	$ 25,546	$ 37,900	$ 128,656	$ 166,556

	30-59 Days	60-89 Days	90 days or more	Total Past Due	Current	Total PCI loans
Residential mortgage loans (1)						
Commercial mortgage loans (1)	-	-	990	990	2,144	3,134
	$ -	$ 12,354	$ 26,536	$ 38,890	$ 130,800	$ 169,690

(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 and commercial mortgage loans past due 30-59 days as of June 30, 2016 amounted to $22.2 million and $0.6 million, respectively.

As of December 31, 2015 (In thousands)	**30-59 Days**	**60-89 Days**	**90 days or more**	**Total Past Due**	**Current**	**Total PCI loans**
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 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 an acquisition of loans, 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 half of 2016, the Corporation increased by $2.9 million to $6.9 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 expected performance and market conditions.

Changes in the accretable yield of PCI loans for the quarters and six-month periods ended June 30, 2016 and 2015 were as follows:

	Quarter ended					Six-month period ended			
	June 30, 2016		June 30, 2015			June 30, 2016		June 30, 2015	
(In thousands)									
Balance at beginning of period	$	114,098	$	118,502		$	118,385	$	82,460
Additions (accretable yield at acquisition									
of loans from Doral)		-		-			-		38,319
Accretion recognized in earnings		(2,927)		(3,007)			(5,816)		(5,284)
Reclassification from non-accretable		11,008		8,793			9,610		8,793

Balance at end of period	$	122,179		$	124,288		$	122,179		$	124,288

Changes in the carrying amount of loans accounted for pursuant to ASC 310-30 follows:

	Quarter Ended		Six-Month Period Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
(In thousands)				
Balance at beginning of period	$ 172,332	$ 181,114	$ 173,913	$ 102,604
Additions (1)	-	-	-	79,889
Accretion	2,927	3,007	5,816	5,284
Collections	(4,581)	(5,627)	(8,952)	(9,283)
Foreclosures	(988)	-	(1,087)	-
Ending balance	$ 169,690	$ 178,494	$ 169,690	$ 178,494
Allowance for loan losses	(6,857)	(3,164)	(6,857)	(3,164)
Ending balance, net of allowance for loan losses	$ 162,833	$ 175,330	$ 162,833	$ 175,330

(1) For the six-month period ended June 30, 2015, additions represents the estimated fair value of PCI loans acquired from Doral Bank at the date of acquisition.

Changes in the allowance for loan losses related to PCI loans follows:

	Quarter ended		Six-month period ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(In thousands)			
Balance at beginning of period	$ 4,568	$ -	$ 3,962	$ -
Provision for loan losses	2,289	3,164	2,895	3,164
Balance at end of period	$ 6,857	$ 3,164	$ 6,857	$ 3,164

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to $212.7 million as of June 30, 2016 (December 2015 - $218.1 million).

Purchases and Sales of Loans

During the first half of 2016, the Corporation purchased $42.1 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 $72.8 million of performing residential mortgage loans to FNMA and FHLMC during the first half of 2016. Also, during the first half of 2016, the Corporation sold $146.3 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 Topic 860, *Transfer and Servicing*, once the Corporation has the unilateral ability to repurchase the delinquent loan, it is considered to have regained effective control over the loan and is required to recognize the loan and a corresponding repurchase liability on the balance sheet regardless of the Corporation's intent to repurchase the loan.

During the first half of 2016 and 2015, the Corporation repurchased pursuant to its repurchase option with GNMA $14.6 million and $6.3 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 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 $0.7 million and $0.5 million during the first half 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 half of 2016. Historically, losses experienced on these loans have been immaterial. As a consequence, as of June 30, 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.

Bulk Sale of Assets

During the second quarter of 2015, the Corporation completed the sale of commercial and construction loans with a book value of $147.5 million ($90.7 million of commercial mortgage loans, $45.8 million of commercial and industrial loans, and $11.0 million of construction loans), comprised mostly of non-performing and adversely classified loans, as well as other real estate owned ("OREO") with a book value of $2.9 million, in a cash transaction. The sales price of this bulk sale was $87.3 million. Approximately $15.3 million of reserves had been allocated to the loans. This transaction resulted in total charge-offs of $61.4 million and an incremental pre-tax loss of $48.7 million, including $0.9 million in professional service fees directly attributable to the bulk sale.

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 $8.9 billion as of June 30, 2016, approximately 80% have credit risk concentration in Puerto Rico, 13% in the United States, and 7% in the USVI and BVI.

As of June 30, 2016, the Corporation had $145.9 million of credit facilities extended to the Puerto Rico government, its municipalities, and public corporations, of which $138.1million was outstanding (book value of

$131.7 million), compared to $153.2 million outstanding as of December 31, 2015. In addition, the outstanding balance of credit facilities granted to the government of the Virgin Islands amounted to $64.8 million as of June 30, 2016, compared to $126.2 million as of December 31, 2015. Approximately $91.9 million of the granted credit facilities outstanding ($85.6million book value) consisted of loans to public corporations, including a direct exposure to the Puerto Rico Electric Power Authority ("PREPA") with a book value of $68.3 million as of June 30, 2016, and approximately $9.7 million consisted of loans to units of the Puerto Rico central government. 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. In addition, the Corporation had $36.5 million of loans extended to municipalities in Puerto Rico, which in most cases are supported by assigned property tax revenues. Municipalities' revenues are independent of the Puerto Rico central government. 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, the GDB and the Municipal Revenue Collection Center (CRIM) signed a deed of trust. Through this deed, the 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.

Furthermore, as of June 30, 2016, the Corporation had $127.3 million 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 Puerto Rico Tourism Development Fund ("TDF") provides a secondary guarantee for payment performance, compared to $129.4 million as of December 31, 2015. This exposure, consisting of three facilities, was placed in non-accrual status and classified as impaired in the first quarter of 2016 and interest payments are now applied against principal. Approximately $1.0 million of interest payments received on loans guaranteed by the TDF since late March 2016 have been applied against principal. The TDF is a subsidiary of the GDB that facilitates private sector financings to Puerto Rico's hotel industry. Recent developments related to the Puerto Rico government's fiscal situation introduced additional uncertainty regarding the TDF's ability to honor its guarantee, including the enactment of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act ("Act 21"), 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. On June 30, 2016, pursuant to Act 21, the Puerto Rico governor ordered a moratorium on the payment of $780 million of the Puerto Rico Government's general obligations and the debt of certain other instrumentalities due on July 1, 2016. This followed a default on the principal payment of $367 million of GDB notes due on May 1, 2016. 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. Recently, the GDB defaulted on a $28 million payment of interest due to its creditors on August 1, 2016, including interest due on GDB bonds held by the Corporation. The Corporation’s collections of principal and interest from the TDF in the first half of 2016 amounted to $0.6 million compared to $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 allowance for loan losses. As of June 30, 2016, the total reserve coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 19.5%.

In addition, the Corporation had $122.7 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 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 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 June 30, 2016, the Corporation's total TDR loans held for investment of $671.0 million consisted of $381.8 million of residential mortgage loans, $160.9 million of commercial and industrial loans, $45.0 million of commercial mortgage loans, $41.7 million of construction loans, and $41.7 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $8.0 million as of June 30, 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 a foreclosure action absent some lender concession. Nevertheless, if the Corporation is not reasonably assured that the borrower will comply with its contractual commitment, properties are foreclosed.

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of June 30, 2016, we classified an additional $8.3 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, 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 are not considered to be concessions, and the loans continue to be recorded as performing.

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

	June 30, 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	$ 29,727	$ 7,750	$ 291,870	$ -	$ 52,411	$ 381,758
Commercial Mortgage Loans	5,846	1,227	25,227	-	12,729	45,029
Commercial and Industrial Loans	2,185	71,285	27,972	3,009	56,413	160,864
Construction Loans:						
Land	-	226	2,153	-	325	2,704

Construction-commercial	-	-	-	38,607	-	38,607
Construction-residential	-	-	-	-	357	357
Consumer Loans - Auto	-	2,049	14,246	-	8,075	24,370
Finance Leases	-	431	1,881	-	-	2,312
Consumer Loans - Other	347	1,775	10,667	274	1,927	14,990
Total Troubled Debt Restructurings	$ 38,105	$ 84,743	$ 374,016	$ 41,890	$ 132,237	$ 670,991

(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 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	$ 29,066	$ 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

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

(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:

	Quarter Ended		Six-Month Period Ended	
(In thousands)	June 30,		June 30,	
	2016	2015	2016	2015
Beginning balance of TDRs	$ 659,104	$ 705,123	$ 661,591	$ 694,453
New TDRs	34,260	34,195	50,479	65,796
Increases to existing TDRs - additional				
disbursements	355	-	1,056	335
Charge-offs post modification (1)	(4,632)	(49,599)	(10,454)	(53,380)
Sales, net of charge-offs	-	(44,048)	-	(44,048)
Foreclosures	(4,579)	(3,096)	(7,400)	(10,252)
Removed from the TDR classification	(3,031)	-	(3,031)	-
Paid-off and partial payments	(10,486)	(7,814)	(21,250)	(18,143)
Ending balance of TDRs	$ 670,991	$ 634,761	$ 670,991	$ 634,761

(1) Includes $45.3 million of charge offs related to TDRs included in the bulk sale of assets completed in the second quarter of 2015.

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. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR, or an impaired loan in the calendar years subsequent to the restructuring, if it is in compliance with its modified terms. During the first half of 2016, the Corporation removed a $3.0 million loan from the TDR classification as the borrower is no longer experiencing financial difficulties and the loan was refinanced at market terms and does not contain any concession to the borrower.

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

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

(In thousands)	As of June 30, 2016					
	Accrual		Nonaccrual (1)		Total TDRs	
Non-FHA/VA Residential Mortgage loans	$	301,318	$	80,440	$	381,758
Commercial Mortgage Loans		29,915		15,114		45,029
Commercial and Industrial Loans		57,991		102,873		160,864
Construction Loans:						
Land		909		1,795		2,704
Construction-commercial		-		38,607		38,607
Construction-residential		-		357		357
Consumer Loans - Auto		16,320		8,050		24,370
Finance Leases		2,244		68		2,312
Consumer Loans - Other		12,275		2,715		14,990
Total Troubled Debt Restructurings	$	420,972	$	250,019	$	670,991

(1) Included in non-accrual loans are $120.3 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 are deemed fully collectible.

(In thousands)	As of December 31, 2015					
	Accrual		Nonaccrual (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

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

(1)	Included in non-accrual loans are $118.2 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.

TDR loans exclude restructured residential mortgage loans that are guaranteed by the U.S. federal government (i.e., FHA/VA loans) totaling $70.9 million as of June 30, 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.

Loan modifications that are considered TDRs completed during the quarter and six-month period ended June 30, 2016 and 2015 were as follows:

(Dollars in thousands)	**Quarter ended June 30, 2016**						
	Number of contracts		**Pre-modification Outstanding Recorded Investment**			**Post-Modification Outstanding Recorded Investment**	
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	54		$	7,397		$	7,132
Commercial Mortgage Loans	3			2,672			2,668
Commercial and Industrial Loans	19			20,261			20,261
Consumer Loans - Auto	165			2,718			2,718
Finance Leases	12			242			242
Consumer Loans - Other	269			1,222			1,239
Total Troubled Debt Restructurings	522		$	34,512		$	34,260
(Dollars in thousands)	**Six-Month period ended June 30, 2016**						
	Number of contracts		**Pre-modification Outstanding Recorded Investment**			**Post-Modification Outstanding Recorded Investment**	
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	112		$	16,409		$	15,591
Commercial Mortgage Loans	3			2,672			2,668
Commercial and Industrial Loans	19			20,261			20,261
Consumer Loans - Auto	423			7,699			7,699
Finance Leases	48			1,182			1,182
Consumer Loans - Other	605			3,043			3,078
Total Troubled Debt Restructurings	1,210		$	51,266		$	50,479

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(Dollars in thousands)	Quarter ended June 30, 2015				
	Number of contracts	Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:					
Non-FHA/VA Residential Mortgage loans	171	$	28,647	$	27,136
Commercial Mortgage Loans	1		131		131
Commercial and Industrial Loans	2		1,316		898
Construction Loans:					
Land	5		430		427
Consumer Loans - Auto	198		3,214		3,137
Finance Leases	16		461		454
Consumer Loans - Other	355		2,015		2,012
Total Troubled Debt Restructurings	748	$	36,214	$	34,195

(Dollars in thousands)	Six-Month period ended June 30, 2015				
	Number of contracts	Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:					
Non-FHA/VA Residential Mortgage loans	252	$	40,142	$	38,401
Commercial Mortgage Loans	9		12,952		13,062
Commercial and Industrial Loans	3		2,997		2,579
Construction Loans:					
Land	6		494		491
Consumer Loans - Auto	344		5,387		5,267
Finance Leases	24		694		638
Consumer Loans - Other	732		5,406		5,358
Total Troubled Debt Restructurings	1,370	$	68,072	$	65,796

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 and six-month periods ended June 30, 2016 and June 30, 2015 and had become TDR during the 12-months preceding the default date were as follows:

	Quarter ended June 30,			
(Dollars in thousands)	2016		2015	
	Number of contracts	**Recorded Investment**	**Number of contracts**	**Recorded Investment**
Non-FHA/VA Residential Mortgage loans	10	$ 1,178	15	$ 2,129
Commercial Mortgage Loans	-	-	-	-
Commercial and Industrial Loans	-	-	-	-
Construction Loans:				
Land	-	-	-	-
Construction-commercial	-	-	-	-
Construction-residential	-	-	-	-
Consumer Loans - Auto	31	498	5	32
Consumer Loans - Other	34	116	37	141
Finance Leases	-	-	2	25
Total	75	$ 1,792	59	$ 2,327

	Six-Month Period Ended June 30,			
(Dollars in thousands)	2016		2015	
	Number of contracts	**Recorded Investment**	**Number of contracts**	**Recorded Investment**
Non-FHA/VA Residential Mortgage loans	21	$ 3,156	27	$ 3,902
Commercial Mortgage Loans	-	-	-	-
Commercial and Industrial Loans	-	-	4	5,745
Construction Loans:				

Land	-			-		-			-
Construction-commercial	-			-		-			-
Construction-residential	-			-		-			-
Consumer Loans - Auto	40			634		7			40
Consumer Loans - Other	67			246		90			370
Finance Leases	1			13		3			40
Total	129		$	4,049		131		$	10,097

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 in 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 $38.3 million as of June 30, 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 six months of 2016 and 2015:

(In thousands)	June 30, 2016			June 30, 2015	
Principal balance deemed collectible at end of period	$	38,259		$	41,000
Amount charged off	$	-		$	-
Charges (reductions) to the provision for loan losses	$	1,948		$	(62)
Allowance for loan losses at end of period	$	2,809		$	669

Of the loans comprising the $38.3 million that have been deemed collectible, approximately $38.1 million were placed in accrual status as the borrowers have exhibited a period of sustained performance. These loans continue to be individually evaluated for impairment purposes.

NOTE 7 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended June 30, 2016						
Allowance for loan and lease losses:						
Beginning balance	$ 38,548	$ 68,744	$ 71,098	$ 3,013	$ 56,722	$ 238,125
Charge-offs	(11,532)	(1,437)	(1,914)	(513)	(12,970)	(28,366)
Recoveries	841	33	676	144	2,015	3,709
Provision (release)	11,098	2,459	(71)	103	7,397	20,986
Ending balance	$ 38,955	$ 69,799	$ 69,789	$ 2,747	$ 53,164	$ 234,454
Ending balance: specific reserve for impaired loans	$ 11,972	$ 40,071	$ 27,750	$ 1,114	$ 5,465	$ 86,372
Ending balance: purchased credit-impaired loans (1)	$ 6,638	$ 219	$ -	$ -	$ -	$ 6,857
Ending balance: general allowance	$ 20,345	$ 29,509	$ 42,039	$ 1,633	$ 47,699	$ 141,225
Loans held for investment:						
Ending balance	$ 3,323,844	$ 1,523,676	$ 2,133,623	$ 137,406	$ 1,752,198	$ 8,870,747
Ending balance: impaired loans	$ 452,280	$ 211,348	$ 197,368	$ 49,216	$ 43,562	$ 953,774

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Ending balance: purchased credit-impaired loans	$ 166,556	$ 3,134	$ -	$ -	$ -	$ 169,690
Ending balance: loans with general allowance	$ 2,705,008	$ 1,309,194	$ 1,936,255	$ 88,190	$ 1,708,636	$ 7,747,283

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Six-Month period ended June 30, 2016						
Allowance for loan and lease losses:						
Beginning balance	$ 39,570	$ 68,211	$ 68,768	$ 3,519	$ 60,642	$ 240,710
Charge-offs	(18,838)	(2,012)	(5,673)	(604)	(27,774)	(54,901)
Recoveries	1,187	79	956	161	4,223	6,606
Provision (release)	17,036	3,521	5,738	(329)	16,073	42,039
Ending balance	$ 38,955	$ 69,799	$ 69,789	$ 2,747	$ 53,164	$ 234,454
Ending balance: specific reserve for impaired loans	$ 11,972	$ 40,071	$ 27,750	$ 1,114	$ 5,465	$ 86,372
Ending balance: purchased credit-impaired loans (1)	$ 6,638	$ 219	$ -	$ -	$ -	$ 6,857
Ending balance: general allowance	$ 20,345	$ 29,509	$ 42,039	$ 1,633	$ 47,699	$ 141,225
Loans held for investment:						
Ending balance	$ 3,323,844	$ 1,523,676	$ 2,133,623	$ 137,406	$ 1,752,198	$ 8,870,747
Ending balance:	$ 452,280	$ 211,348	$ 197,368	$ 49,216	$ 43,562	$ 953,774

impaired loans												
Ending balance: purchased credit-impaired loans	$	166,556	$	3,134	$	-	$	-	$	-	$	169,690
Ending balance: loans with general allowance	$	2,705,008	$	1,309,194	$	1,936,255	$	88,190	$	1,708,636	$	7,747,283

(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 June 30, 2015						
Allowance for loan and lease losses:						
Beginning balance	$ 28,682	$ 45,027	$ 70,179	$ 13,639	$ 68,537	$ 226,064
Charge-offs	(3,529)	(46,432)	(24,370)	(4,079)	(14,538)	(92,948)
Recoveries	272	6,219	2,501	1,996	3,148	14,136
Provision	8,358	44,278	15,590	309	5,731	74,266
Ending balance	$ 33,783	$ 49,092	$ 63,900	$ 11,865	$ 62,878	$ 221,518
Ending balance: specific reserve for impaired loans	$ 17,136	$ 6,711	$ 15,510	$ 2,256	$ 8,305	$ 49,918
Ending balance: purchased credit-impaired loans	$ 3,061	$ 102	$ -	$ -	$ -	$ 3,163
Ending balance: general allowance	$ 13,586	$ 42,279	$ 48,390	$ 9,609	$ 54,573	$ 168,437
Loans held for investment:						
Ending balance	$ 3,327,350	$ 1,518,151	$ 2,185,701	$ 120,848	$ 1,899,215	$ 9,051,265
Ending balance: impaired loans	$ 447,311	$ 130,743	$ 183,119	$ 26,190	$ 37,453	$ 824,816
Ending balance: purchased credit-impaired loans	$ 175,234	$ 3,260	$ -	$ -	$ -	$ 178,494
Ending balance: loans	$ 2,704,805	$ 1,384,148	$ 2,002,582	$ 94,658	$ 1,861,762	$ 8,047,955

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
with general allowance						
Six-Month period ended June 30, 2015						
Allowance for loan and lease losses:						
Beginning balance	$ 27,301	$ 50,894	$ 63,721	$ 12,822	$ 67,657	$ 222,395
Charge-offs	(8,721)	(50,438)	(28,823)	(4,684)	(32,295)	(124,961)
Recoveries	370	6,495	3,059	2,203	4,721	16,848
Provision	14,833	42,141	25,943	1,524	22,795	107,236
Ending balance	$ 33,783	$ 49,092	$ 63,900	$ 11,865	$ 62,878	$ 221,518
Ending balance: specific reserve for impaired loans	$ 17,136	$ 6,711	$ 15,510	$ 2,256	$ 8,305	$ 49,918
Ending balance: purchased credit-impaired loans	$ 3,061	$ 102	$ -	$ -	$ -	$ 3,163
Ending balance: general allowance	$ 13,586	$ 42,279	$ 48,390	$ 9,609	$ 54,573	$ 168,437
Loans held for investment:						
Ending balance	$ 3,327,350	$ 1,518,151	$ 2,185,701	$ 120,848	$ 1,899,215	$ 9,051,265
Ending balance: impaired loans	$ 447,311	$ 130,743	$ 183,119	$ 26,190	$ 37,453	$ 824,816
Ending balance: purchased credit-impaired loans	$ 175,234	$ 3,260	$ -	$ -	$ -	$ 178,494
Ending	$ 2,704,805	$ 1,384,148	$ 2,002,582	$ 94,658	$ 1,861,762	$ 8,047,955

balance: loans with general allowance																	

As discussed in Note 6, under the heading “Bulk Sale of Assets,” during the second quarter of 2015, the Corporation completed the sale of commercial and construction loans with a book value of $147.5 million, mostly comprised of non-performing and adversely classified loans. This transaction resulted in charge-offs of approximately $61.4 million. The inclusion of the $61.4 million of charge-offs from the bulk sale in the historical loss rates had an impact of approximately $15.5 million on the general reserve for loan losses determined for loans collectively evaluated for impairment.

The Corporation incorporated the charge-offs information from the second quarter 2015 bulk sale in its measurement of credit impairment for loans collectively measured. The total bulk sale charge offs were included in the determination of historical loss rates with no reduction for the additional market discount related to the bulk sale resolution; in the past, the Corporation had separated the market component of the loss. The decision to include total charge-offs, with no qualitative adjustment for the steep discount on this bulk sale, considered the potential use of similar credit resolution strategies in the future in light of the current economic conditions in Puerto Rico. The effect of this position resulted in an increase of $15.5 million in the related allowance in the second quarter of 2015.

As of June 30, 2016, the Corporation maintained a $1.1million reserve for unfunded loan commitments ($0.5 million as of June 30, 2015) mainly related to an outstanding floor plan relationship. 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:

(In thousands)	June 30, 2016			December 31, 2015	
Residential mortgage loans	$	29,879		$	27,734
Construction loans		8,079			8,135
Total	$	37,958		$	35,869

Non-performing loans held for sale totaled $8.1million as of June 30, 2016 and December 31, 2015.

NOTE 9 – OTHER REAL ESTATE OWNED

The following table presents OREO inventory as of the dates indicated:

(In thousands)	June 30, 2016			December 31, 2015	
OREO					
OREO balances, carrying value:					
Residential (1)	$	42,913		$	43,563
Commercial		82,054			87,849
Construction		14,192			15,389
Total	$	139,159		$	146,801

(1) Excludes $13.0 million and $8.9 million as of June 30, 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 June 30, 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 generally participates as a buyer in one of the agreements and as a seller in the other agreement under the same terms and conditions.

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

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

	Notional Amounts (1)				
	As of June 30, 2016			As of December 31, 2015	
	(In thousands)				
Undesignated economic hedges:					
Interest rate contracts:					
Written interest rate cap agreements	$	91,510		$	120,816
Purchased interest rate cap agreements		91,510			120,816
Forward Contracts:					
Sale of TBA GNMA MBS pools		33,000			30,000
	$	216,020		$	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 and the location in the statement of financial condition as of the indicated dates:

	Asset Derivatives						Liability Derivatives				
	Statement of Financial Condition Location		June 30, 2016 Fair Value		December 31, 2015 Fair Value		Statement of Financial Condition Location		June 30, 2016 Fair Value		December 31, 2015 Fair Value
(In thousands)											
Undesignated economic hedges:											
Interest rate contracts:											
		$	-	$	-			$	217	$	798

Written interest rate cap agreements	Other assets			Accounts payable and other liabilities			
Purchased interest rate cap agreements	Other assets		212	806	Accounts payable and other liabilities	-	-
Forward Contracts:							
Sales of TBA GNMA MBS pools	Other assets		-	-	Accounts payable and other liabilities	359	123
			$ 212	$ 806		$ 576	$ 921

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

		Gain (or Loss)		Gain (or Loss)	
	Location of Gain or (loss)	Quarter Ended		Six-Month Period Ended	
	Recognized in Income on	June 30,		June 30,	
(In thousands)	Derivatives	2016	2015	2016	2015
Undesignated economic hedges:					
Interest rate contracts:					
Written and purchased interest rate cap agreements	Interest income - Loans	$ (3)	$ -	$ (7)	$ -
Forward contracts:					
Sales of TBA GNMA MBS pools	Mortgage banking activities	(87)	254	(236)	182
Total (loss) gain on derivatives		$ (90)	$ 254	$ (243)	$ 182

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

				Gross Amounts Not Offset in the Statement of Financial Position		
As of June 30, 2016 (In thousands)	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Statement of Financial Position**	**Net Amounts of Assets Presented in the Statement of Financial Position**	**Financial Instruments**	**Cash Collateral**	**Net Amount**
Description						
Derivatives	$ 212	$ -	$ 212	$ (212)	$ -	$ -
Securities purchased under agreements to resell	200,000	(200,000)	-	-	-	-
Total	$ 200,212	$ (200,000)	$ 212	$ (212)	$ -	$ -

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized	**Gross Amounts Offset in the**	**Net Amounts of Assets Presented**	**Financial**	**Cash**	

As of December 31, 2015		**Assets**		**Statement of Financial Position**		**in the Statement of Financial Position**		**Instruments**		**Collateral**		**Net Amount**
(In thousands)												
Description												
Derivatives	$	806	$	**-**	$	806	$	(806)	$	-	$	-
Securities purchased under agreements to resell		200,000		(200,000)		-		-		-		-
Total	$	200,806	$	(200,000)	$	806	$	(806)	$	-	$	-

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Offsetting of Financial Liabilities and Derivative Liabilities

As of June 30, 2016 (In thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral	Net Amount
Description						
Securities sold under agreements to repurchase	$ 600,000	$ (200,000)	$ 400,000	$ (400,000)	$ -	$ -

As of December 31, 2015 (In thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral	Net Amount
Description						
Securities sold under agreements to repurchase	$ 600,000	$ (200,000)	$ 400,000	$ (400,000)	$ -	$ -

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

NOTE 12 – GOODWILL AND OTHER INTANGIBLES

Goodwill as of June 30, 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 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 half 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 5.4 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 ($4.7 million as of June 30, 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 ($1.0 million as of June 30, 2016), which is being amortized over the next 6.6 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 June 30, 2016			As of December 31, 2015	
(Dollars in thousands)					
Core deposit intangible:					
Gross amount, beginning of period	$	51,664		$	45,844

Addition as a result of acquisition		-			5,820
Accumulated amortization		(43,482)			(42,498)
Net carrying amount	$	8,182		$	9,166
Remaining amortization period		8.5 years			9.0 years
Purchased credit card relationship intangible:					
Gross amount	$	24,465		$	24,465
Accumulated amortization		(12,540)			(11,146)
Net carrying amount	$	11,925		$	13,319
Remaining amortization period		5.4 years			5.8 years
Insurance Customer relationship intangible:					
Gross amount	$	1,067		$	-
Accumulated amortization		(64)			-
Net carrying amount	$	1,003		$	-
Remaining amortization period		6.6 years			-

For the quarter and six-month period ended June 30, 2016, the amortization expense of core deposit intangibles amounted to $0.5 million and $ 1.0 million, respectively, (2015 - $0.6 million and $1.0 million, respectively). For the quarter and six-month period ended June 30, 2016, the amortization expense of the purchased credit card relationship intangible amounted to $0.7 million and $1.4 million, respectively, (2015 - $0.8 million and $1.5 million, respectively). For the quarter and six-month period ended June 30, 2016, the amortization expense of insurance customer relationship intangible amounted to $39 thousand and $64 thousand, respectively.

The estimated aggregate amortization expense related to these intangible assets for future periods is as follows:

			Amount	
			(In thousands)	
	2016	$	2,453	
	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:

<u>GNMA</u>

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 June 30, 2016, the Corporation serviced loans securitized through GNMA with a principal balance of $1.4 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 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 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 to 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. During the second quarter of 2016, the Corporation received approval from the Federal Reserve and paid $31.2

million for all the accrued but deferred interest payments plus the interest for the second quarter on the Corporation's subordinated debentures associated with its trust preferred securities. As of June 30, 2016, the Corporation is current on all interest payments due related to its subordinated debt. Future interest payments are subject to the Federal Reserve approval.

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 June 30, 2016, the amortized cost and fair value of Grantor Trusts amounted to $31.7 million and $23.7 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 June 30, 2016, the carrying amount of the loan was $7.9 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 method ("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 on 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 June 30, 2016, the carrying value of the revolver agreement was $13.3 million, which was included in the Corporation's commercial and industrial loans held for investment portfolio. The carrying value of the working capital line was $0 as of June 30, 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:

	Quarter ended June 30,				Six-Month period ended June 30,			
(In thousands)	2016		2015		2016		2015	
Balance at beginning of period	$	24,692	$	22,973	$	24,282	$	22,838
Capitalization of servicing assets		1,297		1,474		2,458		2,547
Amortization		(809)		(795)		(1,607)		(1,651)
Adjustment to fair value		(151)		(109)		(124)		(147)
Other (1)		15		(24)		35		(68)
Balance at end of period	$	25,044	$	23,519	$	25,044	$	23,519

(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 June 30,		Six-Month Period Ended June 30,	
(In thousands)	2016	2015	2016	2015
Balance at beginning of period	$ 109	$ 93	$ 136	$ 55
Temporary impairment charges	167	128	194	186
Recoveries	(16)	(19)	(70)	(39)
Balance at end of period	$ 260	$ 202	$ 260	$ 202

The components of net servicing income are shown below:

(In thousands)	Quarter ended June 30, 2016		Quarter ended June 30, 2015		Six-Month Period Ended June 30, 2016		Six-Month Period Ended June 30, 2015	
Servicing fees	$	1,865	$	1,780	$	3,727	$	3,544
Late charges and prepayment penalties		163		177		305		367
Adjustment for loans repurchased		15		(24)		35		(68)
Other (1)		(1)		(14)		(1)		(103)
Servicing income, gross		2,042		1,919		4,066		3,740
Amortization and impairment of servicing assets		(960)		(904)		(1,731)		(1,798)
Servicing income, net	$	1,082	$	1,015	$	2,335	$	1,942

(1) Mainly consisted of compensatory fees imposed by GSEs.

The Corporation’s servicing assets are subject to prepayment and interest rate risks. Key economic assumptions used in determining the fair value at the time of sale of the related mortgages ranged as follows:

	Maximum	Minimum
Six-Month Period Ended June 30, 2016:		
Constant prepayment rate:		
Government guaranteed mortgage loans	7.6 %	7.6 %
Conventional conforming mortgage loans	8.0 %	8.0 %
Conventional non-conforming mortgage loans	14.1 %	14.0 %
Discount rate:		
Government guaranteed mortgage loans	11.5 %	11.5 %
Conventional conforming mortgage loans	9.5 %	9.5 %
Conventional non-conforming mortgage loans	13.8 %	13.8 %
Six-Month Period Ended June 30, 2015:		
Constant prepayment rate:		
Government guaranteed mortgage loans	9.2 %	7.9 %
Conventional conforming mortgage loans	9.0 %	7.9 %
Conventional non-conforming mortgage loans	14.0 %	12.9 %
Discount rate:		
Government guaranteed mortgage loans	11.5 %	11.5 %
Conventional conforming mortgage loans	9.5 %	9.5 %
Conventional non-conforming mortgage loans	13.8 %	13.8 %

As of June 30, 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 aggregate fair value to immediate 10% and 20% adverse changes in those assumptions for mortgage loans as of June 30, 2016 were as follows:

	(Dollars in thousands)	
Carrying amount of servicing assets	$	25,044
Fair value	$	27,695
Weighted-average expected life (in years)		8.22
Constant prepayment rate (weighted-average annual rate)		10.56%
Decrease in fair value due to 10% adverse change	$	913
Decrease in fair value due to 20% adverse change	$	1,776
Discount rate (weighted-average annual rate)		10.67%
Decrease in fair value due to 10% adverse change	$	1,220
Decrease in fair value due to 20% adverse change	$	2,346

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:

(In thousands)		June 30, 2016		December 31, 2015
Type of account:				
Non-interest bearing checking accounts	$	1,409,072	$	1,336,559
Savings accounts		2,505,378		2,459,186
Interest-bearing checking accounts		1,105,926		1,088,651
Certificates of deposit		2,395,510		2,356,245
Brokered CDs		1,809,133		2,097,483
	$	9,225,019	$	9,338,124

Brokered CDs mature as follows:

(In thousands)		June 30, 2016
Three months or less	$	351,319
Over three months to six months		355,899
Over six months to one year		423,879
One to three years		608,010
Three to five years		69,840
Over five years		186
Total	$	1,809,133

The following are the components of interest expense on deposits:

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
(In thousands)	2016		2015		2016		2015	
Interest expense on deposits	$	16,494	$	16,096	$	32,974	$	32,455
Accretion of premium from acquisition		(57)		(285)		(138)		(285)

Amortization of broker placement fees		787		1,169		1,645		2,504
Interest expense on deposits	$	17,224	$	16,980	$	34,481	$	34,674

NOTE 15 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (repurchase agreements) consist of the following:

(Dollars in thousands)	June 30, 2016		December 31, 2015	
Repurchase agreements, interest ranging from 1.96% to 3.72%				
(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 June 30, 2016, includes $600 million with an average rate of 2.89% that lenders have the right to call before their contractual maturities at various dates beginning on July 19, 2016. In addition, $500 million is tied to variable rates.

Repurchase agreements mature as follows:

	June 30, 2016	
	(In thousands)	
One month to three months	$	100,000
Over three months to six months		300,000
One year to three years		100,000
Over five years		200,000
Total	$	700,000

As of June 30, 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 June 30, 2016, grouped by counterparty, were as follows:

(Dollars in thousands)			Weighted-Average
Counterparty	_	**Amount**	**Maturity (In Months)**

		Credit Suisse First Boston		$	100,000		1	
		Citigroup Global Markets			300,000		4	
		Dean Witter / Morgan Stanley			100,000		16	
		JP Morgan Chase			200,000		67	
				$	700,000			

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NOTE 16 – ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

The following is a summary of the advances from the FHLB:

(Dollars in thousands)		June 30, 2016			December 31, 2015
Fixed-rate advances from FHLB, with a weighted- average interest rate of 1.30%	$	455,000		$	455,000

Advances from FHLB mature as follows:

(In thousands)		June 30, 2016
Over one month to three months	$	100,000
Over one year to three years		225,000
Over three to four years		130,000
Total	$	455,000

As of June 30, 2016, the Corporation had additional capacity of approximately $652.6 million on this credit facility based on collateral pledged at the FHLB, including a haircut reflecting the perceived risk associated with holding the collateral.

NOTE 17 – OTHER BORROWINGS

Other borrowings consist of:

(In thousands)	June 30, 2016		December 31, 2015

Junior subordinated debentures due in 2034,				
interest-bearing at a floating rate of 2.75%				
over 3-month LIBOR (3.41% as of June 30, 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 (3.15% as of June 30, 2016				
and 3.07% as of December 31, 2015) (1)		118,561		128,866
	$	216,187	$	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 June 30, 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 June 30, 2016 and December 31, 2015, there were 218,278,207 and 216,051,128 shares issued, respectively, and 217,129,074 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 June 30, 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 half of 2016 and 2015, the Corporation withheld an aggregate of 186,703 shares and 117,858 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 June 30, 2016 and December 31, 2015, the Corporation had 1,149,133 and 962,430 shares held as treasury stock, respectively.

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 Corporation, including for payment as dividends 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 June 30, 2016. There were no transfers to the legal surplus reserve during the first half of 2016.

NOTE 19 - 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 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 June 30, 2016, the deferred tax assets, net of a valuation allowance of $198.2 million, amounted to $299.3 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 $7.5 million and $13.2 million in the second quarter and first six months of 2016, respectively, compared to an income tax benefit of $9.8 million and $1.8 million for the same periods in 2015. The increase in income tax expense for the quarter and first six months of 2016, as compared to the same periods in 2015, was mainly attributable to a higher taxable income mainly due to the impact in 2015 of realized losses on the bulk sale of assets. For the six-month period ended June 30, 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. The income tax expense as a percentage of the income before income taxes for the first half of 2016 is 23% compared to 18% for the same period in 2015. In the computation of the consolidated worldwide estimated annual 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 annual effective tax rate, excluding entities with pre-tax losses from which a tax benefit cannot be recognized, is 22% for the six-month period ended June 30, 2016, compared to 30% for the same period in 2015.

As of June 30, 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:

Level 1	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.
Level 2	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.
Level 3	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 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

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 half of 2016, the Corporation recorded OTTI charges of $6.3 million on certain Puerto Rico Government debt securities, specifically bonds of the 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 quarter and six-month periods ended June 30, 2016 and 2015 was immaterial.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	As of June 30, 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	$ 418	$ -	$ -	$ 418	$ -	$ -	$ -	$ -
U.S. Treasury Securities	7,523	-	-	7,523	7,497	-	-	7,497
Noncallable U.S. agency debt	-	369,285	-	369,285	-	315,467	-	315,467
Callable U.S. agency debt and	-	1,573,360	-	1,573,360	-	1,509,807	-	1,509,807

MBS								
Puerto Rico government obligations	-	26,443	2,104	28,547	-	26,327	1,890	28,217
Private label MBS	-	-	23,816	23,816	-	-	25,307	25,307
Other investments	-	-	100	100	-	-	100	100
Derivatives, included in assets:								
Purchased interest rate cap agreements	-	212	-	212	-	806	-	806
Liabilities:								
Derivatives, included in liabilities:								
Written interest rate cap agreement	-	217	-	217	-	798	-	798
Forward contracts	-	359	-	359	-	123	-	123

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters and six-month periods ended June 30, 2016 and 2015:

	Quarter Ended June 30,			
	2016		2015	
Level 3 Instruments Only	**Securities**		**Securities**	
(In thousands)	**Available For Sale(1)**		**Available For Sale(1)**	
Beginning balance	$	26,663	$	34,314
Total gains or (losses) (realized/unrealized):				
Included in earnings		-		(241)
Included in other comprehensive income		558		525
Principal repayments and amortization		(1,201)		(2,858)
Ending balance	$	26,020	$	31,740

(1) Amounts mostly related to private label mortgage-backed securities.

	Six-Month Period Ended June 30,			
	2016		2015	
Level 3 Instruments Only	**Securities**		**Securities**	
(In thousands)	**Available For Sale(1)**		**Available For Sale(1)**	
Beginning balance	$	27,297	$	36,212
Total gains or (losses) (realized/unrealized):				
Included in earnings		(387)		(397)
Included in other comprehensive income		1,816		1,144
Purchases		-		100
Principal repayments and amortization		(2,706)		(5,319)
Ending balance	$	26,020	$	31,740

(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 June 30, 2016:

	June 30, 2016							
(In thousands)	**Fair Value**			**Valuation Technique**		**Unobservable Input**		**Range**
Investment securities available-for-sale:								
Private label MBS	$	23,732		Discounted cash flow		Discount rate		14.5%
						Prepayment rate		21.83% -100.00% (Weighted Average 31.0%)
						Projected cumulative loss rate		0.52% -80.00% (Weighted Average 7.0%)
Puerto Rico Government Obligations		2,104		Discounted cash flow		Prepayment rate		3.00%

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 which are 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.

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

The tables below summarize changes in unrealized gains and losses recorded in earnings for the quarters and six-month periods ended June 30, 2016 and 2015 for Level 3 assets and liabilities that are still held at the end of each period:

	Changes in Unrealized Losses (Quarter ended June 30, 2016)			Changes in Unrealized Losses (Quarter ended June 30, 2015)	
Level 3 Instruments Only	**Securities**			**Securities**	
(In thousands)	**Available For Sale**			**Available For Sale**	
Changes in unrealized losses relating to assets still held at reporting date:					
Net impairment losses on available-for-sale investment securities (credit component)	$	-		$	(241)

	Changes in Unrealized Losses (Six-Month Period Ended June 30, 2016)			Changes in Unrealized Losses (Six-Month Period Ended June 30, 2015)	
Level 3 Instruments Only	**Securities**			**Securities**	
(In thousands)	**Available For Sale**			**Available For Sale**	
Changes in unrealized losses relating to assets still held at reporting date:					
Net impairment losses on available-for-sale investment securities (credit component)	$	(387)		$	(397)

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 June 30, 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 June 30, 2016						(Losses) recorded for the Quarter Ended June 30, 2016		(Losses) recorded for the Six-Month Period Ended June 30, 2016	
	Level 1		Level 2		Level 3					
	(In thousands)									
Loans receivable [1]	$	-	$	-	$	464,467	$	(7,870)	$	(27,536)
OREO [2]		-		-		139,159		(3,436)		(5,727)
Mortgage servicing rights [3]		-		-		25,044		(151)		(124)

(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 loans 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 include: Prepayment rate-10.56%, Discount Rate-10.67%.

As of June 30, 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 June 30, 2015			(Losses) recorded for the Quarter Ended June 30, 2015	(Losses) recorded for the Six-Month Period Ended June 30, 2015
	Level 1	Level 2	Level 3		

	(In thousands)									
Loans receivable (1)	$	-	$	-	$	298,935	$	(3,586)	$	(15,850)
OREO (2)		-		-		122,129		(1,906)		(5,751)
Mortgage servicing rights (3)		-		-		23,519		(109)		(147)
Loans Held For Sale (4)		-		-		48,032		-		-

(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 loans 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 include: Prepayment Rate-9.16%, Discount Rate-10.63%.
(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:			
	June 30, 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 10.56%; weighted average discount rate of 10.67%

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.

Investment securities held to maturity

Investment securities held to maturity consist of financing arrangements with Puerto Rico municipalities issued in bond form, but underwritten as loans with features that are typically found in commercial loan transactions. These obligations typically are not issued in bearer form, nor are they registered with the SEC and are not rated by external credit agencies. The fair value of these financing arrangements was based on a discounted cash flow analysis using risk-adjusted discount rates (Level 3). A security with similar characteristics traded in the open market is used as a proxy for each municipal bond. Then the cash flow is discounted at the average spread over the discount curve exhibited by the proxy security at the end of each quarter.

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. The fair value of total deposits 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 June 30, 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 unwinding the transactions as of the end of the reporting period. The brokers who are the counterparties provide these indications and are evaluated by the Corporation. Securities sold under agreements to repurchase are fully collateralized by investment securities.

Advances from FHLB

The fair value of advances from the 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 the 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 debentures at a tenor comparable to the time to maturity of the debentures.

The following table presents the carrying value and the estimated fair value of financial instruments as of June 30, 2016 and December 31, 2015:

	Total Carrying Amount in Statement of Financial Condition June 30, 2016	Fair Value Estimate June 30, 2016	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
Cash and due from banks and money market investments	$ 827,914	$ 827,914	$ 827,914	$ -	$ -
Investment securities available for sale	2,003,049	2,003,049	7,941	1,969,088	26,020
Investment securities held to maturity	161,342	137,965	-	-	137,965
Other equity securities	32,379	32,379	-	32,379	-
Loans held for sale	37,958	41,700	-	31,280	10,420
Loans held for investment	8,870,747				
Less: allowance for loan and lease losses	(234,454)				
Loans held for investment, net of allowance	$ 8,636,293	8,524,462	-	-	8,524,462
Derivatives, included in assets	212	212	-	212	-
Liabilities:					
Deposits	9,225,019	9,256,396	-	9,256,396	-
Securities sold under agreements to repurchase	700,000	751,689	-	751,689	-
Advances from FHLB	455,000	457,842	-	457,842	-
Other borrowings	216,187	161,420	-	-	161,420

Derivatives, included in liabilities	576	576	-	576	-

	Total Carrying Amount in Statement of Financial Condition December 31, 2015	Fair Value Estimate December 31, 2015	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
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
Investment securities held to maturity	161,483	131,544	-	-	131,544
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	9,112,382				
Less: allowance for loan and lease losses	(240,710)				
Loans held for investment, net of allowance	$ 8,871,672	8,768,152	-	-	8,768,152
Derivatives, included in assets	806	806	-	806	-
Liabilities:					
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 liabilities		921			921			-			921			-

NOTE 21 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

	Six-Month Period Ended June 30,				
	2016			2015	
	(In thousands)				
Cash paid for:					
Interest on borrowings	$	77,960		$	48,648
Income tax		558			2,439
Non-cash investing and financing activities:					
Additions to other real estate owned		22,018			27,625
Additions to auto and other repossessed assets		28,658			39,928
Capitalization of servicing assets		2,458			2,547
Loan securitizations		146,277			130,999
Trust preferred securities exchanged for new common stock issued:					
Trust preferred securities exchanged		-			5,303
New common stock issued		-			5,628
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 June 30, 2016, the Corporation had six reportable segments: Commercial and Corporate Banking; Mortgage Banking; Consumer (Retail) Banking; Treasury and Investments; 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 products 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.

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Supplemental cash flow information is as follows:

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
For the quarter ended June 30, 2016:							
Interest income	$ 35,041	$ 45,134	$ 31,386	$ 12,917	$ 13,423	$ 9,033	$ 146,934
Net (charge) credit for transfer of funds	(12,675)	3,854	(5,416)	13,861	376	-	-
Interest expense	-	(6,280)	-	(15,872)	(3,714)	(840)	(26,706)
Net interest income	22,366	42,708	25,970	10,906	10,085	8,193	120,228
(Provision) release for loan and lease losses	(11,608)	(7,259)	(2,020)	-	(251)	152	(20,986)
Non-interest income (loss)	4,672	11,290	913	62	732	2,109	19,778
Direct non-interest expenses	(10,131)	(28,029)	(11,659)	(1,498)	(8,253)	(6,671)	(66,241)
Segment income	$ 5,299	$ 18,710	$ 13,204	$ 9,470	$ 2,313	$ 3,783	$ 52,779
Average earning assets	$ 2,577,067	$ 1,978,803	$ 2,653,482	$ 2,780,102	$ 1,171,788	$ 607,915	$ 11,769,157
(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
For the quarter ended June 30, 2015:							
Interest	$ 36,296	$ 49,031	$ 32,753	$ 11,709	$ 12,017	$ 9,826	$ 151,632

income							
Net (charge) credit for transfer of funds	(12,347)	4,797	(3,893)	7,619	3,824	-	-
Interest expense	-	(5,853)	-	(14,522)	(4,056)	(724)	(25,155)
Net interest income	23,949	47,975	28,860	4,806	11,785	9,102	126,477
(Provision) release for loan and lease losses	(7,944)	(5,957)	(63,722)	-	3,275	82	(74,266)
Non-interest income (loss)	4,232	11,952	555	(12,519)	730	1,720	6,670
Direct non-interest expenses	(9,228)	(32,462)	(11,138)	(1,045)	(7,196)	(8,871)	(69,940)
Segment income (loss)	$ 11,009	$ 21,508	$ (45,445)	$ (8,758)	$ 8,594	$ 2,033	$ (11,059)
Average earning assets	$ 2,669,391	$ 2,005,232	$ 2,916,014	$ 2,697,611	$ 984,329	$ 636,090	$ 11,908,667

	Mortgage Banking	**Consumer (Retail) Banking**	**Commercial and Corporate**	**Treasury and Investments**	**United States Operations**	**Virgin Islands Operations**	**Total**
Six-Month Period Ended June 30, 2016:							
Interest income	$ 70,260	$ 91,200	$ 64,934	$ 26,677	$ 26,147	$ 18,547	$ 297,765
Net (charge) credit for transfer of funds	(25,599)	7,736	(11,512)	28,387	988	-	-
Interest expense	-	(12,442)	-	(31,341)	(7,403)	(1,703)	(52,889)
Net interest income	44,661	86,494	53,422	23,723	19,732	16,844	244,876
(Provision)	(17,748)	(15,796)	(9,568)	-	(461)	1,534	(42,039)

	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
release for loan and lease losses							
Non-interest income (loss)	9,159	24,026	1,474	(2,339)	1,915	4,012	38,247
Direct non-interest expenses	(20,964)	(60,118)	(21,323)	(2,548)	(15,514)	(13,660)	(134,127)
Segment income	$ 15,108	$ 34,606	$ 24,005	$ 18,836	$ 5,672	$ 8,730	$ 106,957
Average earning assets	$ 2,589,671	$ 1,998,955	$ 2,527,919	$ 2,845,682	$ 1,156,209	$ 618,476	$ 11,736,912

	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
Six-Month Period Ended June 30, 2015:							
Interest income	$ 70,172	$ 98,867	$ 67,556	$ 24,776	$ 23,248	$ 19,498	$ 304,117
Net (charge) credit for transfer of funds	(23,583)	8,481	(7,688)	15,373	7,417	-	-
Interest expense	-	(11,510)	-	(30,529)	(8,395)	(1,559)	(51,993)
Net interest income	46,589	95,838	59,868	9,620	22,270	17,939	252,124
(Provision) release for loan and lease losses	(14,907)	(22,642)	(72,815)	-	5,408	(2,280)	(107,236)
Non-interest income (loss)	7,631	23,745	1,703	(12,619)	1,254	4,242	25,956
Direct non-interest expenses	(17,293)	(64,021)	(19,117)	(2,384)	(14,379)	(17,451)	(134,645)
Segment income (loss)	$ 22,020	$ 32,920	$ (30,361)	$ (5,383)	$ 14,553	$ 2,450	$ 36,199

Supplemental cash flow information is as follows:

Average earning assets	$	2,581,309		$	1,971,815		$	3,025,204		$	2,730,699		$	978,178		$	637,617		$	11,924,822

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

	Quarter Ended June 30, 2016	Quarter Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
Net income :				
Total segment income (loss)	$ 52,779	$ (11,059)	$ 106,957	$ 36,199
Other non-interest income (loss) (1)	-	-	-	13,443
Other operating expenses (2)	(23,303)	(32,859)	(48,414)	(59,882)
Income before income taxes	29,476	(43,918)	58,543	(10,240)
Income tax (expense) benefit	(7,523)	9,844	(13,246)	1,812
Total consolidated net income (loss)	$ 21,953	$ (34,074)	$ 45,297	$ (8,428)
Average assets:				
Total average earning assets for segments	$ 11,769,157	$ 11,908,667	$ 11,736,912	$ 11,924,822
Average non-earning assets	972,711	945,660	961,237	940,335
Total consolidated average assets	$ 12,741,868	$ 12,854,327	$ 12,698,149	$ 12,865,157

(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) the table above.

(2) Expenses pertaining to corporate administrative functions that support the operating segments 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.

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 the 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 the 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 followed 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, which has been filed with the SEC.

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 June 30, 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 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

Supplemental cash flow information is as follows:

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 imposes a deposit insurance assessment surcharge on banks with at least $10 billion in assets, of 4.5 cents per $100 of their assessment base, after making certain adjustments. For purposes of this surcharge, the first $10 billion of assets are subtracted from the regular insurance assessment base to determine the surcharge base. The final rule became effective on July 1, 2016 and applies to FirstBank. The FDIC also implemented a reduced initial base assessment rate, which reduce the standard risk-based assessment rate. The adoption of this rule is expected to result in a decrease on the total FDIC insurance premium expense (standard risk-based assessment + assessment surcharge expense) of approximately $3.0 million, on an annual basis, based on the Bank’s current surcharge base which is slightly higher than the $10 billion threshold.

Other Recent Regulatory Developments

In May 2016, the federal banking agencies proposed regulations governing incentive-based compensation practices at covered banking institutions. These proposed rules are intended to better align the financial rewards for covered employees with an institution’s long-term safety and soundness. Portions of these proposed rules would apply to the Corporation and FirstBank. Those applicable provisions would generally (i) prohibit types and features of incentive-based compensation arrangements that encourage inappropriate risk because they are “excessive” or “could lead to material financial loss” at the banking institution; (ii) require incentive-based compensation arrangements to adhere to three basic principles: (1) a balance between risk and reward; (2) effective risk management and controls; (3) effective governance; and (iii) require appropriate board of directors (or committee) oversight and recordkeeping and disclosures to the banking institution’s primary regulatory agency. The nature and substance of any final action to adopt these proposed rules and the timing of any such action, are not known at this time.

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 June 30, 2016 and December 31, 2015 were as follows:

	Regulatory Requirements					
					To be Well-Capitalized-Regular Thresholds	
	Actual		**For Capital Adequacy Purposes**			
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**

Supplemental cash flow information is as follows: