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.					

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.

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.				

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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.					

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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 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					
	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
U.S. Treasury securities:						
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

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Maturities of mortgage-backed securities are based on contractual terms assuming no prepayments. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options. The weighted average yield on investment securities available for sale is based on amortized cost and, therefore, does not give effect to changes in fair value. The net unrealized gain or loss on securities available for sale and the 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	
		Unrealized		Unrealized		Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	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, 2016	Quarter ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 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

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

	Cumulative OTTI credit losses recognized in earnings on securities still held			
(In thousands)	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
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			
(In thousands)	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
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 Average		**Range**		**Weighted 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	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized 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	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized 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.

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

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					